



LUZHENG FUTURES COMPANY LIMITED
魯証期貨股份有限公司

(a joint stock company incorporated in the
People's Republic of China with limited liability)
(Stock Code : 01461)

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 obtain independent professional advice.



LUZHENG FUTURES Company Limited 魯証期貨股份有限公司

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

Number of Offer Shares under the Global Offering	:	275,000,000 H Shares (comprising 250,000,000 H Shares to be offered by the Company and 25,000,000 Sale Shares to be offered by the Selling Shareholders, subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	27,500,000 H Shares (subject to adjustment)
Number of International Offer Shares	:	247,500,000 H Shares (comprising 222,500,000 H Shares to be offered by the Company and 25,000,000 H Shares to be offered by the Selling Shareholders, subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$3.64 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong 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	:	01461

Joint Sponsors



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



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 the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, 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, The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between Qilu International Capital and Haitong International Securities (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, June 26, 2015 (Hong Kong time) and, in any event, not later than Friday, July 3, 2015 (Hong Kong time). The Offer Price will be not more than HK\$3.64 and is currently expected to be not less than HK\$2.90 per Offer Share. If, for any reason, the Offer Price is not agreed by Friday, July 3, 2015 (Hong Kong time) between Qilu International Capital and Haitong International Securities (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Share are required to pay, on application, the maximum Offer Price of HK\$3.64 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$3.64.

Qilu International Capital and Haitong International Securities (on behalf of the Underwriters), with our consent (on behalf of ourselves and the Selling Shareholders) may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that is stated in this prospectus (which is HK\$2.90 to HK\$3.64) 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 Standard (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 our Company at www.luzhengqh.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. 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" to this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by Qilu International Capital and Haitong International Securities (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Grounds for Termination."

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered, sold, pledged, transferred, or delivered within the United States except that Offer Shares may be offered, sold or delivered outside the United States in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

June 23, 2015

EXPECTED TIMETABLE

Date⁽¹⁾

Latest time to complete electronic applications under
White Form eIPO service through the designated
website **www.eipo.com.hk⁽²⁾** 11:30 a.m. on Friday, June 26, 2015

Application lists open⁽³⁾ 11:45 a.m. on Friday, June 26, 2015

Latest time for lodging **WHITE** and **YELLOW**
Application Forms 12:00 noon on Friday, June 26, 2015

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on Friday, June 26, 2015

Latest time to complete payment for **White Form eIPO**
applications by effecting Internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon on Friday, June 26, 2015

Application lists close 12:00 noon on Friday, June 26, 2015

Expected Price Determination Date⁽⁵⁾ Friday, June 26, 2015

Announcement of:

- the final Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares will be published (a) in The Standard (in English) and the Hong Kong Economic Times (in Chinese); (b) on our website at **www.luzhengqh.com⁽⁶⁾** and the website of the Hong Kong Exchanges and Clearing Limited at **www.hkexnews.hk⁽⁷⁾** on or before Monday, July 6, 2015

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in "How to Apply for the Hong Kong Offer Shares – Results of Allocations" in this prospectus from Monday, July 6, 2015

EXPECTED TIMETABLE

Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) will be available at www.iporesults.com.hk
with a "search by ID" function Monday, July 6, 2015

H Share certificates in respect of wholly or partially
successful applications will be dispatched or
deposited into CCASS on or before⁽⁸⁾ Monday, July 6, 2015

Refund cheques (if applicable) will be dispatched
on or before^(8 and 10) Monday, July 6, 2015

White Form e-Refund Payment Instructions will be
dispatched on or before^(8 and 9) Monday, July 6, 2015

Dealings in H Shares on the Hong Kong Stock Exchange
to commence at 9:00 a.m. on Tuesday, July 7, 2015

Notes:

- (1) All dates and times refer to Hong Kong local time and dates unless otherwise stated.
- (2) If you have already submitted your application through the designated website at www.eipo.com.hk and obtained an application reference number from the designated website prior to 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. 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.
- (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, June 26, 2015, the application lists will not open on that day. See "How to Apply for the Hong Kong Offer Shares – Effect of Bad Weather on the Opening of the Application Lists."
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see "How to Apply for the Hong Kong Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS."
- (5) The Price Determination Date is expected to be on or about Friday, June 26, 2015 and in any event will not be later than Friday, July 3, 2015. If, for any reason, the Offer Price is not agreed on or before Friday, July 3, 2015, the Global Offering (including the Hong Kong Public 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) The announcement will be available for viewing on the Hong Kong Stock Exchange's website at www.hkexnews.hk.
- (8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and/or H Share certificates (where applicable) in person may do so from our 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 Monday, July 6, 2015. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in "How to Apply for Hong Kong Offer Shares" in this prospectus.

EXPECTED TIMETABLE

- (9) Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to their application payment bank accounts, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the addresses as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund cheques, by ordinary post at their own risk.
- (10) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Tuesday, July 7, 2015. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

CONTENTS

This prospectus is issued by us 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. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or under any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale 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 included in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisers, or any other person or party involved in the Global Offering. Information contained in our website, located at www.luzhengqh.com, 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 in 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,” beginning on page 27 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the largest futures firm in terms of futures brokerage trading volume in Shandong in 2014 with a diversified futures business and a strategic presence in China. In addition, we are one of the seven futures firms in China that have been rated “Class A,” the highest class for futures firms, by the CSRC for the past six consecutive years.

We generated 58.5%, 62.7% and 66.8% of our commission and fee income from Shandong in 2012, 2013 and 2014, respectively. Shandong’s GDP has consistently ranked among the top three provinces in China for the past three decades. In 2014, Shandong’s nominal GDP was approximately RMB5.9 trillion, comparable to that of the 16th largest economy in the world, according to the International Monetary Fund. The financial sector in Shandong has substantial growth potential as the local government authorities have placed strong emphasis on building a modern, market-oriented financial system that is complementary to the local economy. The PRC futures industry has experienced significant growth in recent years due to favorable government policies, the introduction of more diverse futures products and the increasing use of futures and derivatives by PRC enterprises to hedge commodity risk amid volatile market conditions. With the increasing globalization of the PRC commodity market, the gradual deregulation of the interest rates and the Renminbi capital account transactions in China, as well as more relaxed regulatory requirements, we believe the PRC futures industry has considerable growth potential. We are well-positioned to benefit from the strong economy of Shandong, the substantial growth potential of the local financial industry, and the fast-growing PRC futures and derivatives markets.

Our principal business lines are:

- **Futures Brokerage:** We execute trading of commodity and financial futures on behalf of retail, professional and corporate clients for commission and fee income;
- **Futures Asset Management:** We manage clients’ assets by investing primarily in the futures and derivatives markets for management fees and performance fees; and
- **Commodity Trading and Risk Management:** In 2013, we commenced our commodity trading and risk management business, which encompasses commodity trading and OTC derivatives trading. In commodity trading, we take principal positions in the physical trading and futures trading of commodities to meet the risk management needs of our clients while we take advantage of hedging and arbitrage opportunities to manage our risks and realize gains. We also trade other derivatives, primarily options on commodity futures, with our counterparty clients over the counter to provide them with customized commodity risk management solutions.

Our principal business lines have generated net operating cash inflow during the Track Record Period. To better utilize such excess cash generated from our operating activities, we have engaged in treasury management activities by investing in wealth management products issued by PRC financial institutions, such as collective asset management schemes and trust schemes. Gains from our treasury management activities (comprising net investment gains shown in our consolidated statement of comprehensive income, excluding those attributable to derivative financial instruments related to commodities trading and risk management business) amounted to RMB4.0 million, RMB25.4 million and RMB52.2 million, representing approximately 1.3%, 8.0% and 16.2% of our operating income in 2012, 2013 and 2014, respectively. For details, see “Business – Our Business – Treasury Management.”

SUMMARY

Over our 20 years of operating history, we have navigated through various market and business cycles, financial crises and regulatory reforms and we have achieved leading market positions in Shandong and a strategic presence in China by capitalizing on the transformation and development of the PRC futures industry.

The PRC futures industry is characterized by intense competition. As of December 31, 2014, there were 151 futures firms in China. The ten largest futures firms in China accounted for only 30.4% and 38.8% of the market in terms of operating income in 2014 and client margin deposits as of December 31, 2014, respectively. Due primarily to intense competition, industry average brokerage commission rates have been declining over the years. According to the CFA, we ranked 11th, 15th and 17th among the 151 futures firms in China in terms of net assets, Net Capital and client margin deposits as of December 31, 2014, respectively, with a market share of 2.0%, 1.7% and 1.6%, respectively, and ranked 17th and 19th in terms of net commission and fee income (including refunds of trading fees) and net profit, respectively, in 2014 with a market share of 1.6% and 1.8%, respectively.

Since 2013, we have strived to diversify our business and revenue mix by engaging in new businesses. We commenced our futures asset management business in January 2013 and our commodity trading and risk management business in May 2013 to provide, among other things, futures asset management, commodity trading and OTC derivatives trading. The combined income from our futures asset management and commodity trading and risk management businesses was RMB3.5 million in 2013 and RMB22.2 million in 2014, accounting for 1.1% and 6.9% of our operating income in 2013 and 2014, respectively. We intend to proactively develop our commodity trading and risk management business and futures asset management business by introducing more customized OTC derivatives and growing our AUM. In addition, we are committed to optimizing our client mix by strengthening our focus on serving corporate and professional clients. Compared to retail clients, institutional clients generally maintain a higher level of account balances, thereby contributing more to our interest income and have greater demand for asset management and commodity trading and risk management services, creating more cross-selling opportunities.

We aim to gradually transition our business from a futures commission merchant to a provider of comprehensive futures and derivatives products as well as risk management services across multiple business lines. We believe that our business strategy will enable us to diversify our business, optimize revenue mix and achieve sustainable growth, amid intense market competition.

We have established effective risk management systems and internal controls which enable us to identify, evaluate and manage credit, market and operational risks in our business, to optimize risk allocation and to develop risk-mitigating measures. We have implemented a four-level risk management structure, consisting of (i) the Board and the Supervisory Committee; (ii) the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; (iii) the Compliance Department and the Internal Audit Department; and (iv) frontline risk management team at our business departments and branches. We have established a dynamic Net Capital monitoring mechanism to comply with statutory Net Capital requirements and other regulatory standards to maintain capital adequacy. As of December 31, 2014, we had Net Capital of RMB796.1 million. As of December 31, 2012, 2013 and 2014, we were in compliance with applicable capital adequacy and risk control index requirements.

Our operating income increased from RMB307.8 million in 2012 to RMB322.0 million in 2014. Our profit for the year increased from RMB66.2 million in 2012 to RMB80.3 million in 2014, while our net margin increased from 21.5% in 2012 to 24.9% in 2014.

COMPETITIVE STRENGTHS

We believe that we have the following competitive advantages that differentiate us from our competitors:

- Well-positioned to benefit from the strong economy of Shandong and the fast-growing futures and derivatives markets in China;
- We are the largest futures firm headquartered in Shandong with a diversified futures business and a strategic presence in China;

SUMMARY

- Strong innovative capabilities to capitalize on opportunities from the transformation of the PRC futures industry;
- Industry-leading IT systems, effective risk management system and internal controls; and
- Experienced management team supported by a professional workforce.

BUSINESS STRATEGIES

As the PRC futures industry continues to evolve and mature, we aim to gradually transition our business from a futures commission merchant to a provider of comprehensive futures and derivatives products as well as risk management services across multiple business lines. We believe we have significant opportunities to expand our business in the future. We intend to take advantage of these opportunities and build upon our competitive strengths by pursuing the following strategies:

- Capitalize on the growth potential of the futures industry in China and strengthen our market position in the futures brokerage business;
- Expand our commodity trading and risk management business to meet increasing and diverse risk management needs of our corporate clients;
- Expand our futures asset management business to provide comprehensive product offerings to meet the increasing wealth management needs of retail and institutional clients;
- Pursue selective acquisitions in China and overseas to expand our market presence; and
- Strengthen our IT and risk management capabilities to facilitate our business growth and build a first-class professional workforce.

CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, (i) Qilu Securities was interested in approximately 87.48% of our issued share capital; (ii) Laiwu Steel was interested in approximately 45.71% of the issued share capital of Qilu Securities and was the holding company of Qilu Securities; and (iii) Laiwu Steel was wholly owned by Shandong Steel. Immediately following the completion of the Global Offering, Qilu Securities is expected to own approximately 63.24% of our enlarged issued share capital, assuming the Over-allotment Option is not exercised (or approximately 60.61% if the Over-allotment Option is fully exercised). Therefore, Qilu Securities, Laiwu Steel and Shandong Steel will remain as our Controlling Shareholders upon Listing.

Qilu Securities was established on May 15, 2001 with a registered capital of approximately RMB5,212.3 million. The principal businesses of Qilu Securities are securities brokerage, securities underwriting and sponsorship, and proprietary trading. We believe there is no substantive competition between our current business and the business of Qilu Securities.

Laiwu Steel was established in May 1999 with a registered capital of approximately RMB3,922.7 million. It is primarily engaged in steel smelting, and the production and sales of steel. Established in March 2008, Shandong Steel is a large state-owned enterprise under the direct supervision and administration of Shandong SASAC with a registered capital of RMB10,450 million. Shandong Steel is primarily engaged in the production and sale of steel products, including steel and steel billets. There is a clear delineation between the principal businesses operated by us and each of Laiwu Steel and Shandong Steel. For details, see “Relationship with Controlling Shareholders” beginning on page 156 of this prospectus.

REGULATORY REQUIREMENT ON FOREIGN SHAREHOLDERS

Pursuant to the relevant requirements under the Supervision and Administration Measures on Futures Firms (期貨公司監督管理辦法), the increase in the shareholding proportion of any single shareholder or the aggregate shareholding proportion of connected shareholders to 5% or above with the involvement of foreign shareholder(s) is subject to the approval of CSRC. A foreign shareholder holding 5% or more shares shall meet certain requirements in addition to those required for a legal person or other organization holding 5% or more shares. For details, see “Regulatory Environment – Major Applicable Laws and Regulations and Regulatory Documents – Industry Entry Requirements – Rules of Foreign Investment.”

SUMMARY

SUMMARY OF FINANCIAL AND OPERATING INFORMATION

The following tables present our summary consolidated financial information as of and for the years ended December 31, 2012, 2013 and 2014. 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" beginning on page 210 of this prospectus.

Summary Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Commission and fee income			
– Futures brokerage services	419.2	430.0	357.5
– Settlement and clearing services income	69.6	100.4	30.4
– Asset management services	–	0.2	8.5
– Investment consultancy	–	–	0.1
Total	488.8	530.6	396.5
Commission and fee expenses			
– Trading and clearing fees payable to the futures exchanges	(255.3)	(266.0)	(241.9)
– Settlement and clearing services expenses	(68.9)	(99.5)	(30.2)
Total	(324.2)	(365.5)	(272.1)
Net commission and fee income	164.6	165.1	124.4
Interest income	88.0	83.4	98.1
Interest expense on settlement and clearing service	(3.5)	(3.1)	(1.9)
Net interest income	84.5	80.3	96.2
Gain/(loss) on physical commodities trading	–	2.8	(15.3)
Net investment gains			
– From derivative financial instruments related to commodities trading and risk management business	–	0.3	25.9
– From treasury management activities	4.0	25.4	52.2
Other income – refunds of trading fees	54.7	41.8	38.6
Operating income	307.8	315.7	322.0
Staff costs	(66.6)	(72.6)	(88.5)
Commission to brokerage agents	(56.8)	(47.7)	(28.3)
Introducing broker commission	(7.0)	(9.2)	(11.6)
Depreciation and amortization	(8.9)	(9.2)	(8.5)
Impairment losses	(12.3)	(5.1)	(0.2)
Other operating expenses	(72.9)	(76.2)	(82.7)
Operating expenses	(224.5)	(220.0)	(219.8)
Operating profit	83.3	95.7	102.2
Share of losses of investment in an associate	–	–	(1.1)
Other gains, net	2.2	6.7	4.5
Profit before income tax	85.5	102.4	105.6
Income tax expense	(19.3)	(23.7)	(25.3)
Profit for the year	66.2	78.7	80.3

SUMMARY

The commission and fee income from our futures brokerage services declined during the Track Record Period. Significant improvement in our net profit during the Track Record Period was largely attributable to net investment gains and refunds of trading fees. Our adjusted net profit (profit for the year excluding net investment gains and refunds of trading fees, net of applicable taxes) is summarized below:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Profit for the year	66.2	78.7	80.3
Excluding:			
– Net investment gains from treasury management activities ⁽¹⁾	(3.0)	(19.1)	(39.2)
– Refunds of trading fees ⁽²⁾	<u>(38.7)</u>	<u>(29.6)</u>	<u>(27.3)</u>
Adjusted net profit	<u>24.5</u>	<u>30.0</u>	<u>13.8</u>

⁽¹⁾ Arising from financial assets other than derivative financial instruments related to commodity trading and risk management business, net of enterprise income tax.

⁽²⁾ Net of business tax and surcharges and enterprise income tax.

The substantial increase in our net investment gains increased during the Track Record Period was mainly attributable to our increased gains from treasury management activities and investment gains from our commodity trading and risk management business.

In 2012, 2013 and 2014, refunds of trading fees represented 20.3%, 16.1% and 17.4% of our operating income from the futures brokerage business, respectively. We have received such refunds of trading fees from the futures exchanges every month during the Track Record Period. The futures exchanges usually refund part of the trading fees we paid in the previous month, without any prior notification. We recognize refunds of trading fees as our other income upon receipt of such from the futures exchanges. In determining the amount of trading fees to refund, the futures exchanges in China may, at their discretion, consider various factors, such as previous refunds of trading fees to us, the trading volume of futures products concerned and market conditions. However, none of the futures exchanges in China has published any definite guideline for determining the amount of trading fees to be refunded. Whether to refund any trading fees and in what amount remain subject to the futures exchanges' sole discretion. See "Risk Factors – Risks Relating to Our Business – We face uncertainties associated with the refunds of trading fees by futures exchanges."

Summary Consolidated Statements of Financial Position

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Total current assets	3,527.0	3,712.0	5,425.7
Total current liabilities	2,527.9	2,626.4	4,253.9
Net current assets	999.1	1,085.6	1,171.8
Total non-current assets	112.4	104.8	101.6
Total non-current liabilities	0.9	0.9	1.0

SUMMARY

Summary Consolidated Statements of Cash Flow

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Cash flows from operating activities	38.0	52.9	31.8
Cash flows used in investing activities	(144.2)	(20.7)	(5.2)
Cash flows from financing activities	<u>327.9</u>	<u>—</u>	<u>—</u>
Net increase in cash and cash equivalents	221.7	32.2	26.6
Cash and cash equivalents at the beginning of the year	<u>86.9</u>	<u>308.6</u>	<u>340.8</u>
Cash and cash equivalents at the end of the year	<u>308.6</u>	<u>340.8</u>	<u>367.4</u>

Selected Operating and Financial Data

The following table sets forth our key operating data and market shares as of the dates or for the years indicated:

		As of or for the year ended December 31,		
		2012	2013	2014
Client balances	Amount (RMB in millions)	2,285.0	2,328.0	4,143.3
	Market share ⁽¹⁾	1.29%	1.19%	1.53%
Commodity futures trading volume	Amount (RMB in billions)	2,592.0	3,419.4	3,045.6
	Market share ⁽¹⁾	1.36%	1.35%	1.19%
	as % of our total futures trading volume	47.7%	42.9%	43.9%
Financial futures trading volume	Amount (RMB in billions)	2,843.9	4,546.3	3,896.0
	Market share ⁽¹⁾	1.87%	1.61%	1.19%
	as % of our total futures trading volume	52.3%	57.1%	56.1%
Average brokerage commission rate		0.402bps	0.258bps	0.223bps

⁽¹⁾ Source: CFA

Average brokerage commission rate equals the sum of net commission and fee income from futures brokerage business and refunds of trading fees as divided by our futures brokerage trading volume. Due primarily to the intense competition in the futures brokerage market in China in general, our average brokerage commission rates have decreased during the Track Record Period. See “Risk Factors – Risks Relating to Our Business – We rely on our futures brokerage business for a majority of our operating income.” For the respective brokerage commission rates of commodity and financial futures, see “Business – Our Business – Futures Brokerage – Brokerage Commission and Fee Income.”

SUMMARY

The following table sets forth the key measurements of our profitability for the years indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions except %)</i>		
Operating profit	83.3	95.7	102.2
Operating margin ⁽¹⁾	27.1%	30.3%	31.7%
Profit for the year	66.2	78.7	80.3
Net margin ⁽²⁾	21.5%	24.9%	24.9%
Return on equity ⁽³⁾	7.3%	6.8%	6.5%
Return on assets ⁽⁴⁾	2.0%	2.1%	1.7%

- (1) Operating profit divided by operating income.
(2) Profit for the year divided by operating income.
(3) Profit attributable to the shareholders of our Company divided by the average balance of total equity attributable to the shareholders of the Company as of the beginning and end of a year.
(4) Profit for the year divided by the average balance of total assets as of the beginning and end of a year.

The following table sets forth our operating income (including inter-segment operating income) and margin by segment for the years indicated:

	Year ended December 31,								
	2012			2013			2014		
	<i>Amount</i>	<i>% of total</i>	<i>Segment margin (%)⁽¹⁾</i>	<i>Amount</i>	<i>% of total</i>	<i>Segment margin (%)⁽¹⁾</i>	<i>Amount</i>	<i>% of total</i>	<i>Segment margin (%)⁽¹⁾</i>
	<i>(RMB in millions, except %)</i>								
Futures brokerage	269.9	87.7	43.8	259.3	82.1	42.1	221.6	68.8	43.2
Futures asset management	-	-	-	0.2	0.1	(50.0)	8.5	2.6	23.5
Commodity trading and risk management	-	-	-	3.3	1.0	(57.6)	13.7	4.3	4.4
Headquarters and others	37.9	12.3	(91.8)	52.9	16.8	(21.7)	78.5	24.4	5.4
Inter-segment eliminations	-	-	-	-	-	-	(0.3)	(0.1)	100.0
Total	307.8	100.0	27.1	315.7	100.0	30.3	322.0	100.0	31.7

(1) Equals segment operating profit/loss divided by segment operating income.

The operating income of our futures brokerage business decreased from 2013 to 2014 as a result of decreases in our brokerage trading volume and average brokerage commission rate in 2014. The operating income of our futures brokerage business decreased from 2012 to 2013 as a result of decreases in refunds of trading fees and our average brokerage commission rate in 2013.

Income from headquarters and others consists primarily of interest income from our own cash and bank balances and investment income from our investments in wealth management products and equity securities, which are part of our treasury management activities. In 2012, 2013 and 2014, net gains from our treasury management activities were RMB4.0 million, RMB25.4 million and RMB52.2 million, respectively, representing 1.3%, 8.0% and 16.2% of our total operating income, respectively, during those years. Expenses from this segment consist primarily of staff cost and administrative expenses of our back-office functions which cannot be allocated to any other business segment, and impairment losses of our investments in certain wealth management products.

SUMMARY

The following table sets out the risk category and average daily balance of, and gains from, our treasury management activities by type for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions, except risk category)</i>		
Risk category of underlying investments			
– Collective asset management schemes	high	high	high
– Trust schemes and debt instruments	medium	medium	medium
– Stocks	N/A	N/A	high
Average daily balance			
– Collective asset management schemes	78.9	68.3	117.2
– Trust schemes and debt instruments	42.0	319.4	323.7
– Stocks	–	–	7.3
Total	<u>120.9</u>	<u>387.7</u>	<u>448.2</u>
Gains from treasury management⁽¹⁾			
– Collective asset management schemes	(1.1)	(3.0)	11.4
– Trust schemes and debt instruments	2.9	23.9	25.5
– Stocks	–	–	18.0
Total	<u>1.8</u>	<u>20.9</u>	<u>54.9</u>
Average investment return⁽²⁾			
– Collective asset management schemes	N/A	N/A	9.7%
– Trust schemes and debt instruments	6.9%	7.5%	7.9%
– Stocks	N/A	N/A	246.6%

⁽¹⁾ Gains from treasury management include (i) realized and unrealized investment gains or losses recognized under “net investment gains,” (ii) unrealized investment gains or losses recognized under “available-for-sale financial assets revaluation reserve” and (iii) impairment losses.

⁽²⁾ Average investment return equals our gains from treasury management divided by total average balance.

As of December 31, 2014, our Company had Net Capital of RMB796.1 million. The following table sets forth our Net Capital and key regulatory risk control index that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

	<u>As of December 31,</u>			Warning ratios⁽¹⁾	Minimum/Maximum level
	<u>2012</u>	<u>2013</u>	<u>2014</u>		
Net Capital ⁽²⁾ <i>(RMB in millions)</i>	1,022.4	794.6	796.1	18.0	≥15.0
Net Capital/total risk capital reserves (%)	692.4%	502.1%	368.6%	120.0%	≥100.0%
Net Capital/net assets (%)	96.4%	70.2%	66.2%	48.0%	≥40.0%
Current assets/current liabilities ⁽³⁾ (%)	1,155.6%	849.5%	733.9%	120.0%	≥100.0%
Total liabilities/net assets ⁽⁴⁾ (%)	8.6%	8.5%	9.4%	120.0%	≤150.0%
Proprietary settlement reserve funds <i>(RMB in millions)</i> ⁽⁵⁾	31.3	54.8	103.6	9.6	≥8.0

⁽¹⁾ Warning ratios are set by the CSRC as follows, according to the Risk Control Index Measures: If the risk control index is required to stay above a certain level, then the warning ratio is 120% of the stipulated minimum requirement, and if the risk control index is required to stay below a certain level, then the warning ratio is 80% of the stipulated maximum requirement.

⁽²⁾ Net Capital equals net assets minus asset adjustment value plus liability adjustment value minus the deposits which the clients fail to fully replenish minus/plus other adjustment items recognized or approved by the CSRC.

⁽³⁾ For purposes of calculating the regulatory risk control index, current assets do not include client deposits with exchange-clearing organizations and bank balances held for brokerage clients; and current liabilities do not include accounts payable to brokerage clients.

⁽⁴⁾ For purposes of calculating the regulatory risk control index, total liabilities do not include accounts payable to brokerage clients.

⁽⁵⁾ As a member of four PRC futures exchanges, we are required to deposit a minimum of RMB2 million in settlement reserve funds at each of the four futures exchanges.

SUMMARY

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since December 31, 2014, we have seen favorable market conditions and investor sentiment and positive outlook in the PRC futures industry. Our client balances increased by 20.2% to RMB4,981.1 million as of March 31, 2015 from RMB4,143.3 million as of December 31, 2014. Our futures brokerage trading volume increased by 43.3% to RMB2,782.3 billion in the first quarter of 2015 from RMB1,578.8 billion during the same period in 2014. These increases resulted in an increase in our operating income, especially net interest income, during the period. Our average brokerage commission rate further decreased to approximately 0.145bps in the first quarter of 2015 due to (i) intense market competition, and (ii) the fact that approximately 76.1% of our futures trading volume in the first quarter of 2015 was contributed by financial futures, which generally command lower average brokerage commission rates compared to commodity futures. Financial futures accounted for a higher portion of our total futures trading volume in the first quarter of 2015, as trading volume of the PRC stock market surged since the end of 2014, resulting in a significant increase in the demand for financial futures, primarily stock index futures, for risk management purposes.

The following table sets forth our operating income (including inter-segment operating income) and margin by segment for the periods indicated:

	Three months ended March 31,					
	2014			2015		
	<i>Amount</i>	<i>% of total</i>	<i>Segment margin (%)⁽¹⁾</i>	<i>Amount</i>	<i>% of total</i>	<i>Segment margin (%)⁽¹⁾</i>
	<i>(RMB in millions, except %)</i>					
Futures brokerage	46.2	74.6	42.6	64.6	75.3	46.5
Futures asset management	0.5	0.8	(70.3)	1.6	1.9	(33.4)
Commodity trading and risk management	(0.2)	(0.3)	N/A	2.5	2.9	(41.7)
Headquarters and others	15.4	24.9	(17.1)	17.1	20.0	1.2
Inter-segment eliminations	-	-	-	(0.1)	(0.1)	-
Total	61.9	100.0	23.2	85.7	100.0	33.4

⁽¹⁾ Equals segment operating profit/loss divided by segment operating income.

Our operating income increased by 38.4% to RMB85.7 million in the first quarter of 2015 from RMB61.9 million during the same period in 2014 due to a significant increase in the trading volume of financial futures. In the first quarter of 2015, net gains from our treasury management activities were RMB17.0 million, representing 19.8% of our operating income. Our operating profit margin was 33.4% for the first quarter of 2015, increasing from 23.3% during the same period in 2014. The foregoing selected financial data are derived from our unaudited interim financial statements for the three months ended March 31, 2015, which have been reviewed by our reporting accountants in accordance with the International Standard on Review Engagements 2410. These selected unaudited financial data are not an indication of our consolidated financial information for any half year or any full year. We strongly caution you not to place any reliance on such data when considering investing in our H Shares.

We launched our collective asset management schemes in May 2015. As of May 31, 2015, the AUM of our targeted asset management schemes and collective asset management schemes was RMB174.2 million and RMB51.2 million, respectively.

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 December 31, 2014, and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

SUMMARY

USE OF PROCEEDS

Assuming an Offer Price of HK\$3.27 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$2.90 and HK\$3.64 per H Share), we estimate that we will receive net proceeds of approximately HK\$747.7 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 35%, or HK\$261.7 million, will be used to increase our Net Capital, establish “light branches” and recruit experienced asset managers and research personnel for strengthening our futures brokerage business and developing our futures asset management business;
- Approximately 40%, or HK\$299.1 million, will be used to contribute additional capital to Luzheng Trading for expanding our commodity trading and risk management business so as to achieve economies of scale and improve profitability of such business;
- Approximately 15%, or HK\$112.1 million, will be used to purchase IT infrastructure and software for upgrading and improving our existing IT systems and to contribute additional capital to Luzheng Information for developing our IT development capabilities; and
- Approximately 10%, or HK\$74.8 million, will be used for working capital and general corporate purposes.

OFFER STATISTICS

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

	<u>Based on an Offer Price of HK\$2.90</u>	<u>Based on an Offer Price of HK\$3.64</u>
Market capitalization of the H-shares ⁽¹⁾	HK\$797.5 million	HK\$1,001.0 million
Unaudited pro forma adjusted consolidated net tangible assets per share ⁽²⁾	HK\$2.27	HK\$2.45

⁽¹⁾ The calculation of market capitalization is based on 275,000,000 H Shares expected to be in issue 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 do not take into account our financial results or other transactions after December 31, 2014.

DIVIDEND POLICY

In 2012, we distributed cash dividends of RMB26.0 million to our Shareholders. We did not declare any cash dividends in 2013 and 2014. At a Shareholders’ meeting on March 16, 2015, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders. For further details, see “Financial Information – Dividend Policy” on page 258 of this prospectus.

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 can be categorized into (i) risks relating to the PRC futures industry, (ii) risks relating to our business, (iii) risks relating to doing business in China, and (iv) risks relating to the Global Offering. We believe our major risks include:

- Our business may be materially and adversely affected by market and economic conditions and other factors beyond our control, including overall slowdowns in futures and derivatives trading;
- We face intense competition in our futures brokerage business;
- Investments in the PRC futures firms are subject to ownership restrictions that may adversely affect the value of your investment;
- We rely on our futures brokerage business for a majority of our operating income;

SUMMARY

- Our business is concentrated in Shandong and our business, financial condition and results of operations may be materially and adversely affected by a significant deterioration in our business in Shandong;
- We face uncertainties associated with the refunds of trading fees by futures exchanges;
- Our treasury management activities made significant contributions to our financial performance during the Track Record Period. Such activities may not always be profitable and could incur loss.

REGULATORY INSPECTIONS

We are subject to applicable regulatory requirements and guidelines issued by the regulatory authorities in the PRC, including but not limited to the CSRC and its local offices, the CFA and the futures exchanges in the PRC. Our Directors and our PRC legal advisers confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no incidents of regulatory non-compliance that led to regulatory measures and the deduction of regulatory points by the CSRC or fines imposed by any regulatory authorities in China, or in which our employees were prosecuted or convicted. In addition, we are subject to inspections and examinations by the CSRC and other regulatory agencies, which may reveal certain deficiencies with respect to our business operations, risk management or internal controls. See “Business – Legal and Regulatory – Regulatory Inspections” beginning on page 154 of the prospectus.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Global Offering. Listing expenses to be borne by us are estimated to be approximately RMB55.2 million, of which approximately RMB51.1 million is directly attributable to the issue of H Shares and will be capitalized, and approximately RMB4.1 million is expected to be reflected in our consolidated statements of comprehensive income subsequent to the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations in 2015.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Applications Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board” or “Board of Directors”	the Board of Directors of our Company
“Bohai Economic Rim”	the region in China comprising Beijing, Tianjin and Hebei, Liaoning and Shandong provinces
“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
“Company,” “our Company”, “the Company” or “Luzheng Futures”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a joint stock company with limited liability incorporated in the PRC on December 10, 2012 (including its predecessor - Shandong Quaxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), which was renamed Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司) and then Luzheng Futures Limited (魯証期貨有限公司))
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus only, Hong Kong, Macau and Taiwan
“China Futures Association” or “CFA”	the China Futures Association (中國期貨業協會)
“CFMMC”	the China Futures Margin Monitoring Center Co., Ltd. (中國期貨保證金監控中心)
“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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company Law” or “PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 to take effect on March 1, 2014
“Connected Person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules and, unless the context requires otherwise, refers to Qilu Securities, Laiwu Steel and Shandong Steel
“CSDCC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
“CSRC”	the 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 in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange

DEFINITIONS

“EIT Law”	Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Exchange Participant(s)”	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“GDP”	gross domestic product
“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
“Group,” “our Group,” “we” or “us”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
“H Share(s)”	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Haitong International Securities”	Haitong International Securities Company Limited, a licensed corporation under the SFO permitted to carry out Type 1 (Dealing in Securities), Type 3 (Leveraged Foreign Exchange Trading) and Type 4 (Advising on Securities) regulated activities
“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 Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

DEFINITIONS

“Hong Kong Offer Shares”	the H Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to adjustment as described in “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fees of 0.005%), on and subject to the terms and conditions described in this prospectus and on the Application Forms as further described in “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 22, 2015 relating to the Hong Kong Public Offering and entered into by, among others, our Company and the Hong Kong Underwriters, as further described in “Underwriting – Underwriting Arrangements and Expenses” in this prospectus
“IFRS”	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, are independent of our Company or are not its connected persons
“International Offer Shares”	the 247,500,000 H Shares initially offered by our Company and sold by the Selling Shareholders for subscription or purchase 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 adjustment as described in “Structure of the Global Offering” in this prospectus)

DEFINITIONS

“International Offering”	the offer of the International Offer Shares by the International Underwriters outside the United States in offshore transactions in accordance with Regulation S, as further described in “Structure of the Global Offering” in this prospectus
“International Underwriters”	the group of international underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around June 26, 2015 by, among others, our Company, the Selling Shareholders and the International Underwriters in respect of the International Offering, as further described in “Underwriting – International Offering” in this prospectus
“Jinan Energy Investment”	Jinan Energy Investment Co., Ltd. (濟南市能源投資有限責任公司), a limited liability company incorporated in the PRC on April 20, 1998 and one of the promoters of our Company, which holds 1.59% of equity interest in our Company as of the Latest Practicable Date
“Joint Bookrunners”	Qilu International Capital, Haitong International Securities and CCB International Capital Limited
“Joint Global Coordinators”	Qilu International Capital, Haitong International Securities and CCB International Capital Limited
“Joint Lead Managers”	Qilu International Securities Limited, Haitong International Securities and CCB International Capital Limited
“Joint Sponsors”	Qilu International Capital and Haitong International Capital Limited
“Laiwu Steel”	Laiwu Steel Group Ltd. (萊蕪鋼鐵集團有限公司), a limited liability company incorporated in the PRC on May 6, 1999 which is wholly-owned by Shandong Steel and is a Controlling Shareholder of our Company
“Latest Practicable Date”	June 15, 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Linglong Group”	Linglong Group Co., Ltd. (玲瓏集團有限公司), a limited liability company established in the PRC on March 17, 1993 and one of the promoters of our Company, which held 1.56% of equity interest in our Company as of the Latest Practicable Date

DEFINITIONS

“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around Tuesday, July 7, 2015, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Luzheng Information”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), our wholly-owned subsidiary established in the PRC with limited liability on February 15, 2015
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), our wholly-owned subsidiary established in the PRC with limited liability on April 24, 2013
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the Main Board of the Hong Kong 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), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會)
“Non-competition Undertaking”	the non-competition undertaking dated June 15, 2015 granted by our Controlling Shareholders namely Qilu Securities, Laiwu Steel and Shandong Steel to our Company, details of which are set out in “Relationship with Controlling Shareholders – Non-Competition Undertaking” in this prospectus
“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)

DEFINITIONS

“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 Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed for, to be determined in the manner further described in “Structure of the Global Offering – Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional H Shares which may be offered pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company and the Selling Shareholders to the International Underwriters, exercisable by Qilu International Capital and Haitong International Securities (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, for which our Company and the Selling Shareholders may be required to issue or to sell up to an aggregate of 41,250,000 additional H Shares (for which our Company may be required to allot and issue up to an aggregate of 37,500,000 additional H Shares and the Selling Shareholders may be required to sell up to 3,750,000 additional H Shares at the Offer Price), if any, further details of which are described in “Structure of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pearl River Delta”	the region in China comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen, Zhaoqin and Shantou, all located in Guangdong province
“PRC GAAP”	Generally accepted accounting principles of PRC
“Price Determination Agreement”	the agreement to be entered into by Qilu International Capital and Haitong International Securities (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 around Friday, June 26, 2015 (Hong Kong time), on which the Offer Price is determined, or such later time as Qilu International Capital and Haitong International Securities (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) may agree, but in any event no later than Friday, July 3, 2015

DEFINITIONS

“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“province”	a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“Qilu International Capital”	Qilu International Capital Limited, a licensed corporation under SFO permitted to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities
“Qilu Securities”	Qilu Securities Co., Ltd. (齊魯證券有限公司), a limited liability company established in the PRC on May 15, 2001, which is owned as to 45.71% by Laiwu Steel and a subsidiary of Laiwu Steel, and a Controlling Shareholder of our Company
“Quanxin Futures”	Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), the predecessor of our Company and a limited liability company established in the PRC on June 5, 1995, which was renamed Luzheng Futures Brokerage Co., Ltd. and then Luzheng Futures Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization arrangements undergone by our Group as described in “History, Reorganization and Corporate Structure-Reorganization” in this prospectus
“Rizhao Physical Commodity Trading Board”	Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司), a limited liability company established in the PRC on May 16, 2014, in which Luzheng Trading holds equity interest of 29.5%
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAC”	the Securities Association of China (中國證券業協會)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)

DEFINITIONS

“Sale Shares”	the 25,000,000 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”	the 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)
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Selling Shareholders”	Qilu Securities, SSAI Holdings and Jinan Energy Investment
“Securities Law”	the Securities Law of the People’s Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“Shandong SASAC”	the State-owned Assets Supervision and Administration Commission of the Shandong Provincial Government (山東省人民政府國有資產監督管理委員會)
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a limited liability company established in the PRC on March 17, 2008 which is wholly owned by Shandong SASAC, and which is a Controlling Shareholder of our Company
“Shanghai Futures Exchange”	the Shanghai Futures Exchange (上海期貨交易所)
“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“SOE(s)”	state-owned enterprise(s)

DEFINITIONS

“Special Regulations”	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), promulgated by the State Council on August 4, 1994
“SSAI Holdings”	Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司), a limited liability company incorporated in the PRC on March 25, 1994, one of the promoters of our Company, which held 3.13% of equity interest in our Company as of the Latest Practicable Date
“Stabilizing Manager”	Qilu International Securities Limited
“State Council”	the State Council of the People’s Republic of China (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Supervisor(s)”	member(s) of our Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Track Record Period”	the three years ended December 31, 2012, 2013 and 2014
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“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 www.eipo.com.hk

DEFINITIONS

“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wind Info”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a company with limited liability established in the PRC in 1994 and a service provider of financial data, information and software, being an Independent Third Party of our Company
“Yantai Shengli”	Yantai Shengli Investment Co., Ltd. (煙臺勝利投資有限公司), a limited liability company established in the PRC on November 25, 2003, one of the promoters of our Company, which held 1.56% of equity interest in our Company as of the Latest Practicable Date
“Yangtze River Delta”	the region comprising Jiangsu and Zhejiang provinces and Shanghai
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Yongfeng Group”	Yongfeng Group Co., Ltd. (永鋒集團有限公司), a limited liability company established in the PRC on March 6, 2003, one of the promoters of our Company, which held 4.69% of equity interest in our Company as of the Latest Practicable Date
“%”	per cent
“Zhongtai Huirong”	Zhongtai Huirong Investment (HK) Company Limited (中泰匯融(香港)有限公司), a limited liability company established in Hong Kong on November 21, 2013 and a wholly-owned subsidiary of Luzheng Trading

In this prospectus, the terms “associate(s),” “close associate(s),” “connected transaction(s),” “holding company” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“AUM”	the amount of assets under management
“average brokerage commission rate”	equals the sum of net commission and fee income from futures brokerage business and refunds of trading fees as divided by the corresponding futures brokerage trading volume
“bps”	basis points (1 basis point = 0.01%)
“CAGR”	compound annual growth rate
“client balances”	cash and cash equivalents deposited by our brokerage clients with us for trading purposes, consisting of client margin deposits and settlement reserve funds
“collective asset management scheme”	an asset management contract entered into with multiple clients by an asset manager, pursuant to which the clients’ 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 asset manager provides asset management services to the clients through designated accounts
“CRM”	customer relationship management
“CSI 300 Index”	a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which is compiled by the China Securities Index Co., Ltd. (中證指數有限公司)
“ETF”	exchange-traded funds
“foreign exchange futures”	a futures contract to exchange one currency for another at a specified date in the future at a price (exchange rate) that is fixed on the purchase date
“IB”	introducing broker
“IT”	information technology
“margin call”	a futures broker’s demand on an investor using margin to deposit additional money so that the margin account is brought up to the minimum margin required

GLOSSARY OF TECHNICAL TERMS

“margin deposits”	restricted cash balances used for the settlement and clearing of the futures trading
“Net Capital”	equals net assets minus asset adjustment value plus liability adjustment value minus the deposits which the clients fail to fully replenish minus/plus other adjustment items recognized or approved by the CSRC
“OTC”	over-the-counter
“settlement reserve funds”	unrestricted and unutilized cash balances reserved for the settlement and clearing of the futures trading, which are deposited with the futures exchanges and commercial banks. Settlement reserve funds include client settlement reserve funds and our own settlement reserve funds
“SMEs”	small and medium-sized enterprises
“stock index futures”	cash-settled standardized futures contracts with a particular stock market index as the underlying asset
“targeted asset management scheme”	a targeted asset management contract entered into with a single client by an asset manager in China, pursuant to which the asset manager provides asset management services to the client through accounts under the client’s name

Unless otherwise indicated, futures brokerage trading volume data in this prospectus are presented on a bilateral comparable basis.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and 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 “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties 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. 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. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- the actions and developments of our competitors;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- general political and economic conditions, including those related to the PRC and other relevant jurisdictions in which we have or intend to have business operations;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- various business opportunities that we may pursue;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- changes in the global economic conditions and material volatility in the global financial markets.

FORWARD-LOOKING STATEMENTS

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information contained in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC, which is governed by a legal and regulatory environment that may differ significantly from that of other jurisdictions. For more information concerning the PRC and certain related matters discussed below, see “Regulatory Environment,” “Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V – Summary of Articles of Association.”

RISKS RELATING TO THE PRC FUTURES INDUSTRY

Our business may be materially and adversely affected by market and economic conditions and other factors beyond our control, including overall slowdowns in futures and derivatives trading.

We generate revenue principally from commissions from futures brokerage, interest income earned on settlement reserve funds, gains from commodity trading and investment income on our treasury management activities. These revenue sources are dependent on a combination of factors, including trading volumes, interest rates, credit spreads, and market liquidity. In addition, like other futures brokerages and financial services firms in China, our results of operations in the past have been, and in the future may continue to be, materially affected by many other factors (many of which are beyond our control), including one or a combination of the following:

- general economic and political conditions in China, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and futures industries;
- the effects of market conditions in China and overseas, particularly in the commodities, futures, fixed-income, equity and credit markets;
- changes in clients’ hedging or speculative trading activities in the markets;
- introduction of new products or new market entrants;
- the level and volatility of commodity prices, interest rates, equity and fixed income;
- investor sentiment and confidence in the financial markets; and
- inflation, natural disasters, and acts of war or terrorism.

Unfavorable economic and market conditions can adversely affect investors’ sentiment and trading and investment activities, resulting in reduced brokerage commissions and fees income and asset management fees. Our financial condition and results of operations have been and may in the future be materially and adversely affected by general economic and market conditions.

RISK FACTORS

We face intense competition in our futures brokerage business.

The futures industry is highly competitive and we expect competition to continue to intensify, especially in light of the relaxation of the PRC regulatory requirements.

We encounter intensive competition primarily in our futures brokerage business. We face competition from other futures companies in terms of pricing, the geographic coverage of branch networks and the financial strengths and market positions of controlling shareholders. Currently, there are over 150 futures firms in the PRC that are eligible to provide futures brokerage services. Meanwhile, the gradual deregulation of the PRC futures industry may open the Chinese futures market to foreign competitors and other new market entrants. Intense price competition has led to an industry-wide trend of decreasing brokerage commission rates. We monitor our pricing in relation to competitors and adjust commission rates and other fee structures to maintain our customer base and market share. As a result, our average brokerage commission rate decreased from 0.402 bps in 2012 to 0.258 bps in 2013 and further to 0.223 bps in 2014.

We face pressure to maintain our customer base and attract new customers. As of December 31, 2014, we had approximately 83,000 futures brokerage customers. However, there is no assurance that we will be able to maintain or grow our customer base. If we are unable to address the needs of our customers by maintaining high-quality customer service, continuing product innovation and providing value-added services, or if we otherwise fail to meet our customers' demands or expectations, we may lose our existing customers to our competitors or fail to attract new customers. As a result, our financial condition and results of operation may be materially and adversely affected.

We also face increasing competition because of Internet trading technology currently being developed or which may be developed in the future by both our existing competitors as well as new market entrants. We cannot accurately predict how emerging and future technological changes in Internet trading will affect our operation or the competitiveness of our services. The current mode of our business operations may be subject to intense competition from new technologies that emerge in the future, and if we are unable to adapt to this industry trend and improve our online trading platform quickly, we may lose our market share and competitive advantage.

Investments in the PRC futures firms are subject to ownership restrictions that may adversely affect the value of your investment.

Investments in PRC futures firms are subject to a number of ownership restrictions. Prior approval from the CSRC is required for any person or entity to hold 5.0% or more of the registered capital or total issued capital of a PRC futures company. If a shareholder of a PRC futures company increases its shareholding above the 5.0% threshold without obtaining prior approval from the CSRC, its voting right is invalid to the extent that it exceeds the 5.0% threshold and the shareholder could be subject to sanctions by the CSRC, such as reversal of such increase in shareholding, fines and confiscation of any related gains. Ownership restrictions imposed by the government may materially adversely affect the value of your investment.

RISK FACTORS

We are subject to extensive and evolving regulatory requirements in China, any non-compliance with or changes in which may affect our business operations and prospects.

The PRC futures industry is highly regulated. Futures companies and other financial institutions that operate in this industry are subject to laws and regulations in various respects, including in relation to licensing, scope of permitted products and services, capital adequacy as well as trading and payment methods. See “Business – Legal and Regulatory.”

The regulatory authorities in China conduct periodic inspections, examinations and inquiries in respect of our compliance with relevant regulatory requirements. For example, the CSRC assigns a regulatory rating to each futures firm based on risk management capacities, competitiveness and compliance with regulatory requirements. We obtained a “Class A (Level AA)” regulatory rating from the CSRC in 2014. However, there is no assurance that the CSRC will not lower our regulatory rating in the future, which may disqualify us from conducting certain new business or obtaining business and may subject us to a higher reserve ratio for our futures investor protection fund.

Such laws and regulations may potentially impose additional costs on our business, increase the regulatory and compliance complexity of our operations, and reduce the demand for our services. There is no assurance that we will be able to comply fully with all the relevant laws and regulations. Any breach or non-compliance may result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating.

Moreover, the relevant rules and regulations in the futures industry may change from time to time based on the development of the futures markets or otherwise. New legislation, rules and regulations and changes in the interpretation or enforcement of existing ones may impact our business strategies, operations and prospects. In addition, changes in the rules and regulations could result in limitations on the business lines that we may conduct or modifications to our business practices or additional costs, which may materially and adversely affect our financial condition and results of operations.

RISKS RELATING TO OUR BUSINESS

We rely on our futures brokerage business for a majority of our operating income.

Operating income and profits from our futures brokerage business have been the largest component of our operating income and operating profits. In 2012, 2013 and 2014, operating income from our futures brokerage business was RMB269.9 million, RMB259.3 million and RMB221.6 million, respectively, representing 87.7%, 82.1% and 68.8% of our operating income, respectively. In the same years, segment profit of our futures brokerage business was RMB118.1 million, RMB109.2 million and RMB95.7 million, respectively, representing 141.8%, 114.1% and 93.6% of our operating profits, respectively. This revenue source is dependent on client trading volumes. A decrease in trading volumes could adversely affect our business and results of operations.

The trading volume of futures transactions is affected by a number of market factors described under “– Our business may be materially and adversely affected by market and economic conditions and other factors beyond our control, including overall slowdowns in futures and derivatives trading.” Factors affecting trading volume on the futures market are complex and difficult to predict. For example, trading

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volume on PRC futures exchanges tends to increase during periods of market uncertainties due to increased hedging activities and the needs to manage the risks associated with, or to speculate on, volatility in the commodity markets. In addition, the introduction of new futures and derivatives products on the market may also increase trading volume. Since the launch of CSI300 Index futures in 2010 and treasury bond futures in 2013, the futures trading volume in China has generally increased. However, the slowdown in futures and derivatives trading activities due to reduced volatility of commodity prices or otherwise could cause futures trading volume to decrease. Any reduction in trading volumes could have a material adverse effect on our business, financial condition and results of operations.

While we continue to diversify our business and product mixes, our futures brokerage business is expected to remain as our primary source of revenue in the near future and to provide cash flow for expanding our new business and products. Any decline or slowdown in our futures brokerage business could have a material adverse effect on our results of operations, cash flow and business prospects.

Our business is concentrated in Shandong and our business, financial condition and results of operations may be materially and adversely affected by a significant deterioration in our business in Shandong.

Our business originated in, and has historically been focused on, Shandong. As of December 31, 2014, we had 24 futures branches in China, of which ten were located in Shandong. A majority of our brokerage clients are individuals, corporations and other institutions based in Shandong. As of December 31, 2012, 2013 and 2014, 71.6%, 68.3% and 65.7% of our futures brokerage clients opened their accounts in our futures branches in Shandong, respectively. In 2012, 2013 and 2014, 58.5%, 62.7% and 66.8%, respectively, of our commission and fee income originated from Shandong.

We have strategically expanded our business across several major cities in China. However, subject to our available capital, regulatory requirements and otherwise, we may have difficulties in further expanding our branches and operations outside Shandong. We expect that our business will continue to concentrate in Shandong.

A significant economic downturn or a catastrophe in Shandong may undermine the businesses and the financial conditions of our customers in Shandong and their ability and willingness to trade in the futures markets. Our business, financial condition and results of operations may be materially and adversely affected as a result.

We face uncertainties associated with the refunds of trading fees by futures exchanges.

As a member of the four futures exchanges in China, we receive refunds of a portion of the trading fees paid by us to the futures exchanges, which refunds constitute a significant part of our futures brokerage business revenue. In 2012, 2013 and 2014, refunds of trading fees were RMB54.7 million, RMB41.8 million and RMB38.6 million, respectively, representing 20.3%, 16.1% and 17.4% of our operating income from the futures brokerage business, respectively. We have received such refunds of trading fees from the futures exchanges every month during the Track Record Period.

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In determining the amount of trading fees to refund, the futures exchanges in China may, at their discretion, consider various factors, such as previous refunds of trading fees to us, the trading volume of futures products concerned and market conditions.

However, none of the futures exchanges in China has published any definite guideline for determining the amount of trading fees to be refunded. Whether to refund any trading fees and in what amount remains subject to the futures exchanges' sole discretion. Should the futures exchanges cease to refund the trading fees or reduce the refund amounts, our revenues would be reduced and our results of operations and prospects could be materially and adversely affected.

Our treasury management activities made significant contributions to our financial performance during the Track Record Period. Such activities may not always be profitable and could incur loss.

As part of our treasury management activities, we invest in wealth management products and equity securities for our own account. In 2012, 2013 and 2014, our net investment gains from treasury management activities (net of applicable taxes) were RMB3.0 million, RMB19.1 million and RMB39.2 million, respectively, representing 4.5%, 24.3% and 48.8% of our profit for the year, respectively. Our investment in these investment products is subject to market volatility. The performance of our treasury management activities is determined by our investment decisions and judgments based on our assessments of existing and future market conditions. However, our investment decisions are based on human judgments, which involve management discretion and assumptions. If our decision-making process fails to minimize losses effectively while capturing gains, or our forecasts do not conform to actual changes in market conditions, or if the market risks from holding particular types of products materializes, our investments may not achieve the returns we anticipate, and we could suffer material losses, any of which would materially and adversely affect our business, financial condition and results of operations. For example, some of the asset management schemes in which we invested experienced investment losses due to unfavourable stock market condition in China in 2012, resulting in impairment losses of RMB12.4 million, RMB4.8 million and RMB0.6 million, respectively, in 2012, 2013 and 2014.

We may suffer losses if our clients fail to maintain sufficient margin deposits.

We require our clients to maintain margin deposits in their accounts with us for futures trading. We also require the client margin rate for a particular futures product to be greater than the minimum margin rate set by the futures exchanges. At the end of each trading day, the client's account is adjusted to reflect the client's gain or loss, a practice referred to as "marking to market" the account. If the balance in the client's brokerage account falls below the margin balance as calculated against our margin requirements, we issue a margin call and request that the client either brings the account balance up to the margin requirement before the market opens on the next trading day, or closes out the position voluntarily. If the clients do not fulfill the margin call in a timely manner, we may under our brokerage service contracts with the clients close out the position by executing a reverse transaction that neutralizes the existing contract.

Although we are entitled to close out client positions under such circumstances, our ability to do so is affected by market volatilities. If the market price of futures continues to decrease for an extended period and we are not able to liquidate clients' positions in a timely manner, we may incur a loss to the extent the

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margin balance is not sufficient to cover the loss resulting from the client position liquidated and we fail to recover the shortfall from the client otherwise. In addition, such mandatory liquidation mechanism may trigger disputes between clients and us and subject us to litigation risks.

Significant interest rate fluctuations could affect our financial condition and results of operations.

Our exposure to interest rate is primarily associated with the interest income on our bank balances and client balances, which we deposit with futures exchanges or commercial banks in China. We generate a substantial portion of our operating income from the interest income on settlement reserve funds from our clients deposited with banks and futures exchanges. In 2012, 2013 and 2014, our net interest income was RMB84.5 million, RMB80.3 million and RMB96.2 million, respectively, representing 27.5%, 25.4% and 29.9% of our operating income, respectively. Interest rates with respect to client deposits and our own balances are closely affected by the prevailing market interest rates. If market interest rates decrease, our interest income would generally decrease. Significant interest rate decreases would reduce our interest income and materially and adversely affect our financial condition and results of operations.

Our commodity trading and risk management business is subject to significant market risk and credit risk.

We commenced our commodity trading and risk management business in 2013 which includes commodity trading and OTC derivatives trading. Our commodity trading and risk management business is primarily subject to market and counterparty risks, including (i) actual price movements are different from our expectations and therefore our hedging or arbitrage activities fail to manage risks and capture gains, and (ii) our counterparty clients default under our contracts with them.

In commodity trading, we study the commodity and futures markets and take advantage of hedging and arbitrage opportunities to manage our commodity risk while earning gains. However, our ability to conduct effective hedging and arbitrage activities is primarily based on our expectations of market price movements and investment experience. We closely monitor and adjust our trading strategies based on market conditions and internal risk management guidelines. However, our trading decisions are based on human judgments, which involve management discretion and assumptions. If our decision-making process fails to minimize losses effectively while capturing gains, or our forecasts do not conform to actual changes in market conditions, our hedging and arbitrage activities may not achieve the results we anticipate, and we could suffer material losses, any of which would materially and adversely affect our business, financial condition and results of operations. In addition, the PRC futures and derivatives market currently does not provide sufficient means for us to fully hedge against volatile trading markets, which may make it difficult for us to reduce our exposure to fluctuations in prices, and the futures and derivatives that we use may not be as effective as we expect for hedging purposes.

In our commodity trading business, we enter into sales contracts with each seller or buyer client as a counterparty. In OTC derivatives trading, we trade options on commodity futures with our counterparty clients over-the-counter. We face credit risks in our role as a counterparty. Any material non-payment or non-performance by a counterparty client could adversely affect our financial position, results of operations and cash flows. For example, in 2014, one of our clients defaulted in taking delivery of the commodities we sold, resulting in us having certain unexpected and unhedged positions in physical commodities. Due to the sustained decline in commodity price, the net realizable value of these commodities fell below their cost,

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resulting in RMB6.8 million of impairment losses in 2014. Although we regularly review our credit exposure to specific clients or counterparties and to specific industries that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to receive all relevant information with respect to the credit risks of our clients and counterparties. For more details, see “Business – Internal Control Measures – Commodity Trading and Risk Management.”

A significant reduction in our AUM, fee rate or poor management performance may materially and adversely affect our asset management business.

We receive asset management fees based on the size of each asset management scheme under our management. In addition, we may earn pre-agreed performance fees for asset management schemes. Investment performance affects our AUM and is one of the most important factors in retaining our clients and competing for new asset management business. Limited investment options and hedging strategies in the PRC, as well as market volatility, could negatively affect our ability to provide stable returns for our clients and cause us to lose clients. Poor investment performance could adversely affect our revenue and growth because:

- existing clients might withdraw funds from our futures asset management business, resulting in a reduction in AUM and thus fewer management and performance fees for us;
- our performance fees, which are based on a percentage of investment returns, would decline; and
- clients may request that we lower our fees for asset management services, particularly in an increasingly competitive industry.

In addition, our asset management fees or market share may decrease due to increased competition from other futures firms. Adverse market and economic conditions, reduced futures and derivatives trading volumes or the failure to outperform our competitors or the market may reduce our AUM or affect the performance of the assets we manage, which could adversely affect the amount of our management fees or performance fees.

We may not be successful in expanding our business.

We are committed to providing new products and services to our clients in order to strengthen our market position in the PRC futures and financial industries. We have recently expanded our business to include, among other things, commodity trading and OTC derivatives. We will continue to expand our product and service offerings as permitted by the PRC regulatory authorities, transact with new clients not in our traditional client base and enter new markets. These new businesses may have different operational parameters and risk profiles from our more established businesses, and we may not have sufficient operating experience to effectively manage these new businesses and the corresponding risks using our available risk management tools.

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These new businesses expose us to additional and potentially challenging risks, including, but not limited to the following:

- we may not have sufficient experience or expertise in offering new products and services and dealing with new counterparties and clients, or may have legal disputes with clients due to deficiencies in our new products;
- we may be subject to greater regulatory scrutiny, additional credit, market and operational risks;
- we may suffer from reputational damage arising from dealing with less sophisticated counterparties and clients;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- we may be unable to hire additional competent qualified personnel to design and manage the offering of a broader range of products and services;
- our new products and services may not be accepted by our clients or meet our profitability expectations;
- we may be unable to make a sound judgment on market conditions, including the potential losses, of our new business, due to insufficient historical data;
- we may be unable to obtain sufficient financing for our business expansion;
- we may be unable to completely identify or adequately evaluate the risks of our new business, or carry out robust risk management in response to the risks; and
- we may not be able to enhance our risk management capabilities and IT systems in time to identify and mitigate all the risks associated with these new products and services, new clients and new markets.

If we are unable to achieve the commercial results as intended, or at all, with respect to our offering of new products and services, our financial condition, results of operations, reputation and prospects could be materially and adversely affected.

We may expand our operations beyond China, principally to the United States and United Kingdom. We may not be able to attract a sufficient number of clients because of our lack of track record or experience in these markets. Furthermore, we may fail to adequately address competitive conditions in new markets that are different from those in our existing markets. In addition, such expansion may increasingly subject us to the risks inherent in conducting business internationally, including but not limited to:

- economic instability and recessions;

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- political instability;
- licensing requirements;
- obligations to comply with foreign laws and other regulatory requirements;
- potential adverse tax consequences;
- difficulties in administering foreign operations generally;
- increased risk of exposure to terrorist activities;
- fluctuations in currency exchange rates;
- inability to effectively enforce contractual or legal risks; and
- difficulties in recruiting and retaining qualified personnel.

The materialization of these risks may undermine or hinder our overseas expansion and adversely affect our prospects.

Future acquisitions may not be successful.

In addition to organic growth, our strategy also contemplates acquisitions of complementary businesses and entry into strategic alliances. This strategy entails potential risks that could have a material adverse effect on our business, financial condition, results of operations and prospects, including:

- unidentified or unanticipated liabilities or risks in the target assets or businesses;
- inability to successfully integrate the products, services and personnel of the target businesses into our operations or to realize any expected cost savings or other synergies from the acquisitions;
- the need to incur additional indebtedness, which may reduce our cash available for operations and other uses due to increased debt repayment obligations;
- inability to retain employees;
- loss of clients; and
- diversion of management attention and other resources.

We may not be able to identify attractive acquisition opportunities, or make acquisitions on attractive terms or obtain financing necessary to complete and support such acquisitions. In addition, the anticipated future expansion of our operations through acquisitions will place a significant strain on our management, internal controls and IT systems and resources, and could also result in additional expenditures. In addition

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to training, managing and integrating our workforce, we will need to continue to develop and improve our management and financial controls. We cannot assure you that any such acquisitions will result in long-term benefits to us or that we will be able to effectively manage the integration and growth of our operations. Failure to do so may materially and adversely affect our business, financial condition, operating results and prospects.

Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not fully protect us against various risks inherent in our business.

Currently, we follow our internal risk management framework and procedures to manage our risk exposures, primarily including market, credit, operational, liquidity, compliance and legal risks. Our risk management policies, procedures and internal controls may not be adequate or effective in mitigating our risk exposures or protecting us against unidentified or unanticipated risks. In particular, some methods of managing risk are based upon historical market behaviors and our experience in the futures industry. These methods may fail to accurately predict future risk exposures, which could be significantly greater or more complex than those indicated by our historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up-to-date or properly evaluated. In addition, in markets that are rapidly developing, the information and historical data on which we rely for our risk management methods may become quickly outdated.

Management of operational, compliance and legal risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and business activities, as well as appropriate and consistent application of internal control systems. Our risk management and internal control policies and procedures may not be adequate or effective in mitigating unanticipated or unforeseen risks, and our business, financial condition and results of operations could be materially and adversely affected by the corresponding increase in our risk exposures and actual losses as a result of the failures of our risk management policies, procedures and internal controls. The risk mitigation strategies and techniques that we adopt may not be fully effective and sufficiently encompassing and may leave us exposed to unidentified and unanticipated risks. In addition, if we fail to promptly adjust and improve our risk management and internal control systems and procedures in response to the development of our branch outlets and the expansion of our business and products, our business operations and financial condition could be materially and adversely affected.

Effective implementation of our risk management and internal controls also depends on our employees. In our business, human errors or mistakes may happen when processing orders placed by clients or trading futures and derivatives in our hedging and arbitrage activities. Upon discovery of any human error, we may have to take immediate action to close out any resulting erroneous trade positions. We may also bear losses arising from such erroneous trades. Due to the large size of our operations, we cannot assure you that such implementation will not involve human errors or mistakes, which may have a material adverse effect on our business, financial condition and results of operations.

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We are subject to capital requirements, including the Net Capital requirement, which may restrict our business activities.

According to the CSRC's requirements, our Company's Net Capital may not be less than RMB15 million, the ratio between our Company's Net Capital and risk capital reserves may not be less than 100%, the ratio between our Company's Net Capital and net assets may not be less than 40%, the ratio between our current assets and current liabilities may not be less than 100%, and the ratio between our liabilities and net assets may not be over 150%. If we fail to meet regulatory capital requirements, regulatory authorities may impose penalties on us or limit the scope of our business, which could, in turn, have a material and adverse effect on our business, financial condition and operating results. See "Regulatory Environment."

Our operations may be adversely affected if we fail to obtain or renew necessary licenses, permits and approvals for conducting a particular business or offering specific products. The suspension or termination of any of our licenses, permits or approvals may have a negative impact on our business.

We operate in a highly regulated financial industry where many aspects of our business depend upon obtaining and maintaining the necessary approvals, licenses, permits or qualifications from relevant PRC regulators, such as the CSRC. We are required to comply with the relevant regulatory requirements when applying for approvals, licenses or permits for conducting new businesses or offering new products. As China's legal system and financial services industry continue to evolve, it is difficult for us to comply with the changing regulatory requirements. In addition, further regulatory approvals, licenses, permits or qualifications may be required in the future, and some of our current approvals, licenses, permits or qualifications are subject to periodic renewal. If any of our business activities fail to meet the regulatory requirements, or if we fail to obtain or renew the required permits, licenses, approvals or qualifications, our business, financial condition and results of operations may be materially adversely affected.

Our operations depend on key management and professional staff and our business may suffer if we are unable to retain or replace them.

The success of our business depends on, to a large extent, our ability to attract and retain key personnel who possess in-depth knowledge and understanding of, and extensive working experience in, the futures and other financial markets in which we operate. These key personnel include members of our core management, experienced asset managers, OTC derivatives experts, industry analysts, IT specialists, sales staff and other key personnel. We devote considerable resources in 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 futures companies and financial institutions are competing for the same pool of talent. Intense competition may require us to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could result in additional expenditures. We may be unable to attract or retain these personnel and the failure to do so could severely disrupt our business and prospects. In addition, due to the rapid development of the PRC futures industry, our current professionals' knowledge and skills may be insufficient to meet our needs for product and service innovations, which may adversely affect the development of our business.

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We may not be able to detect and prevent fraud or other misconduct committed by our employees, agents, clients or other third parties on a timely basis.

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties, including, among other things, unauthorized trading, misusing or disclosing confidential information, providing false information, forging corporate seals, misappropriation of client deposits, illegal fundraising, and misrepresentation to clients. These incidents of misconduct could subject us to financial losses and sanctions imposed by governmental authorities, as well as adversely affect our reputation. In addition, alleged or actual employee misconduct could result in customer complaints and claims, regulatory investigations or prosecutions of the employees engaged in the subject activities or litigation or regulatory sanctions against us, which could cause reputational harm, litigation costs and management distraction for us regardless of whether we are alleged to have any responsibility. 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, misconduct 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 prevent and detect such activities may not be fully effective. We cannot assure you that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result. Our failure to detect and prevent fraud and other misconduct may have a material adverse effect on our business reputation, financial condition and results of operations.

We may not be able to fully 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, 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 require us to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, establish or designate an independent anti-money laundering department, establish a client identification system in accordance with relevant rules, record the details of client activities and report suspicious transactions to relevant authorities. See “Regulatory Environment – Other Regulations – Anti-money Laundering.”

While we have adopted policies and procedures aimed at detecting and preventing the use of our business platforms to facilitate money-laundering activities and anti-terrorism activities, such policies and procedures may not completely eliminate instances in which we may be 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 agencies may freeze our assets or impose fines or other penalties on us. We cannot assure you that there will not be failures in detecting money laundering or other illegal or improper activities which may adversely affect our business reputation, financial condition and results of operations.

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We are subject to the risks arising from any failures of, or inadequacies in, our IT systems.

Our operations rely heavily on the stable and effective operations of our IT systems and are also affected by the operations of the IT systems of telecommunication carriers, exchanges, depositaries and other financial intermediaries. Our futures trading systems are highly automated. The proper functioning of our futures trading, financial controls, risk management, accounting, client services and other data processing systems, together with the communication networks between our headquarters, subsidiaries and branches and our communication networks with exchanges and depositaries, are critical to our business and our ability to compete effectively. Our IT systems may be vulnerable to a number of disruptions such as computer viruses, hackers or other disruptive actions by visitors or other Internet users. Such disruption may cause data corruption and interruptions, or delay or cessation in the services provided through our futures trading systems, which could have a material adverse effect on our business and may lead to potential claims from customers. Inappropriate use of the Internet by third parties may also jeopardize the security of confidential information, such as client data or trading records, stored in our computer systems, and could cause financial losses for us.

We have established disaster recovery centers in Jinan and Shanghai to carry on principal functions in the event of a catastrophe or failure of our systems, including those caused by human error. However, we cannot assure you that our operations will not be materially disrupted if any of our systems fails. A prolonged disruption to or failure of our information processing or communications systems would limit our ability to process transactions. This would impair our ability to service our clients and execute trades on behalf of clients and for our own account, which could materially and adversely affect our competitiveness, financial condition, results of operations and reputation.

We utilize IT products and services from a variety of third-party developers, contractors and vendors. If we fail to effectively manage our external IT developers, contractors and vendors and their products and services, we may experience system failures, incompatible software or platforms, as well as synchronization, data transfer and data management issues across our various IT systems and platforms. If we upgrade our information systems or launch new information systems for our new businesses, we may encounter disruptions, the breakdown or slowdown of systems due to their defects, the failure to upgrade original systems or the operational errors of technicians, which may result in client dissatisfaction.

In addition, if our information systems are unable to be improved in response to our business development and expansion, our capabilities for business management, client services, risk management and internal controls may be adversely affected. If the processing capacity of our trading system is not able to deal with trading demands when the futures market experiences volatility, we may be subject to client complaints, litigations or adverse effects on our reputation.

The operations of our IT systems are exposed to disruptions from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorized access, data loss or leakage, improper access to operation authority and other similar events. Disruptions to or the instability of our technology or the external technology that is used by our clients for our online products and services could harm our business and our reputation.

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Our business is susceptible to the operational failure of third parties.

We face the risk of operational failure or termination of any of the futures exchanges, custodians or other financial intermediaries we use to facilitate our futures trading transactions. Any operational failure or termination of a particular financial intermediary that we use could adversely affect our ability to execute transactions, serve our clients and manage our exposure to various risks. Any disputes or difficulties in cooperating with these financial intermediaries could adversely affect our business operations.

In addition, as our interconnectivity with our clients grows, our business also relies heavily on our clients' use of their own systems, such as personal computers, mobile devices and the Internet, and we will increasingly face the risk of operational failure in connection with our clients' systems.

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

Various laws, rules and regulations require us to protect the personal data and confidential information of our clients. The relevant authorities may issue sanctions or orders against us if we fail to protect the personal information of our clients, and we may have to provide compensation for economic loss arising from our failure to protect the personal information of our clients in accordance with relevant laws and regulations. Incidents of mishandling personal information or the failure to protect the confidential information of our clients could create a negative public or client perception of our operations or our brand name, which may materially and adversely affect our reputation and prospects.

Some of our landlords do not possess the relevant building ownership certificates for some of the properties leased by us.

As of the Latest Practicable Date, we leased 27 properties in China, with an aggregate gross floor area of 10,312.9 square meters. Among these 27 properties, we have not been provided by the landlords with the building ownership certificates for three properties, with a gross floor area of approximately 1,694.4 square meters, representing 16.4% of the aggregate gross floor area of our leased properties. We use these three leased properties as offices and a futures branch. See "Business – Properties."

We are in the process of working with our landlords to obtain the title certificates, but the timing for obtaining such certificates is beyond our control. Before our landlords obtain the proper building ownership certificates for such properties, our rights in relation to such properties might not be entirely protected. Any dispute or claim related to the title defects of the three properties leased by us may result in the relocation of our offices and futures branch.

We cannot assure you that our use and occupation of the three leased properties with defective titles will not be challenged, and there is no assurance that we will be able to secure alternative properties for our business if we are required to relocate. If our landlords cannot obtain the relevant building ownership certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, incur additional relocation costs, and our business operations may be disrupted, any of which may have a material adverse effect on our financial condition and results of operation.

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Our Controlling Shareholder is able to exercise significant influence over us.

Following the completion of the Global Offering, Qilu Securities will remain our largest Shareholder. Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), Qilu Securities will hold approximately 63.24% of our outstanding Shares. It will have the ability to exercise significant influence over us, including, among others, matters relating to:

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

Although Qilu Securities has undertaken to us that it will not prejudice our interests or our other Shareholders by taking advantage of its position as our Controlling Shareholder, it has substantial influence over us and its interests may not be consistent with that of our other Shareholders.

RISKS RELATING TO DOING BUSINESS IN CHINA

Our business could be materially adversely affected by changes in the economic, political and social conditions in China, as well as by changes in policies adopted by the PRC governments.

Most of our assets are located in China, and we derive most of our revenues from our operations in China. Accordingly, our business, results of operations, financial condition and prospects are subject to economic, political and legal developments in China.

Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned or controlled by the PRC government. The PRC government also exercises significant control over economic growth through allocating resources, controlling capital investment, reinvestment and foreign exchange, setting monetary policies and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasizing the use of market forces to drive economic development. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy but have a negative effect on the industries in which we operate and, subsequently, our business.

While China's economy has grown significantly in the past 30 years, there is no assurance that such growth can be sustained. Since the second half of 2008, the global economic slowdown, the continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively added

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downward pressure to China's economic growth. China's real GDP growth rate declined from 9.3% in 2011 to 7.4% in 2014. If the business environment in China deteriorates as a result of the slowdown in economic growth, our business may be materially adversely affected.

The PRC legal system is still evolving and there are inherent uncertainties as to the interpretation, implementation and enforcement of laws and regulations, which could limit the legal protection available to us and to our Shareholders.

PRC laws and regulations govern our operations in China. We and most of our operating subsidiaries are organized under PRC laws. China's legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, China has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation and trade.

However, many of these laws and regulations, particularly with respect to the financial services industry, are relatively new and evolving, are subject to different interpretations and may be inconsistently implemented and enforced. In addition, only limited volumes of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of China's laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and can adversely affect the value of your investment.

In particular, China's financial services industry is strictly regulated. Many aspects of our business depend upon the receipt of the relevant government authority's approvals and permits. As China's legal system and financial services industry develop, changes in such laws and regulations, or in their interpretation or implementation or enforcement, could materially adversely affect our business, financial condition or results of operations.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payment on our H Shares.

Substantially all of our revenues and expenses are denominated in RMB, which is currently not a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account, which includes the payment of dividends, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks with the PRC. As a result, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Our foreign exchange transactions under the capital account, however, must be approved in advance by the SAFE. We cannot assure you that we will be able to obtain such approval in a timely manner, or at all.

There can be no assurance that the policies regarding foreign exchange transactions under the current account and the capital account will continue in the future. In addition, these policies may restrict our ability to obtain sufficient foreign exchange, which could have an effect on our foreign exchange transactions and

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the fulfillment of our other foreign exchange requirements. If there are changes in the policies regarding the payment of dividends in foreign currencies to shareholders or other changes in foreign exchange policies resulting in insufficient foreign exchange, our payment of dividends in foreign currencies may be affected. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for foreign exchange transactions, our business, financial condition and results of operations may be adversely affected.

Fluctuations in exchange rates and the value of the Renminbi could have material adverse effect on our financial condition and results of operations.

We collect substantially all of our revenues in RMB, some of which will need to be converted into foreign currencies to pay dividends to holders of our H Shares. The value of RMB against foreign currencies fluctuates, and is subject to changes resulting from the PRC government's policies, domestic and international economic and political developments as well as supply and demand in the monetary market. Since July 2005, the PRC government has adopted a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of RMB against the U.S. dollar on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, PBOC further enlarged the floating band for the trading price of RMB against the U.S. dollar on the interbank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong and U.S. dollars against RMB, our ability to pay dividends in foreign currencies may be adversely affected.

In addition, since dividends in respect of our H Shares will be declared in RMB and paid in Hong Kong dollars, holders of our H Shares in countries other than China are subject to risks arising from adverse movements in the value of the RMB against the Hong Kong dollar, which may reduce any dividends paid in respect of the H Shares. Furthermore, following the Global Offering, our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the Global Offering are expected to be denominated in currencies other than RMB. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. We cannot predict how the RMB will fluctuate in the future. The fluctuation in the exchange rate between the RMB and other currencies could have a material and adverse effect on our business, financial condition and results of operations.

It may be difficult to effect service of legal process upon, or to enforce any judgments obtained outside the PRC against us, our directors, supervisors or senior executive officers residing in the PRC.

Most of our directors, supervisors and executive officers reside in China. In addition, most of our assets and those of our directors, supervisors and executive officers are located in China. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. As a result, it may not be possible for investors to serve process upon us or those persons in China, or to enforce against us or them in China, any judgments obtained from non-PRC courts.

On July 14, 2006, the Supreme People's Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters. Under such arrangement, where any designated People's Court

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or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court or Hong Kong court for recognition and enforcement of the judgment. Although the arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remains uncertain.

Dividends payable by us to our foreign investors and gains on the sale of our shares may be subject to withholding taxes under the PRC tax laws.

Non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares in accordance with applicable PRC tax laws, rules and regulations. Non-PRC domestic resident individuals are required to pay PRC individual income tax under China's Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the overseas residents reside reduce or provide an exemption for the relevant tax obligations. Generally, a Hong Kong-listed domestic non-foreign-invested enterprise may withhold individual income tax at the rate of 10% when distributing dividends to overseas resident individual shareholders. If an applicable tax treaty provides that the applicable tax rate is lower than 10%, a non-PRC resident individual shareholder may be entitled to claim a refund from the PRC tax authorities. If an applicable tax treaty provides that the tax rate is between 10% and 20%, it is possible that we may be required to pay the withholding tax at a tax rate under an applicable treaty. In the absence of any applicable tax treaty, non-PRC resident individual shareholders may be required to pay the withholding tax at the tax rate of 20%. There remains uncertainty as to whether gains realized by non-PRC domestic resident individuals on disposition of H Shares are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company pursuant to the EIT Law and other applicable PRC tax rules and regulations. The 10% tax rate is subject to reduction under special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise resides. There is uncertainty as to whether gains realized upon the disposal of H shares by non-PRC domestic residents should be subject to PRC enterprise income tax.

There remains substantial uncertainty as to the interpretation and implementation of the EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities. China's tax laws, rules and regulations may also change. If there is any unfavorable change to applicable tax laws and the interpretation or application of such laws, the value of your investment in our H Shares may be materially affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as determined by PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, pursuant to the rules promulgated by the CSRC, we are not allowed to distribute gains from the fair value changes of financial assets that are included in distributable profits as cash dividends. As a result, we may not have sufficient or any distributable profits to enable us to make

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dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

In addition, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have distributable profits for that year as determined under IFRS, or vice versa. As a result, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders.

We may incur losses as a result of force majeure, natural disasters, terrorist attacks or outbreaks of contagious diseases.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of typhoon, tornado, snow storm, earthquake, flood, drought, power shortages or failures, or may be susceptible to epidemics, such as Severe Acute Respiratory Syndrome, avian influenza, H1N1 influenza, H5N1 influenza or H7N9 influenza, potential wars or terrorist attacks, riots, disturbances or strikes. Serious natural disasters may result in tremendous casualties and destruction of assets and may disrupt our business and operations. Severe contagious disease outbreaks could result in a widespread health crisis that could materially and adversely affect business activities in the affected regions, which could therefore materially affect our operations. Acts of war or terrorism, riots or disturbances may also cause casualties to our employees, and may disrupt our business network and operations. Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, and could materially and adversely impact 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 their liquidity and market price may be volatile. If the price of the Shares declines or fluctuates, this could result in substantial losses for investors purchasing Shares in the Global Offering.

Prior to the Global Offering, there has been no public market of our H Shares. The initial Offer Price for our H Shares to the public will be agreed upon by us and the Underwriters, and the Offer Price may differ significantly from the market price of the H Shares following this Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the H Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the H Shares will develop, or if it does develop, that it will be sustained. In addition, the trading price and trading volume of the H Shares may be subject to significant volatility as a result of various factors, including:

- variations in our operating results or differences between our operating results and those expected by investors and analysts;
- changes in securities analysts' estimates of our financial performance;

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- announcements made by us or our competitors;
- regulatory developments or market changes in the PRC affecting us or our industry;
- any business interruptions resulting from natural disasters or accidents;
- investors' perceptions of us and of the investment environment in Asia, including Hong Kong and the PRC;
- announcements of or completions of acquisitions, strategic alliances, or joint ventures by us or our competitors;
- additions or departures of our key personnel;
- release or expiration of lock-up or other transfer restrictions on our Shares;
- liability claims brought against us;
- involvement in litigation; and
- general political, economic, financial and social developments, stock market conditions and other factors.

Moreover, in recent years, stock markets in general, and the H shares issued by other issuers in the PRC and listed on the Hong Kong Stock Exchange, have both experienced price and volume fluctuations, some of which were unrelated or did not fully correspond to the operating performance of the related companies. These broad market and industry fluctuations may adversely affect the market price of our H Shares in a similar manner.

There will be a time gap of several business days between the pricing and trading of our H Shares offered under the Global Offering.

The Offer Price of our H Shares sold to the public under the Global Offering will be determined on the Price Determination Date. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. During that period, investors of our H shares may not be able to sell or otherwise deal in our H Shares. Accordingly, holders of our H Shares may be subject to the risk that our H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the Price Determination Date and the date on which the dealing begins.

RISK FACTORS

Future sales or a major divestment of Shares by any of our Shareholders could materially and adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sale, by any one of our Shareholders could materially and adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although such Controlling Shareholder has agreed to a lock-up on their Shares, any major disposal of our Shares by any of such Controlling Shareholder and financial investors upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall, which could negatively impact our ability to raise equity capital in the future.

Dividends distributed in the past may not be indicative of our dividend policy in the future.

In 2012, we declared dividends to our then Shareholders. A declaration of dividends is proposed by our Board of Directors and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial condition, future prospects and other factors that our Board of Directors may determine are important. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

Facts and other statistics in this document derived from official government publications or public database sources may not be fully reliable.

This prospectus, particularly “Industry Overview” in this prospectus, contains information and statistics, including but not limited to information and statistics relating to the PRC, PRC economy and the futures industry in the PRC. Such information and statistics have been derived from various official government and other publications and from a third-party report commissioned by us. We believe that the sources of such information are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering, and no representation is given as to its accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions. Therefore, you should not unduly rely upon the industry facts and statistics contained in this prospectus.

RISK FACTORS

The price and trading volume of our Shares may be volatiles, which could result in substantial losses for investors purchasing our Shares in the Global Offering.

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- changes in securities analysts' estimates of our financial performance;
- announcements by us of significant acquisitions, strategic alliances or joint ventures;
- additions or departures of key personnel;
- fluctuations in stock market price and volume;
- involvement in litigation; and
- general economic and stock market conditions.

These broad market and industry fluctuations may materially and adversely affect the market price of our Shares.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering.

Investors will pay a price per Share that substantially exceeds the per Share value of the Company's tangible assets after subtracting the Company's total liabilities and will therefore experience immediate dilution if purchasing Shares in the Global Offering. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the Global Offering, investors purchasing in the Global Offering would receive less than the amount they paid for their Shares. See "Appendix II – Unaudited Pro Forma Financial Information."

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate," "believe," "could," "going forward," "intend," "plan," "project," "seek," "expect," "may," "ought to," "should," "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the

RISK FACTORS

Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

You should read the entire Prospectus carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.

There has been coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought and have been granted the following waivers from strict compliance with the relevant provisions of the Listing Rules:

CONNECTED TRANSACTIONS

Members of our Group have entered into, and are expected after the Listing to continue to enter into certain transactions, which will constitute non-exempt continuing connected transactions under the Listing Rules. We have applied for waivers to the Stock Exchange pursuant to Rule 14A.105 of the Listing Rules in relation to (1) the non-exempt continuing connected transactions with Qilu Securities and/or its associates for the announcement and independent shareholders' approval requirements under 14A.35 and 14A.36 of the Listing Rules, and (2) the non-exempt continuing connected transactions with Shandong Steel and/or its associates for the announcement requirement under 14A.35 of the Listing Rules. The Stock Exchange has granted us waivers from strict compliance with (1) the announcement and independent shareholders' approval requirements in respect of the non-exempt continuing connected transactions with Qilu Securities and/or its associates, and (2) the announcement requirement in respect of the non-exempt continuing connected transactions with Shandong Steel and/or its associates. The details of such waivers are set out in "Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, the Company must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our head office and substantially all of our business operations are based, managed and conducted in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, all of our executive Directors reside in the PRC.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. We have made the following arrangements to maintain effective communication between the Stock Exchange and us:

- (i) both of the Company's authorized representatives, Mr. Chen Fang, a PRC resident, and Mr. Meng Tao, a PRC resident, will act as our principal channel of communication with the Stock Exchange. Although Mr. Chen Fang and Mr. Meng Tao reside in the PRC, each of them possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, the authorized representatives of the Company will be able to meet with the relevant members of the Stock Exchange on reasonable notice;
- (ii) both of the authorized representatives of the Company have means of contacting all Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange proposes to contact a Director with respect to any matter;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (iii) each Director has provided his mobile phone number, office phone number, fax number and e-mail address to the authorized representatives of the Company and the Stock Exchange, and in the event that any Director expects to travel or otherwise be out of the office, he will provide the phone number of the place of his accommodation to the authorized representatives;
- (iv) each of our Directors not ordinarily residing in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period;
- (v) Ms. Ng Wing Shan, our joint company secretary, who is a Hong Kong resident, will, among other things, act as our Company's additional channel of communication with the Stock Exchange and be able to answer enquiries from the Stock Exchange. Ms. Ng will maintain constant contact with our Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary; and
- (vi) we have appointed Qilu International Capital as our compliance adviser, who will also act as an additional channel of communication with the Stock Exchange from the Listing Date to the date when our Company dispatches our annual reports to our Shareholders for the first full financial year immediately after the Listing of our H Shares. Qilu International Capital will maintain constant contact with our authorized representatives, Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Rule 8.17

According to Rule 8.17 of the Listing Rules, the issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules.

Rule 3.28

According to Rule 3.28 of the Listing Rules, the secretary of the Company must be a person who, by virtue of his/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); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience," the Stock Exchange will consider:

- (a) length of employment with the issuer and other issuers and the roles played;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Future Ordinance, the Companies Ordinance, and the Codes on Takeovers and Mergers and Share Buy-backs;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Meng Tao as a joint company secretary. Mr. Meng has substantial experience in handling corporate, legal and regulatory compliance and administrative matters relating to our Company. Mr. Meng is currently a joint company secretary and the secretary of the Board. He is responsible for the custody of relevant documents and handling information relating to our Shareholders. Mr. Meng joined our Company in 2006 and has a thorough understanding of the operations of the Board and our Company. Since Mr. Meng does not possess the professional or academic qualifications as stipulated in Rule 3.28 of the Listing Rules, our Company has appointed Ms. Ng Wing Shan, an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, as joint company secretary. Over a period of three years from the Listing Date, our Company proposes to implement the following measures to assist Mr. Meng to become a company secretary with the requisite qualifications or relevant experience as required under the Listing Rules:

Mr. Meng will endeavor to attend relevant training courses, including briefings on the latest changes to the relevant applicable Hong Kong laws and regulations and the Listing Rules which will be organized by the Company's Hong Kong legal advisers on an invitation basis and seminars organized by the Stock Exchange for listed issuers from time to time.

Ms. Ng will assist Mr. Meng to enable him to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as the company secretary of the Company.

Ms. Ng will communicate regularly with Mr. Meng on matters relating to corporate governance, the Listing Rules and any other laws and regulations which are relevant to us and our affairs. Ms. Ng will work closely with, and provide assistance for, Mr. Meng in the discharge of his duties as a company secretary, including organizing the Company's Board meetings and Shareholders' general meetings.

The appointment of Mr. Meng has an initial period of three years commencing from the Listing Date on condition that Mr. Meng will be assisted by Ms. Ng.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Provided that Mr. Meng has obtained relevant experience under Rule 3.28 of the Listing Rules at the end of the initial three-year period of the above arrangement, the above assistance arrangement will no longer be required by the Company.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that, to the best of their knowledge and belief, the information 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 in this prospectus misleading.

CSRC APPROVAL

The CSRC has given its approval for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on May 18, 2015. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company or the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of 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 it is correct as of any subsequent time.

UNDERWRITING

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriter(s) subject to the agreement on the Offer Price between us (on behalf of ourselves and the Selling Shareholders) and Qilu International Capital and Haitong International Securities (on behalf of the Underwriter(s)). The International Offering is expected to be underwritten by the International Underwriter(s). For further details about the Underwriter(s) and the underwriting arrangements, see "Underwriting."

RESTRICTIONS ON THE OFFER AND SALE OF THE OFFER SHARES AND THE USE OF THIS PROSPECTUS

Each person acquiring the Hong Kong Offer Shares will be required to confirm, or by his application for Hong Kong Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Hong Kong Offer Shares in circumstances that contravene any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus and/or the related Application Forms may not be used for the purpose of, and does not 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/or the related Application Forms and the offering and sale 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.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Applications 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 Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriter(s), or any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” and the relevant Application Forms.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee for the listing of, and permission to deal in, the Offer Shares, including (i) any H Shares which may be issued by us pursuant to the Global Offering and the exercise of the Over-allotment Option and (ii) any Sale Shares. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, July 7, 2015. No part of our share 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.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on the H Share register to be maintained in Hong Kong by our 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. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on the H Share register will be subject to Hong Kong stamp duty. See “Appendix III – Taxation and Foreign Exchange.”

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our 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 Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong 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 advisors for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Hong Kong Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing, purchasing, holding and dealing in H Shares or any rights attaching to them. It is emphasized that none of us, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriter(s), and none of their respective directors, officers, employees, advisers, agents or representatives, nor any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding or dealing in H Shares or exercising any rights attached to them.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our 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 Company Law, the Special Regulations, and the Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and senior officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and senior officers, agree with each of our Shareholders to refer all disputes and claims concerning our Company's business on the basis of the rights or obligations provided for in the Articles of Association or in the Company Law or other relevant laws and administrative regulations to arbitration in accordance with the 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. See "Appendix V – Summary of the Articles of Association."
- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors and senior officers whereby such Directors and senior officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in “Structure of the Global Offering – The International Offering – Over-allotment Option” and “Underwriting – Stabilization,” respectively.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set forth in “How to Apply for the Hong Kong Offer Shares” and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in “Structure of the Global Offering.”

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars and vice versa at a specified rate. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts or the Hong Kong dollar amounts could actually be converted into any Renminbi dollar amounts (as the case may be) at the rate indicated or at all. Unless we indicate otherwise, the translations of Renminbi into Hong Kong dollars and vice versa have been made at the rate of HK\$1.0000 to RMB0.78895, the PBOC rate prevailing on the Latest Practicable Date, and the translations of US dollars amounts into Hong Kong dollars have been made at the rate of US\$1.00 to HK\$7.753 being the exchange rate set forth in the H.10 weekly statistical average of the Board of Governors of the Federal Reserve System of the U.S. on June 12, 2015. Further information on exchange rates is set forth in “Appendix III – Taxation and Foreign Exchange” to this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. Translated English names of the PRC nationals, entities (including certain of our subsidiaries), departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name shall prevail.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth or hundredth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED
IN THE GLOBAL OFFERING**

DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors			
Chen Fang (陳方)	Chairman of the Board and Executive Director	Room 201, Unit 1, Building 26 No. 20 South Shanda Road Licheng District Jinan Shandong Province PRC	Chinese
Liang Zhongwei (梁中偉)	Executive Director	Room 301, Unit 1, Building 14 Yanzhishan Residential Quarter (West) Lixia District Jinan Shandong Province PRC	Chinese
Non-executive Directors			
Lu Xiangyou (呂祥友)	Non-executive Director	Room 102, Unit 1, Building 1 No. 11 East Qianfoshan Road Lixia District Jinan Shandong Province PRC	Chinese
Zhang Yunwei (張雲偉)	Non-executive Director	No. 118, Quancheng Road Lixia District Jinan Shandong Province PRC	Chinese
Li Chuanyong (李傳永)	Non-executive Director	Room 1805, Building 51 No. 21 Yangguangxin Road Huaiyin District Jinan Shandong Province PRC	Chinese
Liu Feng (劉峰)	Non-executive Director	Room 503, Unit 2, Building 3 No. 64 Minziqian Road Licheng District Jinan Shandong Province PRC	Chinese

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED
IN THE GLOBAL OFFERING**

<u>Name</u>	<u>Position</u>	<u>Address</u>	<u>Nationality</u>
Independent Non-executive Directors			
Gao Zhu (高竹)	Independent non-executive Director	Room D, 8/F, Building 9 Madian Guancheng Nanyuan Haidian District Beijing PRC	Chinese
Yu Xuehui (于學會)	Independent non-executive Director	Room 305, Unit 3, Building 9 Cuiweidongli Haidian District Beijing PRC	Chinese
Wang Chuanshun (王傳順)	Independent non-executive Director	Room 102, Unit 2, Building 5 No. 38 Shungeng Road Shizhong District Jinan Shandong Province PRC	Chinese
Wei Wei (魏巍)	Independent non-executive Director	35/F, Block 3, The Belcher's 89 Pok Fu Lam Road Hong Kong	Chinese
SUPERVISORS			
An Tie (安鐵)	Chairman of the Supervisory Committee	Room 201, Unit 1, Building 1 No. 93 Yingxiongshan Road Shizhong District Jinan Shandong Province PRC	Chinese
Zhang Shouhe (張守合)	Supervisor	Room 603, Unit 1, Building 13 No. 2 Qipan Residential Quarter Lixia District Jinan Shandong Province PRC	Chinese

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED
IN THE GLOBAL OFFERING**

<u>Name</u>	<u>Position</u>	<u>Address</u>	<u>Nationality</u>
Hu Yuyue (胡俞越)	Supervisor	Room 102, Building 4 Yard 86 North Xisanhuan Road Haidian District Beijing PRC	Chinese
Mu Yong (牟勇)	Supervisor	Room 3-102, Building 7 No. 1 Fangguyuan, Fangzhuang Fengtai District Beijing PRC	Chinese
Li Xisheng (李喜生)	Employee representative Supervisor	Room 101, Unit 1, Building 10 No. 33 Kuangyuan Road Tianqiao District Jinan Shandong Province PRC	Chinese
Wang Hairan (王海然)	Employee representative Supervisor	Room 302 No. 38 Wenhua East Road Huancui District Weihai Shandong Province PRC	Chinese

See “Directors, Supervisors, Senior Management and Employees” for details of our Directors and Supervisors.

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED
IN THE GLOBAL OFFERING**

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Qilu International Capital Limited

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

Haitong International Capital Limited

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

Joint Global Coordinators

Qilu International Capital Limited

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

Haitong International Securities Company Limited

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

CCB International Capital Limited

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

Joint Bookrunners

Qilu International Capital Limited

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

Haitong International Securities Company Limited

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

CCB International Capital Limited

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

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED
IN THE GLOBAL OFFERING**

Joint Lead Managers

Qilu International Securities Limited

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

Haitong International Securities Company Limited

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

CCB International Capital Limited

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

Legal Advisers to our Company

As to Hong Kong law

Clifford Chance

27/F, Jardine House
One Connaught Place
Central
Hong Kong

As to PRC law

Jia Yuan Law Offices

F408, Ocean Plaza
158 Fuxing Men Nei Ave
Xicheng District
Beijing
PRC

**Legal Advisers to the
Underwriters and the Joint
Sponsors**

As to Hong Kong law

Deacons

5/F, Alexandra House
18 Chater Road
Central
Hong Kong

As to PRC law

Commerce & Finance Law Offices

6/F, Xinhua Insurance Plaza
Jia 12 Jianguo Men Wai Street
Beijing
PRC

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED
IN THE GLOBAL OFFERING**

Reporting Accountant

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

Receiving Bank

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

Registered office	15-16/F Securities Tower No. 86 Jingqi Road Shizhong District Jinan Shandong Province PRC
Headquarters	15-16/F Securities Tower No. 86 Jingqi Road Shizhong District Jinan Shandong Province PRC
Principal place of business in Hong Kong	18/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Website of the Company	http://www.luzhengqh.com <i>(Information on this website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. Meng Tao No. 1402, Unit 2, Building 29 No. 21 Yangguang New Road Huaiyin District Jinan Shandong Province PRC Ms. Ng Wing Shan 18/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong <i>(Associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom)</i>
Authorized representatives	Mr. Chen Fang Room 201, Unit 1, Building 26 No. 20 South Shanda Road Licheng District Jinan Shandong Province PRC

CORPORATE INFORMATION

	Mr. Meng Tao No. 1402, Unit 2, Building 29 No. 21 Yangguang New Road Huaiyin District Jinan Shandong Province PRC
Strategic and Development Committee	Mr. Chen Fang (<i>Chairperson</i>) Mr. Gao Zhu Mr. Yu Xuehui Mr. Liu Feng Mr. Li Chuanyong
Nomination Committee	Mr. Gao Zhu (<i>Chairperson</i>) Mr. Yu Xuehui Mr. Wang Chuanshun Mr. Liang Zhongwei Mr. Zhang Yunwei
Audit Committee	Mr. Wang Chuanshun (<i>Chairperson</i>) Mr. Gao Zhu Mr. Yu Xuehui Mr. Lu Xiangyou Mr. Liu Feng
Remuneration and Appraisal Committee	Mr. Yu Xuehui (<i>Chairperson</i>) Mr. Gao Zhu Mr. Wang Chuanshun Mr. Lu Xiangyou Mr. Liang Zhongwei
Risk Control Committee	Mr. Yu Xuehui (<i>Chairperson</i>) Mr. Gao Zhu Mr. Zhang Yunwei
Compliance Adviser	Qilu International Capital Limited 7/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai, Hong Kong

CORPORATE INFORMATION

Principal Banks

China Construction Bank

Jinan Shizhong Sub-branch
No. 76 Jingsi Road
Shizhong District
Jinan
Shandong Province
PRC

Industrial and Commercial Bank of China

Jinan Lixia Sub-branch
No. 320 Quancheng Road
Lixia District
Jinan
Shandong Province
PRC

Bank of China

Jinan Branch
No. 22 Luoyuan Street
Lixia District
Jinan
Shandong Province
PRC

Bank of Communications

Jinan Shizhong Sub-branch
No. 249 Jingqi Road
Shizhong District
Jinan
Shandong Province
PRC

Agricultural Bank of China

Wanda Plaza Branch
Building 4, Wanda Plaza, Jingsi Road
Shizhong District
Jinan
Shandong Province
PRC

INDUSTRY OVERVIEW

This section contains information and statistics on the industry in which we operate. We have extracted and derived such information and statistics, in part, from various official and publicly available sources. In addition to statistics, market share information and industry data from publicly available government sources, such as CFA and Shandong Futures Association, certain information and data contained in this section is derived from, Wind Info, a third-party data provider. Wind Info is a leading integrated service provider of financial data, information and software in the PRC domestic market, Wind Info serves financial enterprises, including securities companies, fund management companies, insurance companies, banks and investment companies. The financial database of Wind Info contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

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OVERVIEW OF THE ECONOMY IN CHINA

China has experienced rapid economic growth since the late 1970s and has been the second largest economy in the world since 2010. From 2010 to 2014, China's nominal GDP increased from approximately RMB40.9 trillion to approximately RMB63.6 trillion, representing a CAGR of 11.7%. The PRC economy is now entering into a stage of "new normal," which is characterized by (i) shifting the focus of economic development from the pursuit of high GDP growth to optimizing economy structure, and (ii) economic development through innovation instead of investment. The PRC economy is expected to achieve sustainable growth as a result of these measures.

From 2010 to 2013, the gross production value of China's agricultural industry increased from approximately RMB3.7 trillion to approximately RMB5.1 trillion, representing a CAGR of 11.7%. Despite the steady growth in agricultural production, China continued to import agricultural products to meet the domestic consumption and it has been the second largest importer of agricultural products in terms of import value since 2011. China has also been the largest exporting country in terms of gross export value since 2009. From 2010 to 2013, the gross export value of China increased from approximately RMB10.7 trillion to approximately RMB13.7 trillion, representing a CAGR of 8.6%. Meanwhile, commodity prices have been increasingly volatile as a result of greater integration of the global economy. Being the second largest importer of agricultural products and the largest exporting country, China has experienced rapid growth in futures trading volume, indicating significant demand for futures to manage commodity price risk.

INDUSTRY OVERVIEW

OVERVIEW OF THE ECONOMY IN SHANDONG

Shandong has experienced rapid economic growth in recent years. It has consistently ranked in the top three among all the provinces in China in terms of nominal GDP for the past three decades and first in terms of agricultural output value for the past decade. As Shandong is the demonstration region designated in the China and South Korea Free Trade Agreement (中韓自由貿易協定) and a member of Bohai Economic Rim, its economy is expected to achieve steady growth in the foreseeable future. The table below sets forth the economic data related to the economy of Shandong:

	2010	2011	2012	2013	2014	CAGR (%)
Nominal GDP (RMB in billions, except percentages)	3,917.0	4,536.2	5,001.3	5,468.4	5,942.7	11.0%
Per capita GDP (RMB, except percentages)	41,106	47,335	51,768	56,323	60,879	10.3%
Gross export value (USD in billions, except percentage)	104.2	125.8	128.7	134.5	144.8	8.6%
Industrial output value (RMB in billions, except percentages)	8,385.1	9,950.5	11,470.7	12,990.6	N/A	15.7%
Agricultural output value (RMB in billions, except percentage)	367.0	384.4	396.1	451.0	N/A	7.1%

Source: Shandong Province Statistics Bureau, Wind Info

OVERVIEW OF THE FUTURES MARKET IN THE PRC

Recent Regulatory Development

In May 2014, the State Council issued the Opinions on Further Promoting the Healthy Development of the Capital Market (關於進一步促進資本市場健康發展的若干意見) to promote the development of the futures market in respect of commodity futures and financial futures.

Commodity futures: the policy promotes a variety of commodity futures, developing trading tools such as commodity options, commodity index options and carbon emission options, to fully utilize the pricing mechanism and the risk management function of the futures market and enhance the ability of the futures market to serve the real economy. It allows qualified institutional investors to use futures for the purpose of hedging risks and eliminates the unnecessary restriction on using risk management instruments by PRC enterprises.

Financial futures: the policy adapts to the need of risk management in the capital markets in connection with interest rate liberalization and RMB exchange rate mechanism reform by promoting financial derivative products. It intends to diversify the variety of stock index futures, stock index options and stock options and to develop treasury bond futures, and further improve the yield curve of the treasury bonds to reflect supply and demand in the market.

Introduction of New Products

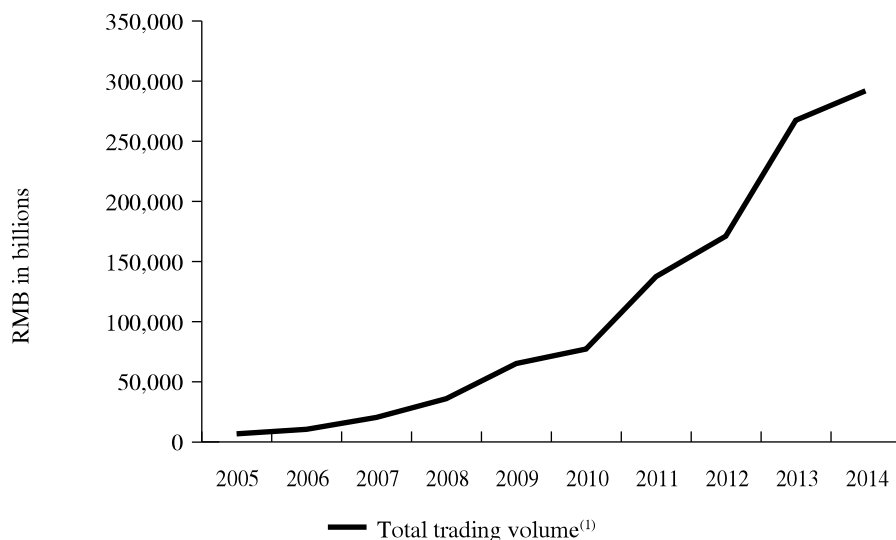
The types of commodity futures available in China increased from 22 as of December 31, 2009 to 44 as of December 31, 2014. The first financial futures, namely the CSI 300 Index futures, commenced trading in China in April 2010, and the 5-year treasury bond futures commenced trading in China in September 2013.

INDUSTRY OVERVIEW

Growth in Trading Volume

The ongoing introduction of new products has diversified and improved its futures mix, and facilitated corporate hedging and risk management activities on the futures market. The launch of continuous night trading allows enterprises and investors to reduce the risk from overnight positions and improves the risk hedging function of the futures market. As a result, China's futures market has experienced substantial growth in trading volume in recent years.

The futures trading volume in the PRC has increased significantly in the past decade. According to the CFA, the total trading volume in China's futures market (figures are adjusted on a unilateral comparable basis) increased from approximately RMB6,722.4 billion in 2005 to RMB291,986.7 billion in 2014, representing a CAGR of 52.0%. The following chart illustrates the total trading volume in China's futures market from 2005 to 2014:



Source: CFA

⁽¹⁾ Figures are adjusted on a unilateral comparable basis.

Increasing Investor Participation

The total number of institutional clients of futures firms in the PRC increased from approximately 20,700 in 2013 to 27,400 in 2014, while the total number of retail clients increased from 751,700 in 2013 to 795,200 in 2014.

The table below sets out the change in client mix of PRC futures firms from 2013 to 2014:

	<u>2013</u>	<u>2014</u>
Number of institutional clients	20,700	27,400
Number of retail clients	751,700	795,200
Year-end position – institutional clients (<i>million lots</i>)	5.2	7.2
Year-end position – retail clients (<i>million lots</i>)	9.6	11.0

Source: CFA

INDUSTRY OVERVIEW

Increasing International Influence

The table below sets forth the commodity futures and financial futures traded in the PRC that ranked top 10 globally in terms of the number of board lots traded:

Futures	Nature	Futures Exchange	Global ranking in terms of the number of board lots traded in 2014			Growth (%)
			2013 (Board lots) ⁽¹⁾	2014 (Board lots) ⁽¹⁾		
Rapeseed meal	Commodity	Zhengzhou Commodity Exchange	1	160,100,378	303,515,966	89.6%
Rebar	Commodity	Shanghai Futures Exchange	1	293,728,929	408,078,103	38.9%
Soybean meal	Commodity	Dalian Commodity Exchange	2	265,357,592	204,988,746	(22.7)%
Silver	Commodity	Shanghai Futures Exchange	2	173,222,611	193,487,650	11.7%
White sugar	Commodity	Zhengzhou Commodity Exchange	3	69,794,046	97,726,662	40.0%
Iron ore	Commodity	Dalian Commodity Exchange	3	2,189,215	96,359,128	4,301.5%
Natural rubber	Commodity	Shanghai Futures Exchange	4	72,438,058	88,631,586	22.4%
Coke	Commodity	Dalian Commodity Exchange	4	115,306,637	63,688,294	(44.8)%
Copper	Commodity	Shanghai Futures Exchange	4	64,295,856	70,510,306	9.7%
RBD palm olein	Commodity	Dalian Commodity Exchange	5	82,495,230	79,996,388	(3.0)%
Coking coal	Commodity	Dalian Commodity Exchange	5	34,259,550	57,605,436	68.1%
Crude soybean oil	Commodity	Dalian Commodity Exchange	7	96,334,673	64,082,631	(33.5)%
Zinc	Commodity	Shanghai Futures Exchange	7	12,083,166	40,429,347	234.6%
Fresh hen egg	Commodity	Dalian Commodity Exchange	9	1,951,323	35,188,187	1,703.3%
Cotton No. 1	Commodity	Zhengzhou Commodity Exchange	10	7,452,748	31,782,665	326.5%
CSI 300 Index	Financial	China Financial Futures Exchange	10	193,220,516	216,658,274	12.1%

Source: CFA

⁽¹⁾ figures are presented in unilateral basis.

OVERVIEW OF THE FUTURES MARKET IN SHANDONG

Recent Regulatory Development

In August 2013, the Shandong provincial government issued the Several Opinions on Accelerating the Financial Reform and Development of Shandong Province (the “Several Opinions”, 山東省人民政府關於加快全省金融改革發展的若干意見), promoting the development of financial sector in Shandong and intends to build a highly market-oriented financial system in Shandong that is complementary to the local economy. The Several Opinions specifically encouraged (i) the provision of modernized purchase and sales services for producers and consumers via the study of commodities market, (ii) participation of securities and futures institutions in the development of commodities market, (iii) enhancement of governance structure of commodities exchanges, and (iv) further utilization of futures market via the education and training provided to business enterprises as well as introduction of futures contracts for agricultural and marine products.

Growing Trading Volume

According to the Shandong Futures Association, the aggregate trading volume of futures branches in Shandong under the jurisdiction of Shandong branch of CSRC amounted to approximately RMB4,459.6 billion, RMB6,785.3 billion and RMB6,090.2 billion in 2012, 2013 and 2014, respectively, representing a CAGR of 16.9%. The aggregate trading volume of all futures branches and headquarters in Shandong in 2013 accounted for market share of approximately 5.0% in the PRC.

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OVERVIEW OF FUTURES FIRMS IN THE PRC

As of December 31, 2014, there were 151 futures companies in China. The table below sets forth a number of financial indicators of PRC futures firms as of, or for the year ended, December 31, 2013 and 2014:

Indicator	2013	2014	Growth (%)
Total assets (<i>RMB in billions</i>)	256.9	343.2	33.6%
Net assets (<i>RMB in billions</i>)	52.2	61.3	17.5%
Net Capital (<i>RMB in billions</i>)	43.9	47.5	8.2%
Client margin deposits (<i>RMB in billions</i>)	198.8	274.3	38.0%
Net commission and fee income (including refunds of trading fees) (<i>RMB in billions</i>) .	12.4	10.0	(19.1)%
Operating profit (<i>RMB in billions</i>)	4.7	5.4	15.3%
Net profit (<i>RMB in billions</i>)	3.6	4.1	16.5%
Brokerage trading volume (<i>RMB in trillions</i>)	267.1	290.8	8.9%

Source: CFA

⁽¹⁾ Figures are adjusted on a unilateral comparable basis.

In 2013 and 2014, the total income of PRC futures firms was primarily attributable to commission and fee income from futures brokerage, and secondly to interest income accrued on client balances. The table below sets forth details of income breakdown of futures firms in 2013 and 2014:

Source of income	2013		2014	
	Amount <i>(RMB in billions)</i>	Percentage (%)	Amount <i>(RMB in billions)</i>	Percentage (%)
Income from futures brokerage business . . .	12.41	67.0%	10.04	53.3%
Income from asset management business . .	0.02	0.1%	0.09	0.5%
Income from investment advisory business .	0.06	0.3%	0.12	0.6%
Net interest income	5.40	29.2%	6.88	36.6%
Others	0.63	3.4%	1.69	9.0%
Total	18.52	100.0%	18.81	100.0%

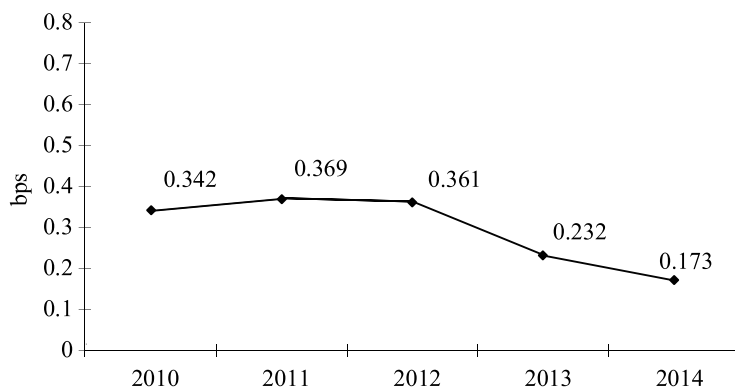
Source: CFA

Futures Brokerage

The futures brokerage business in the PRC is characterized by intense competition. The following chart illustrates the average brokerage commission rate (net of trading and clearing fees paid, plus refunds from futures exchanges) in the futures industry from 2010 to 2014. As the average brokerage commission

INDUSTRY OVERVIEW

rate decreased significantly from 0.361 bps in 2012 to 0.173 bps in 2014, the brokerage commission income of the futures firms in the PRC did not increase in line with the substantial increase of the brokerage trading volume in 2014.



Source: CFA

Innovative Businesses

In July and December 2012, the CSRC promulgated the Pilot Program for Asset Management Business of Futures Firms (期貨公司資產管理業務試點辦法) and the CFA promulgated the Pilot Program for Risk Management Business Carried Out by Subsidiaries Established by Futures Companies (期貨公司設立子公司開展以風險管理服務為主的業務試點工作指引), respectively, indicating regulatory support of non-brokerage businesses of futures firms and providing guidance on matters such as qualifications, internal controls and regulatory supervision.

In September 2014, the CSRC issued Opinions on Further Promoting Innovation and Development of the Futures Business Institutions (關於進一步促進期貨經營機構創新發展的意見), promoting innovation in the futures industry, including asset management, foreign futures brokerage, risk management and other innovative businesses that are expected to become the profit driver for futures firms. Innovative businesses of futures firms are still at an early stage of development and are relatively small in size compared to the traditional futures brokerage business. According to the CFA, innovative businesses contributed approximately 1.1% of the total income of futures firms in the PRC in 2014.

Futures asset management

According to the CFA, as of December 31, 2014, 46 futures firms in the PRC were licensed by the CSRC to carry on futures asset management business, and 34 of these futures firms recorded income in 2014. In total, the 34 futures firms had income of approximately RMB86.7 million with a total amount of AUM of approximately RMB13.8 billion. The following table sets forth income derived from futures asset management by futures firms in China in 2014:

Income derived from futures asset management	No. of futures firms
More than RMB10 million	3
Between RMB5 million and RMB10 million	1
Between RMB1 million and RMB5 million	13
Between RMB500,000 and RMB1,000,000	3
Less than RMB100,000	14

Source: CFA

INDUSTRY OVERVIEW

Commodity trading and risk management

According to the CFA, as of December 31, 2014, 33 futures firms in China had completed registration of their commodity trading and risk management business with the CFA and entered into 3,632 contracts with clients with the value of the underlying assets amounting to RMB43.1 billion.

OVERVIEW OF FUTURES FIRMS IN SHANDONG

According to the Shandong branch of CSRC, as of December 31, 2014, there were 3 futures firms headquartered in Shandong, with 37 futures branches in the province. Together with those operated by futures firms headquartered outside Shandong, there were in total 60 futures branches in the province under the jurisdiction of Shandong branch of CSRC. Please see below a geographical breakdown of futures branches within the province, a majority of which are located in Jinan, where the Company's headquarter is located:

	Number of futures branches
Jinan	32
Zibo	4
Zaozhuang	–
Dongying	2
Yantai	5
Weifang	3
Jining	2
Taian	–
Weihai	–
Rizhao	3
Binzhou	–
Dezhou	2
Liaocheng	–
Linyi	6
Heze	–
Laiwu	1
	<hr/> 60 <hr/>

Source: Shandong branch of CSRC

COMPETITIVE LANDSCAPE

PRC futures firms are classified into five different classes, namely Class A (further divided into 3 levels: AAA, AA and A), Class B (further divided into 3 levels: BBB, BB and B), Class C (further divided into 3 levels: CCC, CC and C), Class D and Class E, by the CSRC based on a set of criteria such as risk management capability, market competitiveness, capability of fostering institutional investors and ongoing regulatory compliance.

INDUSTRY OVERVIEW

The table below sets forth the net commission and fee income (including refunds of trading fees), client margin deposits and profit in 2014 by class of futures firms:

Class	number of companies	Net Commission and Fee Income (including refunds of trading fees)			Client margin deposits			Profit/(Loss)		
		Total	average	Market share	Total	average	Market share	Total	average	Market share
		(RMB billion)	(RMB billion)	(%)	(RMB billion)	(RMB billion)	(%)	(RMB billion)	(RMB billion)	(%)
Class A	43	6.5	0.15	65.2	209.1	4.9	76.2	3.306	0.08	79.8
Class B	80	2.9	0.04	28.4	55.3	0.7	20.2	0.663	0.01	16.0
Class C	27	0.6	0.02	6.4	9.9	0.4	3.6	0.178	0.01	4.3
Class D	0	0.0	0.00	0.0	0.0	0.0	0.0	0.000	0.00	0.0
Class E	1	0.0	0.00	0.0	0.0	0.0	0.0	(0.004)	0.00	(0.1)
Total	151	10.0	0.07	100.0	274.3	1.8	100.0	4.143	0.03	100.0

Source: CFA

Class A firms recorded net commission and fee income (including refunds of trading fees) of RMB6.5 billion in 2014, accounting for approximately 65.2% of the total market share, which was below the total market share of 76.2% they occupied in terms of client margin deposits; and recorded profit of approximately RMB3.3 billion in 2014, accounting for approximately 79.8% of the total market share. Class A firms are able to generate the majority of profit among futures firms through economies of scale based on a larger client base, thus establishing an advantageous position in the industry.

PRC futures industry concentration

The table below sets forth the futures industry concentration of the top 10, 20 and 30 futures firms in terms of the following major indicators in 2013 and 2014:

Ranking	Share of client margin deposits in the industry (%)		Share of operating income in the industry (%)		Share of brokerage trading volume in the industry (%)		Share of net profit in the industry (%)	
	2013	2014	2013	2014	2013	2014	2013	2014
Top 10	35.0	38.8	29.8	30.4	35.1	34.7	41.9	41.3
Top 20	51.7	56.7	45.8	46.6	50.9	52.0	64.3	61.6
Top 30	62.2	67.7	57.2	58.2	61.8	63.8	77.7	74.6

Source: CFA

Concentration in the PRC futures industry has generally increased in 2014 compared to 2013, as the top 10, 20 and 30 futures firms mostly accounted for larger market shares in terms of client margin deposits, operating income and brokerage trading volume in 2014 as compared to 2013.

Our Rankings

We are a general clearing member of China Financial Futures Exchange, and have the general clearing business qualification for financial futures as approved by the CSRC. We are one of the first 18 futures companies qualified for futures asset management as approved by the CSRC, and are among the 19 Class A futures firms rated by the CSRC in 2014.

INDUSTRY OVERVIEW

According to the Shandong Futures Association, there were 57 futures firms with a business presence in Shandong as of December 31, 2014 with an aggregate trading volume of approximately RMB7,080.0 billion⁽¹⁾. In terms of trading volume in Shandong, the top ten futures firms accounted for 73.2% of the market share. The following table sets forth the top ten PRC futures firms in terms of trading volume in Shandong in 2014:

Ranking	Top ten futures firms	Trading volume in Shandong ⁽¹⁾ <i>(RMB in billions)</i>	Market share
1	Luzheng Futures	1,944.6	27.5%
2	Galaxy Futures Co., Ltd. (銀河期貨有限公司)	598.3	8.5%
3	Zhaojin Futures Co., Ltd. (招金期貨有限公司)	458.8	6.5%
4	Yingda Futures Co., Ltd. (英大期貨有限公司)	385.8	5.4%
5	CITIC Futures Co., Ltd. (中信期貨有限公司)	367.7	5.2%
6	Donghai Futures Co., Ltd. (東海期貨有限責任公司)	348.0	4.9%
7	Zhongzhou Futures Co., Ltd. (中州期貨有限公司)	319.9	4.5%
8	Yongan Futures Co., Ltd. (永安期貨股份有限公司)	305.1	4.3%
9	Haitong Futures Co., Ltd. (海通期貨有限公司)	228.4	3.2%
10	China International Futures Co., Ltd (中國國際期貨有限公司)	226.4	3.2%
	Total	<u>5,183.0</u>	<u>73.2%</u>

Source: Shandong Futures Association

⁽¹⁾ figures are adjusted to unilateral basis

According to the Shandong Futures Association, we ranked first among PRC futures firms in terms of trading volume of futures in Shandong in 2014. We also have the largest number of branches in Shandong among the futures firms with branches in Shandong.

According to the CFA, in 2014, we ranked among the top 20 in China's futures industry by various indicators such as net profit, net commission and fee income (including refunds of trading fees), client margin deposits, Net Capital and net assets. In particular, we ranked 11th, 15th and 17th among the 151 futures firms in China in terms of net assets, Net Capital and client margin deposits, respectively, as of December 31, 2014 with a market share of 2.0%, 1.7% and 1.6%, respectively, and ranked 17th and 19th in terms of net commission and fee income (including refunds of trading fees) and net profit, respectively, in 2014 with a market share of 1.6% and 1.8%, respectively. From 2012 to 2014, our net assets and client balances, two indicators representative of the strength and future growth potential of futures firms, grew at a CAGR of 6.4% and 29.3%, respectively.

COMPETITIVE FACTORS OF THE PRC FUTURES INDUSTRY

We believe that futures companies with the following capabilities will thrive during the transformation of the PRC futures industry:

- *Innovative capabilities in response to clients' needs.* In order to adapt to the development of the futures industry and meet the needs of different clients, futures firms need to offer innovative and differentiated services, such as industry research, futures asset management, and commodity trading and risk management.
- *Capabilities to serve institutional clients.* In order to expand the client base and increase the interest income on client balances, futures firms need to improve their ability to attract and serve institutional clients.
- *Prudent and effective risk control system.* With the rapid development of innovative businesses, futures companies face increasing challenges in managing risks. As a result, futures firms are expected to establish comprehensive and dynamic risk management systems to ensure effective risk control.

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- *Advanced IT systems.* Responding to the development of Internet finance, futures firms need to optimize and upgrade their IT systems to better serve their clients.

DEVELOPMENT TRENDS OF THE PRC FUTURES INDUSTRY

With the promulgation of favorable government policies, wider recognition of derivative financial instruments as risk management tools and the significant demand by business enterprises for risk management services, we believe the PRC futures industry has considerable growth potential, specifically for the following reasons:

Introduction of interest rate and exchange rate products: With the continuing liberalization of interest rate and expected liberalization of RMB capital account, enterprises in the PRC are gradually exposed to fluctuations in interest and exchange rates. Significant demand for relevant derivative financial instruments is expected to satisfy an enterprise's need to manage interest rate and exchange rate risks. The introduction of interest rate and exchange rate products is expected to boost the trading volume of derivative financial instruments in the PRC.

Establishment of overseas subsidiaries or associated companies: Enterprises in the PRC have been increasingly active in global economic activities through outbound investment. The increasing scale of overseas operations of PRC enterprises has resulted in demand for localized risk management products and services. PRC futures companies are expected to benefit from such demand by establishing overseas subsidiaries or associated companies and obtaining the relevant local licenses.

Higher level of participation by overseas institutions: Subject to the liberalization of PRC futures market, overseas institutions can participate in the PRC futures markets through the trading and settlement services provided by PRC futures companies. In addition, overseas subsidiaries of PRC futures companies can also participate in the trading of derivative financial instruments in the PRC through QFII ("Qualified Foreign Institutional Investor") and RQFII ("RMB Qualified Foreign Institutional Investor"). Demand for cross-border services provided by PRC futures companies is expected to increase accordingly.

Wider recognition of OTC and other innovative products and services: Futures contracts traded on futures exchanges are highly standardized. While such standardized contracts have the merits of high liquidity and low transaction costs, they cannot fully meet risk management needs particular to each enterprise. OTC and other innovative products and services that can be structured with a variety of features to address the specific needs of each client are expected to receive wider recognition.

Industry consolidation and the emergence of internationally competitive futures companies: Class A companies with better operating performance have accounted for an increasingly significant portion of the PRC futures market and are expected to benefit from industry consolidation by taking up market share of less competitive companies. With larger market share and stronger service and product innovation capability, certain Class A companies are expected to become internationally competitive.

Application of information technology in operation and monitoring: The wide application of Internet-based technology such as cloud computing and mobile Internet has enhanced the efficiency of futures trading. Advanced information technology can also facilitate the establishment of an industry-wide dynamic risk monitoring system crucial in ensuring regulatory compliance and preventing systematic risk.

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OVERVIEW

The Company operates in China and our businesses conducted by our futures firm and wholly-owned subsidiaries are subject to laws and regulations of the PRC in the areas of industry entry, business regulation, corporate governance and risk control. Moreover, our operations are also subject to general regulations covering business activities in China, including laws, rules, regulations and other regulatory requirements in respect of foreign exchange control and anti-money laundering.

MAJOR REGULATORY AUTHORITIES

The business activities of the Company are mainly supervised and regulated by the following Chinese governmental authorities:

CSRC

The CSRC is responsible for supervision and management of the securities and futures markets of the PRC and for maintaining the order thereof, and to secure their lawful operations in accordance with the laws, regulations and the authorities of the State Council. Pursuant to the Securities Law of the People's Republic of China (《中華人民共和國證券法》) (last amended on August 31, 2014 with immediate effect) and the Futures Trading Management Regulations (《期貨交易管理條例》) (last amended on July 18, 2013 with immediate effect), the main duties of the CSRC include:

- to formulate the rules and regulations in relation to the supervision and management of the futures markets and to exercise the right of examination and approval;
- to supervise and regulate futures trading and related activities, such as the listing, trading, clearing and settlement of securities;
- to supervise and regulate the futures business as engaged in by market participants, including the futures exchanges, futures companies, other futures operating institutions, non-futures companies clearing houses, futures margin deposit supervisory entities, futures margin depository banks and delivery warehouse and so forth;
- to enact qualification standards and codes of conduct applicable to futures practitioners and to supervise their implementation;
- to supervise and examine the disclosure of information related to futures trading;
- to provide guidance and supervision with respect to the activities of the Futures Association;
- to investigate violations of the laws and administrative regulations in relation to the futures markets and to undertake punitive measures according to applicable law; and
- to perform other duties stipulated in the applicable laws and administrative rules.

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China Futures Association

The China Futures Association, a self-regulatory organization of the futures industry and a public organization as a legal person, is subject to guidance and supervision from the CSRC and the state administrative authority for registration of public organizations. The China Futures Association performs the following duties pursuant to the Futures Trading Management Regulations (《期貨交易管理條例》):

- to educate and procure its members to observe the laws, regulations and policies governing futures trading;
- to formulate self-regulatory rules and supervise and investigate compliance by its members and to take disciplinary actions against the violation of its articles of association and self-regulatory rules;
- to accredit, manage and de-register where appropriate regarding the qualifications of futures practitioners;
- to deal with complaints made in relation to the futures business and to mediate disputes between members or between members and their clients;
- to protect the legal interests of its members and forward their proposals and requests to the futures supervision and administrative authorities of the State Council;
- to organize professional training and seminars for futures practitioners;
- to organize for its members the study of development, operation and other matters of the futures industry;
- to perform other duties stipulated in the articles of association of the China Futures Association.

Futures Exchange

Under the Futures Trading Management Regulations (《期貨交易管理條例》), a futures exchange is a non-profit and self-regulatory entity governed by its articles of association. The main duties of a futures exchange are as follows:

- to provide venues, facilities and services for trading;
- to standardize the trading contracts and to arrange for the listing of the trading contracts;
- to organize and supervise the trading, clearing and settlement of futures;
- to provide centralized guarantees of contract performance in futures trading;
- to supervise its members in accordance with its articles of association and trading rules; and

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- to perform other duties as specified by the futures supervision and administrative authorities of the State Council.

In addition to the duties above, a futures exchange shall also fulfill the duties as follows pursuant to the Measures for the Administrative of the Futures Exchange (期貨交易所管理辦法), which was effective April 15, 2007:

- to enact and implement the trading rules and implementing regulations of the futures exchange;
- to announce market information;
- to regulate members and their clients, specified settlement houses, futures margin depository banks and the futures businesses of other participants in the futures market; and
- to investigate irregularities and take appropriate punitive measures.

Other Industry Self-regulatory Authorities

Other industry self-regulatory authorities mainly include China Futures Market Monitoring Center Co., Ltd (formerly China Futures Margin Monitoring Center Co., Ltd., which officially changed its name in April 2015) and the Asset Management Association of China.

China Futures Market Monitoring Center Co., Ltd.

China Futures Market Monitoring Center Co., Ltd. is a futures margin security depository monitoring institution established by the futures regulatory institution of the State Council for the purpose of establishing a sound margin security depository regulatory system based on Regulation on the Administration of Futures Trading (《期貨交易管理條例》). According to the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) and Regulation on the Administration of Futures Trading, its main responsibility is to monitor the safety of margin deposits in accordance with law, conduct daily audits and report issues immediately to the futures regulatory authority of the State Council.

Asset Management Association of China

According to the Law of the People's Republic of China on Securities Investment Fund (《中華人民共和國證券投資基金法》) (promulgated on December 28 2012, with effect from June 1, 2013 and revised on April 24, 2015), the Asset Management Association of China is a self-regulatory organization of the securities investment fund industry and is a legal entity. Its main duties are as follows:

- to educate and encourage its members to comply with the laws and administrative rules governing securities investment and protect the lawful rights and interests of investors;
- to protect the lawful rights and interests of its members and to submit their proposals and requests;

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- to formulate and implement self-regulatory rules, to supervise and examine the practices of its members and their practitioners and to take disciplinary actions against the violation of the self-regulatory rules and its articles of association in accordance with relevant provisions;
- to formulate practice standards and business rules and to organize the qualifying examinations, qualification management and professional training for fund practitioners;
- to provide membership services, organize seminars, promote innovation and launch public information and investor education activities within the industry;
- to mediate disputes arising from the fund business between members or between members and their clients;
- to handle the registration and recording of non-publicly offered funds in accordance with applicable law; and
- to perform other duties stipulated in the articles of association of the Asset Management Association of China.

MAJOR APPLICABLE LAWS AND REGULATIONS AND REGULATORY DOCUMENTS

Industry Entry Requirements

Establishment

The Company Law of the People's Republic of China (《中華人民共和國公司法》), the Futures Trading Management Regulations (《期貨交易管理條例》), the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) and Decision of the State Council on Issues concerning Cancelling and Adjusting a Batch of Administrative Examination and Approval Items (effective on February 24, 2015) (《國務院關於取消和調整一批行政審批項目等事項的決定》) set out the industry entry standards for futures companies. Establishment of futures companies shall be registered with the company registration and then be approved by the futures supervisory and administrative authorities of the State Council. Conditions for establishment mainly include:

- the minimum registered capital is RMB30 million;
- directors, supervisors and senior management shall be qualified for their positions while practitioners shall have futures practice qualifications. The number of staff with futures practice qualifications shall not be less than 15, and the number of senior management staff with practice qualifications shall not be less than three;
- the articles of association of the company shall comply with the requirements of laws and administrative rules;
- major shareholders and the de facto controller shall have sustained profitability and good reputation, without record of material violation of laws or regulations in the last three years;

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- premises and operation facilities shall be up to standard;
- risk management and internal control system shall be satisfactory; and
- other requirements as stipulated by the futures supervision and administrative authorities of the State Council.
- the futures supervision and administrative authorities of the State Council may, according to the prudent regulatory principles and the risk profile of a business, raise the bar for the minimum registered capital. The registered capital shall be paid-up capital. Shareholders shall make capital contribution in cash or in non-monetary assets necessary for the business operations of a futures firm, and the percentage of capital contribution in cash shall not be less than 85%.

Pursuant to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (《關於規範控股、參股期貨公司有關問題的規定》), which was promulgated by the CSRC on May 22, 2008 with effect on June 1, 2008, an entity shall not hold controlling interests and equity interests in more than two futures companies and shall not hold controlling interests in more than one futures firm.

A legal person or other organization holding 5% or more shares shall meet the following requirements:

- paid-up capital and net assets shall not be less than RMB30 million;
- net assets shall not be less than 50% of paid-up capital, or contingent liabilities shall be less than 50% of net assets, without any other risks that might cast material uncertainty on the person's financial condition;
- there is no substantial debt which has fallen due and outstanding;
- it is not subject to administrative or criminal proceedings due to material violation of laws and regulations within the last three years;
- it is not a subject of formal investigation or enforcement by competent authorities due to suspected material violation of laws and regulations;
- it has not been involved in abuse of shareholders' rights, evasion from shareholders' obligations or other dishonest conduct as a shareholder or *de facto* controller of a company (including financial institution) within the last three years; and
- it is involved in no circumstance that is deemed by the CSRC, according to prudent regulatory principles, inappropriate for holding equity interests in a futures firm.

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An individual shareholder holding 5% or more shares shall meet the following requirements:

- his/her financial assets shall not be less than RMB30 million;
- there is no substantial debt which has fallen due and outstanding;
- he/she is not subject to administrative or criminal proceedings due to material violation of laws and regulations within the last three years;
- he/she is not a subject of formal investigation or enforcement by competent authorities due to suspected material violation of laws and regulations;
- he/she has not been involved in abuse of shareholders' rights, evasion from shareholders' obligations or other dishonest conduct as a shareholder or *de facto* controller of a company (including financial institution) within the last three years; and
- he/she is involved in no circumstance that is deemed by the CSRC, according to prudent regulation principle, inappropriate for holding equity interests in a futures firm.

Rules of Foreign Investment

Pursuant to the "Catalogue of Industry Guidelines for Foreign Investment" (《外商投資產業指導目錄》) promulgated by NDRC and MOFCOM, foreign investors could hold shares in futures firms, but the PRC investor shall be the controlling shareholder. Meanwhile, pursuant to the relevant requirements under the "Supervision and Administration Measures on Futures Firms" (《期貨公司監督管理辦法》), the increase in shareholding proportion of any single shareholder or the aggregate shareholding proportion of connected shareholders to 5% or above with the involvement of foreign shareholder(s) is subject to the approval by CSRC.

A foreign shareholder holding 5% or more shares shall meet the following requirements in addition to those required for a legal person or other organization holding 5% or more shares:

- it shall be a financial institution established and operating as a going concern under the laws of its jurisdiction;
- its financial indicators and regulatory indicators for the last three years meet the requirements of laws and regulators of regulatory authorities in its jurisdiction;
- there are well-established laws on futures as well as supervisory and administrative systems in place in its jurisdiction, where the futures regulatory authorities have entered into a memorandum of cooperation with the CSRC and effective regulatory cooperation is maintained; and
- the total percentage of foreign shareholdings or interests in a futures firm (either directly or indirectly) shall not exceed the undertakings on market openness made by China's futures industry to foreign countries or to Hong Kong SAR, Macau SAR and Taiwan.

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Capital contribution of foreign shareholders shall be made in freely convertible currency or Renminbi funds acquired legitimately.

Material Changes

Pursuant to the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), approval of the CSRC shall be obtained for change of shareholdings in a futures firm in any of the circumstances below:

- change of controlling shareholder or the largest shareholder;
- shareholding of an individual shareholder or the aggregate shareholding of associated shareholders to be increased to 100%;
- shareholding of an individual shareholder or the aggregate shareholding of associated shareholders, either being or involving foreign shareholder(s), to be increased to 5% or above.
- in addition to the foregoing, in case of shareholding of an individual shareholder or the aggregate shareholding of associated shareholders increased to 5% or above, the futures firm shall obtain approval from the local branch office of the CSRC.

According to Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) in case of a change in its legal representative, the futures company shall submit an application to the local branch office of the CSRC. In case of a change in domicile, it shall submit an application to the branch office of the CSRC at the place where it is to be relocated. For any establishment, change, termination, dissolution, bankruptcy, revocation of the futures business license of a futures firm or the establishment, change or termination of its branches, the futures firm shall make an announcement of the same in a media forum designated by the CSRC.

Establishment of Futures Operation Branches

According to the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》), a futures firm applying for establishment of an operation branch shall meet the following requirements and submit an application to the branch office of the CSRC in the location where the futures firm operates:

- it maintains sound corporate governance and its internal control system meets relevant requirements and is effectively implemented;
- it shall meet the risk regulatory indicators for the three months preceding the application date;
- it shall meet the requirements on client asset protection and futures margin deposit supervision;
- it is not a subject of investigation by competent authorities as to suspected non-compliance in its operations, or subject to administrative or criminal penalties for the duration of one year due to non-compliance in its operations;

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- the proposal on establishment of a branch is in line with its business development needs; and
- other requirements specified by the CSRC according to prudent regulation principles shall be satisfied.

REGULATION ON OPERATIONS

Brokerage of Commodity Futures and Financial Futures

Pursuant to the Futures Trading Management Regulations (《期貨交易管理條例》), the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) and the Provisional Measures on Financial Futures Clearing Services of Future Companies (《期貨公司金融期貨結算業務試行辦法》) (with effect from 19 April 2007), operations of futures companies are governed by a licensing system. The futures supervision and administrative authorities of the State Council are responsible for the issuance of licenses according to the type of business activity in the area of commodity futures and financial futures. Apart from the domestic futures brokerage business, futures companies may also file an application for conducting a futures brokerage business overseas, for futures investment consulting and for other futures business as specified by the futures supervision and administrative authorities of the State Council. A futures firm engaged in a brokerage business shall accept orders of clients and trade futures in its own name for clients, who shall be solely liable to the transaction results. Futures trading shall strictly comply with the deposits system. Margin deposits collected by futures exchanges from members and by futures companies from clients shall not be less than the required level specified by the futures supervisory and administrative authorities of the State Council and futures exchanges, and shall be maintained in segregated accounts separately from the self-owned funds.

Futures Investment Consulting

Pursuant to the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) and the Provisional Measures on Futures Investment Consulting Business of Futures Companies (《期貨公司期貨投資諮詢業務試行辦法》) (with effect from May 1, 2011), futures companies shall obtain approval from the CSRC in order to qualify for futures investment consulting business. Personnel engaged in conducting futures investment consulting business for futures companies shall obtain the practice qualification for futures investment consulting business, and shall carry out such business activities in the name of a futures firm rather than providing such services to clients in their own person. The futures company shall implement management procedures tracking the futures investment consulting business, shall maintain business records in accordance with CSRC specifications, and shall establish and improve its information isolation mechanism to prevent conflicts of interest.

Asset Management Business

Pursuant to the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) and Rules for the Management of the Asset Management Business of Futures Companies (Trial) (《期貨公司資產管理業務管理規則(試行)》), futures companies shall meet the specified conditions for engaging in asset the management business and shall complete certain registration formalities with the China Futures Association (under the guidance and supervision of the CSRC in relation to the self-regulation of

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futures companies and their subsidiaries). Futures companies may provide asset management services to a single client or a group of targeted clients according to written mandate on their assets, with investment gain or loss attributable to the client(s).

Risk Management Business

According to the Futures Trading Management Regulations in China, PRC futures companies are prohibited from participating in proprietary trading of futures. However, pursuant to the Working Guidelines on the Establishment of Subsidiaries by Futures Firms to Carry out Main Pilot Businesses of Risk Management (revised) (《期貨公司設立子公司開展以風險管理服務為主的業務試點工作指引(修訂)》), such subsidiaries of PRC futures companies are permitted to set up accounts to participate in futures trading as part of their commodities trading and risk management business, provided the opening of futures trading accounts shall be reported to the CFA and shown on the official website of those PRC futures companies.

CORPORATE GOVERNANCE AND RISK CONTROL

Corporate Governance and Risk Control of Futures Companies

Corporate Governance

The Futures Trading Management Regulations (《期貨交易管理條例》) and the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) provide that the futures supervisory and administrative authorities of the State Council shall implement the qualification management system on directors, supervisors, senior management and other futures practitioners of the futures firms and other futures operating institutions. The business, personnel, assets and finance of a futures company shall be strictly separated from those of its controlling shareholders and *de facto* controller and have independent operations and accounting.

On July 4, 2007, the CSRC promulgated the Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格管理辦法》) with immediate effect, which further strengthen the management on qualifications of the directors, supervisors and senior management of futures companies with respect to qualification and competency, code of conduct, supervision and administration.

Risk Control

Pursuant to the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) and the Futures Trading Management Regulations (《期貨交易管理條例》), a futures firm engaging in futures brokerage and other futures business shall strictly implement the systems for separation of business and capital; and mixed operations are prohibited.

The futures supervisory and administrative authorities of the State Council shall formulate rules on futures companies operating as going concerns, as well as regulations pertaining to risk regulatory indicators such as the proportion of net capital to net assets, the proportion of Net Capital to the scale of business of domestic futures brokerage and overseas futures brokerage, and the ratio of current assets to current

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liabilities. They shall also set out requirements on operating conditions, risk management, internal control, depositories and related party transactions of futures companies and their branches. A futures firm shall be required set up risk management departments and positions to manage and control its operating risks. There shall also be compliance departments and positions for the review of its operations and management and for audit compliance. A futures firm shall implement centralized management in its branches. It is not allowed to operate and manage its branches through joint venture or cooperation with others, or to contract, lease or delegate to others for operation and management of branches.

On April 12, 2011, the CSRC promulgated the Provisions on Classification and Supervision of Futures Companies 《期貨公司分類監管規定》 with immediate effect (the Provisional Provisions on Classification and Supervision of Futures Companies promulgated on August 17, 2009 were terminated simultaneously), pursuant to which the Evaluation Committee for Classification and Supervision of Futures Companies under the CSRC has classified 11 levels in 5 types for futures companies (namely A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, in descending order), based on evaluation criteria such as risk management capability, market competitiveness, the fostering of institutional investors and regulatory compliance.

Specific categories are as follows: 1) those companies with the highest composite assessment of risk management capability, market competitiveness, the fostering of institutional investors and ongoing compliance in the industry are classified into class A companies which can better control business risk; 2) those companies with a higher composite assessment of risk management capability, market competitiveness, the fostering of institutional investors and ongoing compliance in the industry are classified into class B companies which can control business risk; 3) those companies with an average composite assessment of risk management capability, market competitiveness, the fostering of institutional investors and ongoing compliance in the industry are classified into class C companies whose risk management capability match business scale; 4) those companies with a lower composite assessment of risk management capability, market competitiveness, the fostering of institutional investors and ongoing compliance in the industry are classified into class D companies whose potential risks may exceed the tolerance level of the company; and 5) those companies whose potential risks have become real risks and risk management measures having been adopted are classified into class E companies.

The Provisions on Classification and Supervision of Futures Companies do not provide any definitive quantitative criteria for determining the relative position of each futures company (namely, “highest,” “higher,” “average” or “lower”) on the composite assessment scale. Instead, the CSRC will, on an annual basis, determine the relative position of each futures company on the composite assessment scale, after considering the distribution of scores of all futures companies. The score of each futures company is derived from an assessment of the following factors:

- *Risk management capability*: factors considered include protection of client assets, capital adequacy, corporate governance, internal control, information system security and information disclosure;
- *Market competitiveness*: factors considered include average daily client balances, revenue of futures business, cost control capability, net profit and return on net assets;

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- *Fostering of institutional investors*: factors considered include average daily balances of institutional clients and its growth; and
- *Ongoing compliance*: factors considered include non-compliance incidents (if any), disciplinary actions taken by industry associations (if any), administrative penalty imposed by the CSRC and criminal punishment imposed by judicial authorities.

Among the 151 futures firms in the PRC as of December 31, 2014, there were 43 Class A, 80 Class B, 27 Class C and 1 Class E firms.

On July 1, 2013, the CSRC announced the implementation of The Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》), which specify the requirements on calculation, thresholds, preparation and disclosure of risk regulatory indicators. Pursuant to the Provisional Measures on Management of Futures Investors Protection Fund (《期貨投資者保障基金管理暫行辦法》) and the Requirements on Relevant Matters regarding Contribution to Futures Investors Protection Fund by Futures Exchanges and Futures Companies (《關於期貨交易所、期貨公司繳納期貨投資者保證基金有關事項的規定》), futures companies shall contribute to the Futures Investors Protection Fund according to specific proportions and rules.

Pursuant to the Provisional Measures on Integrity Supervision and Administration on Securities and Futures Markets (《證券期貨市場誠信監督管理暫行辦法》) (amended with effect from October 15, 2014), the CSRC shall establish a nationwide integrity database for securities and futures markets, which will include information on matters relating to integrity as reflected in the activities of futures practitioners, futures companies and their directors, supervisors, senior management, substantial shareholders and *de facto* controllers.

OTHER REGULATIONS

Exchange Control

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign currencies. The SAFE, under the authority of the PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the Regulations on the Foreign Exchange System of the People's Republic of China (《中華人民共和國外匯管理條例》) last amended by the State Council on August 5, 2008 with immediate effect, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to approval from the SAFE, while capital account items are subject to registration upon approval by the SAFE.

According to the Regulations on the Foreign Exchange System of the People's Republic of China (《中華人民共和國外匯管理條例》), current account foreign exchange income may, in accordance with relevant provisions of the state, be retained or sold to any financial institution engaged in the foreign exchange settlement and sale business, and where any foreign exchange income on capital account is to be retained or sold to a financial institution engaged in the foreign exchange settlement and sale business, an

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approval shall be obtained from the relevant foreign exchange administrative authority, except for those not subject to approval under the state provisions. 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 account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Convertibility of foreign exchange in respect of capital account items, such as direct investment and registered capital, is still subject to restriction and prior approval from the SAFE or its respective branch.

Information Disclosure

The Management Regulations on Information Publication of Futures Companies (《期貨公司訊息公示管理規定》), as promulgated by the CSRC with effect from November 16, 2009, provide that the basic information, as well as particulars about senior management, practitioners and shareholders and matters relating to integrity regarding a futures firm and its branches and other kinds of information required by the CSRC, shall be publicized.

Anti-money Laundering

Futures brokerage companies shall comply with the requirements related to anti-money laundering stipulated in the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》) promulgated by the PBOC with effect from January 1, 2007, and the Measures on Administrative of Identification of Clients and Preservation of Client Identities Information and Trading Records 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》), jointly promulgated by the PBOC, the CBRC, the CSRC and the CIRC, with effect from August 1, 2007.

The Measures on the Anti-money Laundering by Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》), enacted by the CSRC with effect from October 1, 2010, further set forth the anti-money laundering responsibilities of the securities and futures institutions with respect to their business activities and the requirements on establishing internal control systems applied to anti-money laundering.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

BACKGROUND

Our Company's history dates back to 1995, when Quanxin Futures, the predecessor of our Company, was established on June 5, 1995 with the approval of the CSRC. At the time of our establishment, our Company was owned by four Shareholders, namely Jinan Economic Development Corporation (濟南經濟發展總公司), Jinan Huaqing Group Corporation (濟南化輕集團總公司), Shandong Province Resources Development Corporation (山東省資源開發總公司) and Jinan Shizhong Food & Oil Trading Company (濟南市市中糧油貿易公司), which held approximately 48.04%, 48.04%, 2.45% and 1.47% of our equity interests, respectively. Our registered capital was RMB10.2 million as of the date of our establishment, and was increased to RMB750 million as of the Latest Practicable Date. See “– Capital Increase, Share Transfers and Name Changes” for further details of our capital increases. Our principal businesses include futures brokerage, futures asset management, and commodity trading and risk management. For further details on our principal businesses, see “Business.”

MILESTONES OF DEVELOPMENT

The following are the key milestones in our history:

Year	Event
1995	Our predecessor Quanxin Futures was established.
2006	Qilu Securities became the Controlling Shareholder of our Company.
2007	In February, our Company changed its name from “Shandong Quanxin Futures Brokerage Co., Ltd.” to “Luzheng Futures Brokerage Co., Ltd.” In November, our Company obtained qualification as a general clearing member of the China Financial Futures Exchange. In December, our Company changed its name from “Luzheng Futures Brokerage Co., Ltd.” to “Luzheng Futures Limited”.
2009	The CSRC classified and rated futures companies for the first time, and our Company was rated the highest class rating – a Class-A futures firm.
2011	In December, our Company passed the information technology special inspection conducted by the CSRC, indicating that the set up and management of our Company's information technology have met “Class 4” technical grade requirements under the Guidelines for the Administration of Information Technology of Futures Companies (期貨公司資訊技術管理指引). Our Company has been the only futures firm in the industry up to now that has met the highest standards of information technology under such guidelines.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- 2012
- In February, our Company obtained qualification for the futures investment consulting business.
- In November, our Company was among the first batch of futures companies qualified for the asset management business.
- In December, our Company was renamed as “LUZHENG FUTURES Company Limited (魯証期貨股份有限公司)” upon completion of the Reorganization (as defined below), and our registered capital was increased to RMB750 million.
- 2013
- Our Company founded a wholly-owned subsidiary, Luzheng Trading, and was one of the first futures companies that have set up a subsidiary to conduct commodity trading and risk management businesses.
- Luzheng Trading and Rizhao Port Group Co., Ltd. entered into a joint venture agreement establishing the Rizhao Physical Commodity Trading Board, and their respective shareholdings were 49% and 51%.
- 2014
- Our Company was given an AA rating under Class A by the CSRC, marking the rating of Class A futures firm by the CSRC for six consecutive years.
- Our Company successfully launched our OTC options business, being it the first futures firm in the PRC to engage in the OTC options business.
- 2015
- Our Company established a wholly-owned information technology subsidiary, Luzheng Information, to provide information technology outsourcing and software development services to other PRC futures firms and to enhance our information technology capacities.

CAPITAL INCREASES, SHARE TRANSFERS AND NAME CHANGES

Capital Increases and Share Transfers since our Establishment till the End of 2011

Quanxi Futures underwent several rounds of capital increases and share transfers by the then Shareholders since its establishment in 1995 until the end of 2011. The table below sets forth details of such capital increases and share transfers:

- November 1997
- Jinan Huaqing Group Corporation transferred its 48.04% equity interest in our Company to Jinan Jingmao Industrial Investment Corporation (濟南經貿實業投資總公司), and Jinan Shizhong Food & Oil Trading Company transferred its 1.47% equity interest in our Company to Jinan Economic Development Corporation.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- May 2000 Jinan Energy Investment made a capital contribution of RMB20 million in cash to our Company and held 66.22% equity interest in our Company. Following such capital contribution, the registered capital of our Company increased to RMB30.2 million.
- July 2004 Jinan Energy Investment made a capital contribution of RMB8 million in cash to our Company, of which RMB620,000 was credited into our registered capital while the other RMB7,380,000 was recorded in our capital reserves. Following such capital contribution, the registered capital of our Company increased to RMB30.8 million.
- December 2006 Qilu Securities, Shandong Xinkuang Investment Holding Group Co., Ltd. (山東新礦投資控股集團有限公司), Jinan Energy Investment, Jinan Economic Development Corporation, Jinan Jingmao Industrial Investment Corporation and Shandong Province Resources Development Corporation entered into a share increase and reorganization agreement, according to which the share capital of the then Shareholders of Quanxin Futures, namely Jinan Energy Investment, Jinan Economic Development Corporation, Jinan Jingmao Industrial Investment Corporation and Shandong Province Resources Development Corporation, in our Company were decreased in proportion based on Quanxin Futures' net assets evaluated as of the reference date of June 30, 2006. In addition, Qilu Securities and Shandong Xinkuang Investment Holding Group Co., Ltd. made capital contributions of approximately RMB29.8 million and RMB16.7 million in cash to our Company, respectively. Following such capital contributions, the registered capital of our Company increased to RMB50 million, and Qilu Securities became the Controlling Shareholder of the Company holding 59.50% equity interest.
- August 2007 Qilu Securities made a capital contribution of RMB150 million in cash to our Company. Following such capital contribution, the registered capital of our Company increased to RMB200 million, and Qilu Securities' equity interest in our Company increased to 89.88%.
- December 2008 According to the Approval on the Free State-owned Shares Transfer of Shandong Quanxin Futures Brokerage Corporate Limited (關於同意山東泉鑫期貨經紀有限公司國有股權無償劃轉的函) (Ji Guozi Chanquan [2007] No.9) issued by Jinan People's Government State-owned Assets Supervision and Administration Commission, Jinan Economic Development Corporation and Jinan Jingmao Industrial Investment Corporation entered into a free share transfer agreement with Jinan Energy Investment to transfer their 0.29% and 0.28% equity interest in our Company, respectively, to Jinan Energy Investment with nil consideration.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- February 2010 Shandong Xinkuang Mining Investment Holding Group Co., Ltd. entered into a share transfer agreement with Qilu Securities to transfer its 8.33% equity interest in our Company to Qilu Securities. Following such share transfer, Qilu Securities' equity interest in our Company increased to 98.21%.
- May 2010 Shandong Province Resources Development Corporation transferred its equity interest in our Company to Qilu Securities. Following such transfer, Qilu Securities and Jinan Energy Investment held 98.22% and 1.78% equity interests in our Company, respectively.
- In addition, Qilu Securities and Jinan Energy Investment made capital contributions of approximately RMB200 million and RMB3.6 million in cash to our Company, respectively, in proportion to their respective shareholding. Following such capital contributions, the registered capital of our Company increased to approximately RMB403.6 million.
- June 2011 Qilu Securities and Jinan Energy Investment made capital contributions of approximately RMB114.3 million and approximately RMB2.1 million in cash to our Company, respectively, in proportion to their respective shareholding. Following such capital contributions, the registered capital of our Company was increased to RMB520 million. The shareholding of Qilu Securities and Jinan Energy Investment in our Company remained 98.22% and 1.78%, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Capital Increases in 2012

During the period from August 2012 to September 2012, Qilu Securities and Jinan Energy Investment entered into a share increase agreement with Yongfeng Group, SSAI Holdings, Linglong Group and Yantai Shengli, respectively, according to which each of Qilu Securities, Yongfeng Group, SSAI Holdings, Jinan Energy Investment, Linglong Group and Yantai Shengli made capital contribution by way of cash to our Company. Details of such capital contributions are set out in the table below.

	<u>Amount of Capital Injected</u>	<u>Basis of Consideration</u>	<u>Shareholding Percentage in our Company after the Capital Contributions</u>	<u>Completion Date¹</u>
	<i>(RMB in millions)</i>			
Qilu Securities	144.38, of which 49.11 was injected to our registered capital, while the other 95.27 was recorded in capital reserves	N/A	87.48%	September 26, 2012
Yongfeng Group	88.20, of which 30.00 was injected to our registered capital, while the other 58.20 was recorded in capital reserves	N/A	4.69%	September 26, 2012
SSAI Holdings	58.80, of which 20.00 was injected to our registered capital, while the other 38.80 was recorded in capital reserves	N/A	3.13%	September 26, 2012
Jinan Energy Investment	2.62, of which 0.89 was injected to our registered capital, while the other 1.73 was recorded in capital reserves	N/A	1.59%	September 26, 2012
Linglong Group	29.40, of which 10.00 was injected to our registered capital, while the other 19.40 was recorded in capital reserves	N/A	1.56%	September 26, 2012
Yantai Shengli	29.40, of which 10.00 was injected to our registered capital, while the other 19.40 was recorded in capital reserves	N/A	1.56%	September 26, 2012

Immediately following such capital contributions and before the Reorganization, our Company's registered capital was RMB640 million, and the equity interests in our Company held by Qilu Securities, Yongfeng Group, SSAI Holdings, Jinan Energy Investment, Linglong Group and Yantai Shengli were 87.48%, 4.69%, 3.13%, 1.59%, 1.56% and 1.56%, respectively.

¹ According to the dates of changes for the registrations with industry and commerce authorities.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name Changes

Our Company was renamed Luzheng Futures Brokerage Company Limited (魯証期貨經紀有限公司) in February 2007, and was further renamed Luzheng Futures Corporation Limited (魯証期貨有限公司) in December 2007, as approved at the general meetings of our Company. In December 2012, our Company was renamed as “LUZHENG FUTURES Company Limited (魯証期貨股份有限公司)” upon completion of the Reorganization.

As advised by our PRC legal advisers, Jia Yuan Law Offices, the corresponding internal and external approval procedures or subsequent regulatory procedures for the above capital increases, share transfers and name changes have been legally performed; the above capital increases, share transfers and name changes have been completed in compliance with relevant laws, regulations and rules; and the changing procedures with relevant industry and commerce authorities have been completed pursuant to the applicable PRC law, regulations and rules.

THE REORGANIZATION

In November 2012, we underwent the Reorganization by which Qilu Securities, Yongfeng Group, SSAI Holdings, Jinan Energy Investment, Linglong Group and Yantai Shengli entered into a promoters' agreement, agreeing to convert Luzheng Futures Corporation Limited into a joint stock limited liability company on the basis of the net assets of Luzheng Futures Corporation Limited evaluated as of the reference date of September 30, 2012 with a registered capital of RMB750 million.

Pursuant to the Approval on the Overall Change of Luzheng Futures Corporation Limited into Joint Stock Limited Liability Company (關於同意魯証期貨有限公司整體變更為股份有限公司的批覆) (Lu Guozi Shouyihan [2012] No. 60) and the Approval on the Management of State-owned Equity Interests of Luzheng Futures Company Limited (關於魯証期貨股份有限公司國有股權管理有關問題的批覆) (Lu Guozi Chanquanzi [2013] No. 7) issued by Shandong SASAC on October 15, 2012 and January 18, 2013, respectively, our Company was converted into a joint stock limited company, LUZHENG FUTURES Company Limited, on December 10, 2012 upon registration with Shandong Administration for Industry & Commerce. Immediately after the conversion, our Company had a total of 750 million issued Domestic Shares with a nominal value of RMB1.00 each, and the Shareholders and their respective equity interests in our Company remained unchanged after the date of conversion of our Company into a joint stock limited liability company and up to the Latest Practicable Date.

As advised by our PRC legal advisers, Jia Yuan Law Offices, the corresponding internal and external approval procedures or subsequent regulatory procedures for the Reorganization set out above have been legally performed; the Reorganization has been completed in compliance with relevant laws, regulations and rules; and the changing procedures with relevant industry and commerce authorities for the Reorganization have been completed pursuant to the applicable PRC law, regulations and rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PROMOTERS

The table below sets forth a summary of our promoters:

<u>Names of our Promoters</u>	<u>Shareholding Percentage in our Company as of the Latest Practicable Date</u>	<u>Number of Shares held in our Company as of the Latest Practicable Date</u>	<u>Background Information of our Promoters</u>
Qilu Securities . . .	87.48%	656,079,000	Qilu Securities is a company with limited liability established in the PRC on May 15, 2001 with a registered capital of RMB5,212,245,700. The scope of its business includes securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, securities underwriting and sponsorship, proprietary securities trading, securities asset management, margin financing and securities lending, agency sale of securities investment funds, agency sale of financial products and stock option market-making business.
Yongfeng Group . .	4.69%	35,156,250	Yongfeng Group is a company with limited liability established in the PRC on March 6, 2003 with a registered capital of RMB360,000,000. The scope of its business includes external investment with its own funds (excluding financial, securities, futures, wealth management, fund, fund raising and financing).
SSAI Holdings . . .	3.13%	23,437,500	SSAI Holdings is a company with limited liability established in the PRC on March 25, 1994 with a registered capital of RMB4,500,000,000. The scope of its business includes administration of state ownership and disposal of non-performing assets as authorized by the Shandong SASAC, investment and management of industrial projects, asset management and capital operation, custody operation, and investment consultancy.
Jinan Energy . . . Investment	1.59%	11,889,750	Jinan Energy Investment is a company with limited liability established in the PRC on April 20, 1998 with a registered capital of RMB200,000,000. The scope of its business includes operation and management of power construction funds and energy funds, budget examination on power construction projects and related business consultancy services, supervision and management on the major decisions, selection of managers and operating activities of enterprises which have the ownership over state-owned assets within their scope of authority.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

<u>Names of our Promoters</u>	<u>Shareholding Percentage in our Company as of the Latest Practicable Date</u>	<u>Number of Shares held in our Company as of the Latest Practicable Date</u>	<u>Background Information of our Promoters</u>
Linglong Group . . .	1.56%	11,718,750	Linglong Group is a company with limited liability established in the PRC on March 17, 1993 with a registered capital of RMB120,000,000. The scope of its business includes manufacturing of rim, pumps for agricultural and industrial uses, convertors and motors; investment in construction industry; forestry cultivation and plantation; and import and export of goods and techniques.
Yantai Shengli . . .	1.56%	11,718,750	Yantai Shengli is a company with limited liability established in the PRC on November 25, 2003 with a registered capital of RMB90,000,000. The scope of its business includes investment in real estate, industrial enterprises, technological development and tourism.

OUR MAJOR SUBSIDIARIES

Luzheng Trading

Luzheng Trading was established by our Company on April 24, 2013 in the PRC with a registered capital of RMB60 million. On July 16, 2014, the registered capital of Luzheng Trading was increased to RMB150 million.

As a wholly-owned subsidiary of our Company, the business scope of Luzheng Trading includes the sale and wholesale of agricultural products, metal products, mining products, chemical products and edible oil, import and export activities, investment consultancy and risk management services.

Luzheng Information

Luzheng Information was incorporated by our Company on February 15, 2015 in the PRC with a registered capital of RMB50 million.

As a wholly-owned subsidiary of our Company, the business scope of Luzheng Information includes the provision of software development, system integration, sale of electronic products and equipments, and information technology consultancy services.

OUR ASSOCIATED COMPANY

Rizhao Physical Commodity Trading Board

Rizhao Physical Commodity Trading Board was incorporated on May 16, 2014 in the PRC with a registered capital of RMB100 million. We have a shareholding of 29.5% in Rizhao Physical Commodity Trading Board through Luzheng Trading, and the other equity interests are held by Rizhao Port Group Co., Ltd. (日照港集團有限公司), China Railway Materials Co., Ltd. (中國鐵路物資股份有限公司), Shandong

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Wanbao Logistics Co., Ltd. (山東萬寶物流有限公司), Shandong Huaxin Industry and Trading Co., Ltd. (山東華信工貿有限公司) and Rizhao Zhongrui Materials Production Co., Ltd. (日照中瑞物產有限公司) as of 31%, 29.5%, 4%, 3% and 3%.

Rizhao Physical Commodity Trading Board is principally engaged in the provision of electronic trading services for bulk commodities.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

On April 10, 2014, Luzheng Trading and Rizhao Port Group Co., Ltd., an Independent Third Party of our Company, entered into a joint venture agreement (the “Joint Venture Agreement”), pursuant to which Luzheng Trading and Rizhao Port Group Co., Ltd. agreed to contribute RMB49 million and RMB51 million in cash to jointly establish Rizhao Physical Commodity Trading Board, and their respective shareholding is 49% and 51%. As of the Latest Practicable Date, Luzheng Trading has made capital contribution of RMB9.8 million. Through the establishment of Rizhao Physical Commodity Trading Board, we intend to offer more OTC commodity products and instruments to our corporate clients, so as to better serve our corporate clients by capitalizing on the platform advantage of Luzheng Trading. For more details, see “Business – Business Strategies – Expand our commodity trading and risk management business to meet increasing and diverse risk management needs of our corporate clients.” As advised by our PRC legal advisers, Jia Yuan Law Offices, the establishment of the above joint venture Rizhao Physical Commodity Trading Board has been legally completed, and Rizhao Physical Commodity Trading Board had been registered with relevant industry and commerce authority.

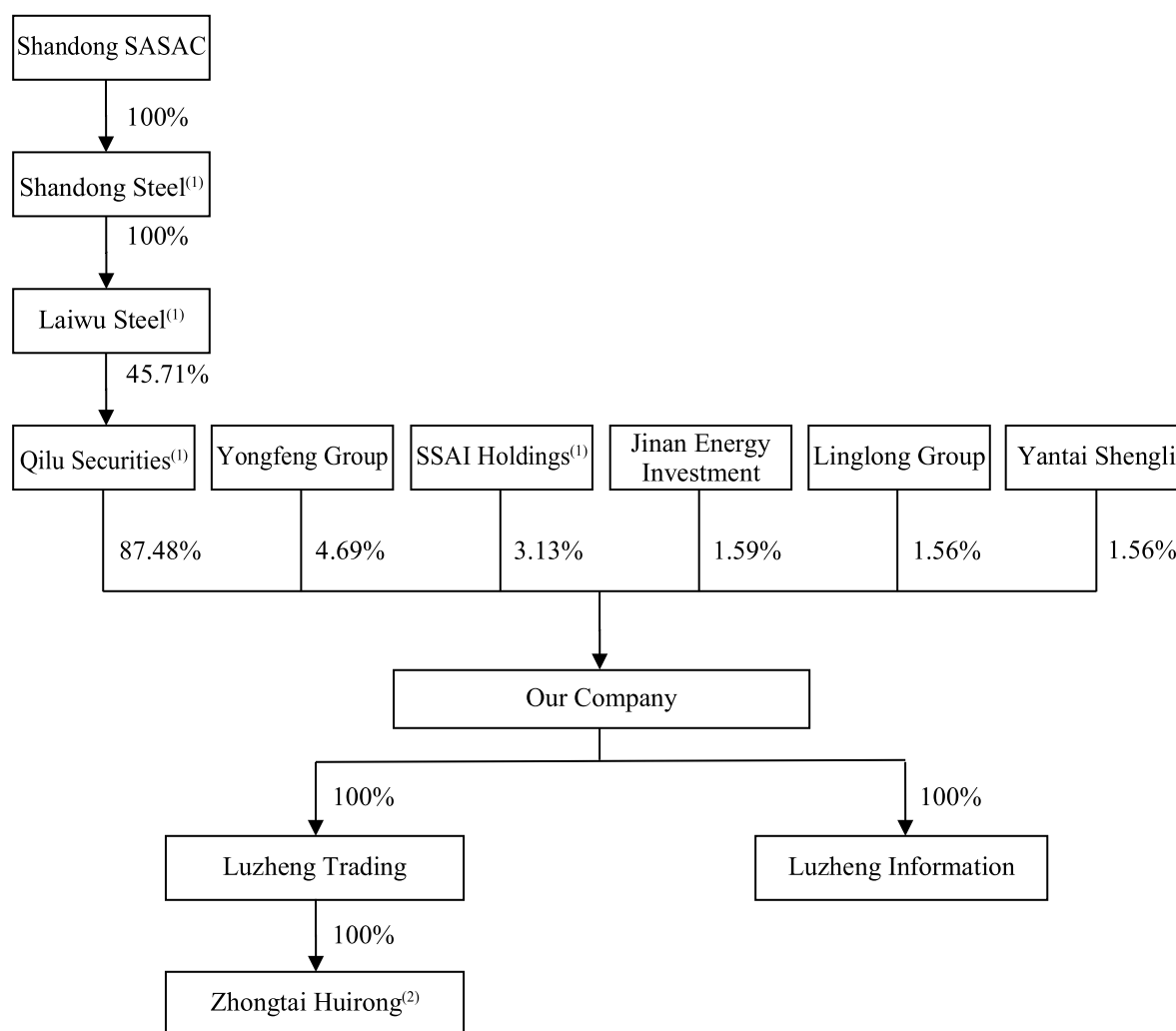
On December 17, 2014, Luzheng Trading, our subsidiary, entered into an equity restructuring agreement (the “Equity Restructuring Agreement”) with Rizhao Port Group Co., Ltd., China Railway Materials Co., Ltd. (中國鐵路物資股份有限公司), Shandong Wanbao Logistics Co., Ltd. (山東萬寶物流有限公司), Shandong Huaxin Industry and Trading Co., Ltd. (山東華信工貿有限公司), Rizhao Zhongrui Materials Production Co., Ltd. (日照中瑞物產有限公司) and Rizhao Physical Commodity Trading Board, each of which is an Independent Third Party of our Company except for held in Rizhao Physical Commodity Trading Board in which we hold an equity interest of 49%. Pursuant to the equity restructuring agreement, Luzheng Trading and Rizhao Port Group Co., Ltd. has agreed to make capital contributions to Rizhao Physical Commodity Trading Board in cash for the amount of approximately RMB25.6 million and RMB27 million (both of which are subject to adjustment based on valuation of Rizhao Physical Commodity Trading Board), respectively, holding 29.5% and 31% equity interests in Rizhao Physical Commodity Trading Board upon completion of the capital injection, respectively; China Railway Materials Co., Ltd., Shandong Wanbao Logistics Co., Ltd., Shandong Huaxin Industry and Trading Co., Ltd. and Rizhao Zhongrui Materials Production Co., Ltd. have agreed to make capital contributions to Rizhao Physical Commodity Trading Board, using part of their equity interests in Rizhao International Iron Ore Exchange (日照國際鐵礦石交易中心), and holding 29.5%, 4%, 3% and 3% equity interests in Rizhao Physical Commodity Trading Board upon completion of such capital injection, respectively. Based on the valuation of Rizhao Physical Commodity Trading Board by a qualified independent appraiser in the PRC (the “Valuation”), the capital contribution of Luzheng Trading was adjusted to approximately RMB24.9 million. Our capital injection into Rizhao Physical Commodity Trading Board is funded by the internal resources of Luzheng Trading. Such equity restructuring will consolidate resources in the local bulk commodity market and facilitate development of Rizhao Physical Commodity Trading Board, which will enable us to serve our corporate clients through such bulk commodity market platform. As advised by our PRC legal advisers, Jia Yuan Law Offices, such equity restructuring as well as the relevant registration of capital increases and change of shareholders with relevant industry and commerce authority has been completed in May 2015 pursuant to the applicable PRC law, regulation and rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pursuant to the Equity Restructuring Agreement, Luzheng Trading's outstanding obligation under the Joint Venture Agreement to contribute capital to Rizhao Physical Commodity Trading Commodity Board was reduced to approximately RMB25.6 million, and was subsequently adjusted to approximately RMB24.9 million due to the Valuation, which has been shown as the Group's capital commitment as of December 31, 2014. See "Financial Information - Contractual Obligations and Commitments - Capital Commitments."

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure following the completion of the Reorganization and immediately prior to the Global Offering:

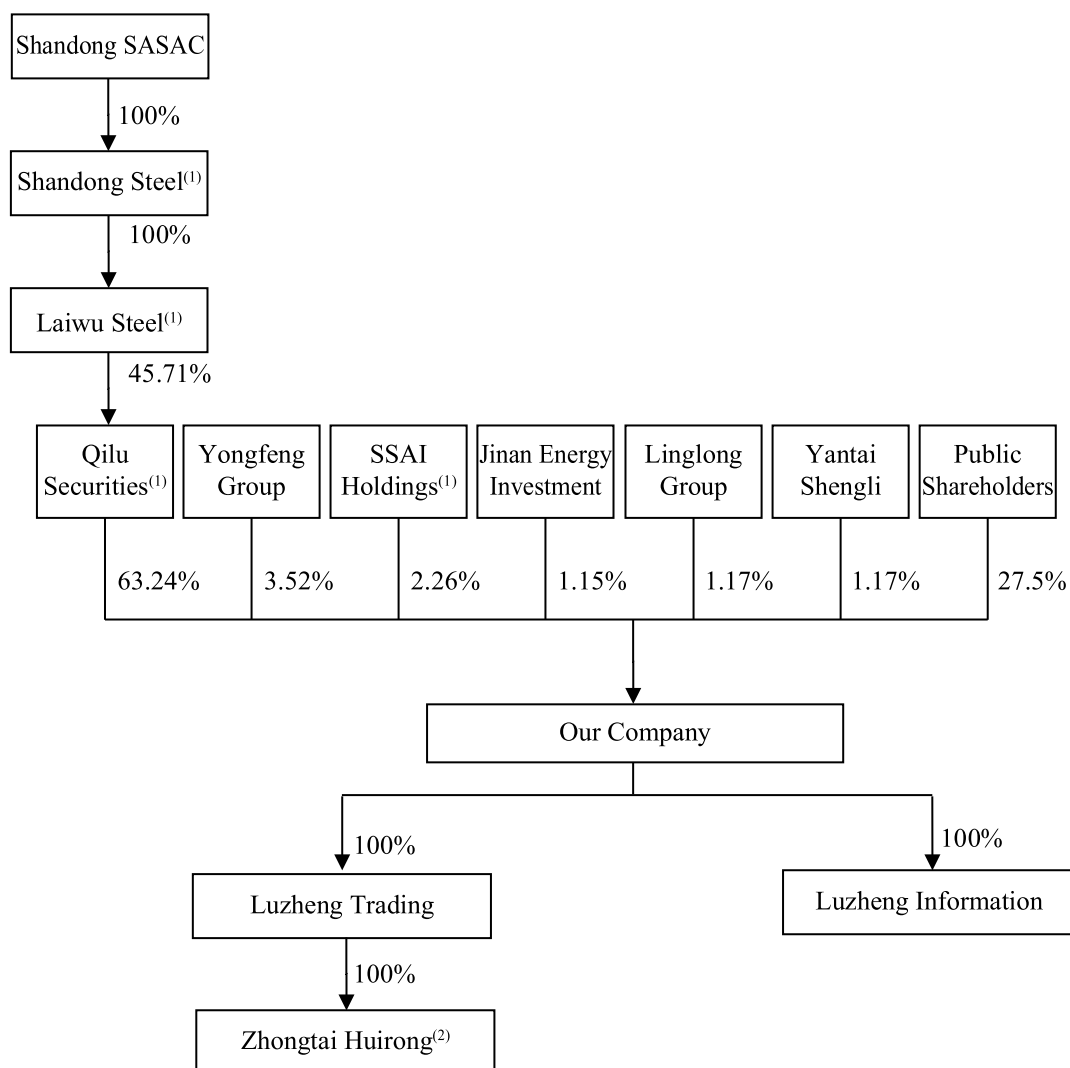


(1) Other than the fact that each of Qilu Securities and SSAI Holdings is ultimately controlled by Shandong SASAC as of the Latest Practicable Date, and save as their respective shareholding in our Company, to the best knowledge of our Company, we are not aware of any other relationships among our existing Shareholders as of the Latest Practicable Date.

(2) As of the Latest Practicable Date, Zhongtai Huirong had not commenced any business.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



- (1) Other than the fact that each of Qilu Securities and SSAI Holdings is ultimately controlled by Shandong SASAC as of the Latest Practicable Date, and save as their respective shareholding in our Company, to the best knowledge of our Company, we are not aware of any other relationships among our existing Shareholders as of the Latest Practicable Date.
- (2) As of the Latest Practicable Date, Zhongtai Huirong had not commenced any business.

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OVERVIEW

We are the largest futures firm in terms of futures brokerage trading volume in Shandong in 2014 with a diversified futures business and a strategic presence in China. In addition, we are one of the seven futures firms in China that have been rated “Class A,” the highest class for futures firms, by the CSRC for the past six consecutive years.

Our principal business lines are:

- ***Futures Brokerage:*** We execute trading of commodity and financial futures on behalf of retail, professional and corporate clients for commission and fee income;
- ***Futures Asset Management:*** We manage clients’ assets by investing primarily in the futures and derivatives markets for management fees and performance fees; and
- ***Commodity Trading and Risk Management:*** In 2013, we commenced our commodity trading and risk management business, which encompasses commodity trading and OTC derivatives trading. In commodity trading, we take principal positions in the physical trading and futures trading of commodities to meet the risk management needs of our clients while we take advantage of hedging and arbitrage opportunities to manage our risks and realize gains. We also trade other derivatives, primarily options on commodity futures, with our counterparty clients over the counter to provide them with customized commodity risk management solutions.

Our principal business lines have generated net operating cash inflow during the Track Record Period. To better utilize such excess cash generated from our operating activities, we have engaged in treasury management activities by investing in wealth management products issued by PRC financial institutions, such as collective asset management schemes and trust schemes. Gains from our treasury management activities (comprising net investment gains as shown in our consolidated statement of comprehensive income, excluding those attributable to derivative financial instrument related to commodities trading and risk management business) amounted to RMB4.0 million, RMB25.4 million and RMB52.2 million, representing approximately 1.3%, 8.0% and 16.2% of our consolidated operating income for the years ended December 31, 2012, 2013 and 2014, respectively.

Our operating income increased from RMB307.8 million in 2012 to RMB322.0 million in 2014. Our profit for the year increased from RMB66.2 million in 2012 to RMB80.3 million in 2014, while our net margin increased from 21.5% in 2012 to 24.9% in 2014.

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In recognition of our business performance, we have received a number of awards in our various business lines, including:

Year	Awards	Organizers/Media
2014	Best Futures Firm in China (中國最佳期貨公司)	Futures Daily (期貨日報) and Securities Times (證券時報)
	Best Financial Innovation Award (最佳金融創新獎)	Futures Daily (期貨日報) and Securities Times (證券時報)
	Best Risk Management Subsidiary Service Award (最佳風險管理子公司服務獎)	Futures Daily (期貨日報) and Securities Times (證券時報)
	Gold Medal in Futures Firm IT Services (金牌IT服務期貨公司獎)	Hexun.com (和讯網)
2013	AAA Level Financial Enterprise (AAA級金融企業)	Shandong Province Finance Bureau (山東省財政廳)
	Best Futures Firm in China (中國最佳期貨公司)	Futures Daily (期貨日報) and Securities Times (證券時報)
	China Futures Firm (Gold Management Team 中國期貨公司金牌管理團隊)	Futures Daily (期貨日報) and Securities Times (證券時報)
2012	China Futures Firm with Greatest Growth Potential (中國最具成長性期貨公司)	Futures Daily (期貨日報), Securities Times (證券時報) and New Fortune (新財富)
	Best Financial Innovation Award (最佳金融創新獎)	Futures Daily (期貨日報), Securities Times (證券時報) and New Fortune (新財富)
	Outstanding Financial Enterprise Award (優秀金融企業獎)	Shandong Province Finance Bureau (山東省財政廳)

COMPETITIVE STRENGTHS

We believe that we have the following competitive advantages that differentiate us from our competitors:

Well-positioned to benefit from the strong economy of Shandong and the fast-growing futures and derivatives markets in China

We are headquartered, and operate our business primarily, in Shandong, whose GDP has ranked in the top three provinces in China for each year in the past three decades. In 2014, Shandong had a nominal GDP of approximately RMB5.9 trillion, comparable to that of the 16th largest economy in the world, according to International Monetary Fund. Benefiting from its coastal location in East China and favorable local government policies, Shandong has achieved rapid economic growth, with its GDP increasing at a CAGR of 11.0% from 2010 to 2014. As the demonstration region designated in the China and South Korea Free Trade Agreement and a member of the Bohai Economic Rim, Shandong's economy is expected to continue steady growth in the foreseeable future.

The financial sector in Shandong has considerable growth potential. The financial sector only accounted for 4.5% of the nominal GDP of Shandong in 2014, below the national average of 7.4%. According to 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) issued by the Shandong provincial

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government in August 2013, the local government has placed great emphasis on the development of the financial sector and intends to build a highly market-oriented financial system in Shandong that is complementary to the local economy.

The PRC futures industry has experienced significant growth in recent years. The total trading volume in China's futures market (figures are adjusted on a unilateral comparable basis) increased from approximately RMB6.7 trillion in 2005 to RMB292.0 trillion in 2014, representing a CAGR of approximately 52.0%. Such significant growth is attributable to the introduction of new futures products and the increasing awareness of PRC enterprises of the risk management function of futures. The development of the futures industry is also encouraged by favorable national policies, such as the State Council's Several Opinions on Further Promoting the Healthy Development of the Capital Market, issued in May 2014, and CSRC's Opinions on Further Promoting the Innovative Development of Futures Intermediaries, which encourage the development of capital markets and the futures industry in China and promote the use of futures and derivatives to facilitate risk management. According to the World Bank, China is currently the largest market in the world for export and import trading, which creates a demand for a more diverse range of futures and derivatives to be made available to PRC enterprises for hedging risks.

With the increasing globalization of the PRC commodity market, the gradual deregulation of the interest rates and Renminbi capital account transactions in China, as well as more relaxed regulatory requirements, we believe the PRC futures industry has considerable growth potential. Shandong hosts many leading industrial and agricultural corporations in China, and these corporations are increasingly aware of the use of futures and other derivative instruments to manage commodity price risks. As of September 2014, 45 of the Fortune China 500 companies were based in Shandong. Policies, such as the Several Opinions on Accelerating the Financial Reform and Development of Shandong Province, also encourage us to build deeper relationships with well-known agricultural and industrial enterprises in Shandong and provide them with more comprehensive, value-added services using futures and derivatives.

As the largest futures firm in Shandong, we have built a long-term presence and an in-depth knowledge base in the local market as well as client demand, built good relationships with local government authorities and enterprises, and established strong brand recognition in the Shandong market compared to our competitors. We believe we are well-positioned to capture the emerging opportunities from the continued growth of Shandong's economy and financial sector as well as the fast-growing PRC futures and derivatives markets.

We are the largest futures firm headquartered in Shandong with a diversified futures business and a strategic presence in China

Over our 20 years of operating history, we have navigated through various market and business cycles, financial crises and regulatory reforms. Our total client balances grew from less than RMB100.0 million as of December 31, 2006 to over RMB4.1 billion as of December 31, 2014, our registered capital increased from RMB50.0 million in 2006 to RMB750.0 million in 2014, and our branch network grew from two branches in 2006 to 24 in 2014.

We have a diversified futures business and offer our clients a broad array of services related to futures and derivatives, including futures brokerage, clearing services, futures investment consultancy, and asset management, as well as commodities trading and risk management. We are one of the 26 futures firms

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in China that are capable of providing a full range of futures and derivatives services. We have been consistently ranked as a Class A futures firm since the CSRC launched such regulatory evaluation in 2009. In particular, we were ranked as a “Class A (Level AA)” futures firm in 2014. In addition, we are one of the 24 general clearing members of the China Financial Futures Exchange, the only financial futures exchange in China.

We are the largest futures firm in Shandong. According to the CFA, we ranked first among all futures firms headquartered in Shandong in terms of net assets, Net Capital and client balances as of December 31, 2014. According to the Shandong Futures Association, we ranked first among PRC futures firms in terms of futures brokerage trading volumes in Shandong in 2012, 2013 and 2014.

We are strategically positioned to capitalize on the fast-growing futures and derivatives markets in China. We have 24 futures branches in China, consisting of ten in Shandong and 14 in other major cities nationwide, such as Beijing, Shanghai, Shenzhen, Guangzhou, Dalian, Zhengzhou and Hangzhou. Our branches are strategically located, covering the locations of the four futures exchanges and all first-tier cities in China.

Strong innovative capabilities to capitalize on opportunities from the transformation of the PRC futures industry

Due to intense competition, the average commission rate in the PRC futures brokerage market has been decreasing in recent years, and PRC futures firms have been exploring new opportunities to broaden their revenue base through the development of non-brokerage businesses. In September 2014, the CSRC issued Opinions on Further Promoting Innovation and Development of the Futures Business Institutions (關於進一步促進期貨經營機構創新發展的意見) to guide and promote the development of PRC futures firms through innovations. In particular, the CSRC encourages futures firms to engage in futures asset management and commodity trading and risk management business.

We were one of the first futures firms in China that had been licensed to conduct futures asset management business which we commenced in January 2013. We established Luzheng Trading in April 2013 to conduct our commodity trading and risk management business. We were awarded the “Best Financial Innovation Award” (最佳金融創新獎) jointly by the Futures Daily (期貨日報) and Securities Times (證券時報) in 2014. In addition, we launched the first OTC-traded option in the PRC futures industry in 2014 and together with Wanjia Asset Management Co., Ltd., we jointly developed the Index ETF based on non-ferrous metals in 2014. We also established the Rizhao Physical Commodity Trading Board in a joint venture with the Rizhao Port Group Co., Ltd. in May 2014, providing OTC commodity trading to meet customized needs of our corporate clients.

We believe that our first-mover advantage in developing innovative businesses, our deep insight into the commodity market, and our ability to provide customized risk management solutions to clients could enable us to diversify our operations and to optimize our revenue mix, while achieving sustainable growth despite intense competition.

Our operating income from futures asset management and commodities trading and risk management was RMB3.5 million and RMB22.2 million, respectively, in 2013 and 2014, accounting for 1.1% and 6.9% of our operating income in those years, respectively.

BUSINESS

Industry-leading IT systems, effective risk management system and internal controls

We have an industry-leading IT platform and have been certified by the CSRC as the only PRC futures firm meeting the highest IT standards in the PRC futures industry since 2011. We were recognized as the “Best IT Service Futures Firm of the Year” by Hexun.com and the China Securities Market Research and Design Center in 2013 and 2014.

Our advanced trading and clearing systems enable our clients to trade rapidly, reliably and conveniently across major markets. For example, we offered the 10 Gigabyte trading system in 2014, significantly reducing the delay in executing customer orders, particularly for high-frequency trading. In addition, our CRM system is capable of tracking customers’ trading behaviors and categorizing customer groups accordingly, enabling us to offer customized services to clients.

We devote substantial resources each year to optimizing and upgrading our IT system. In 2012, 2013 and 2014, we incurred IT-related expenditures of RMB13.7 million, RMB12.8 million and RMB12.9 million, respectively, representing 6.1%, 5.8% and 5.9% of our operating expenses for those years, respectively. In 2011, we established dual same-town disaster recovery centers in Jinan and a remote disaster recovery center in Shanghai, which together ensure the continued operation of our trading and clearing systems in the event of an emergency.

We actively manage risk with a centralized, hands-on approach. Our senior executives play a leading role in managing our risk exposure on a day-to-day basis. We developed various IT systems in-house to monitor our client balances and margin levels as well as our Net Capital position on a real-time basis, all of which enable us to respond quickly to changes in client margin balances and our Net Capital and to enhance our capital efficiency and compliance capabilities. We believe effective risk management also depends on employee behavior and we have increased employee awareness and accountability for risk management.

We have established effective risk management systems and internal controls that enable us to identify, evaluate and manage credit, market and operational risks in our business, to optimize risk allocations and to develop risk-mitigating measures. We have implemented a four-level risk management structure, consisting of (i) the Board and the Supervisory Committee; (ii) the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; (iii) the Compliance Department and the Internal Audit Department; and (iv) frontline operational teams at our business departments and branches.

Experienced management team supported by a professional workforce

Our management team has extensive experience and an outstanding track record in the futures and financial services industries. Our senior management team has an average of 14 years of experience in the financial services industry, enabling them to form a deep understanding of the financial industry and the business acumen to timely capture the opportunities for adjusting our business strategies. Our Chairman, Mr. CHEN Fang, possesses in-depth knowledge of and insight into macroeconomic policies in China and development trends in the PRC futures industry. Mr. Chen has been our Chairman since September 2006. In addition, Mr. Chen was recognized by China Economic Herald as one of the “Ten Most Influential People in the Shandong Financial Sector” in 2010, and has served as a committee member of the CFA since May 2008. Our general manager, Mr. LI Xuekui, is a standing director of Shandong Futures Association, a

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member of the trading committee of the Zhengzhou Commodity Exchange, and chairman of the settlement committee of the Shanghai Futures Exchange. For a detailed biography of our Directors and senior management, see “Directors, Supervisors, Senior Management and Employees.”

Our mid-level management team, including all departmental heads and general managers of our branches, has an average of ten years of experience in the PRC futures industry. In recent years, to promote the development of our new business lines, we have actively recruited investment professionals with experience in leading global financial institutions, such as Merrill Lynch and BlackRock. Our senior executives and key employees have received professional training from renowned institutions in China and overseas, such as Goldman Sachs, the Chicago Mercantile Exchange and the University of Chicago Booth School of Business.

We have been continuously strengthening our research capabilities, by establishing research teams in Jinan, Beijing and Shanghai, with 31 research personnel. Our agricultural products research team was recognized as one of the “Top Ten Futures Research & Development Teams” (十大期貨研發團隊) by the Dalian Commodity Exchange in 2012, and a number of our analysts were recognized in the “Best Futures Firms and Best Futures Analysts Awards” (中國最佳期貨經營機構暨最佳期貨分析師評選) by the Futures Daily (期貨日報) and the Securities Times (證券時報) in 2014.

We adopt a market-oriented and performance-based employee compensation structure, which focuses on performance and management goals. We place great emphasis on cultivating a sound corporate culture and providing employee assistance programs to achieve strong corporate cohesion and low staff turnover. To improve employee skills, we offer regular on-the-job training programs and encourage our employees to seek professional financial and accounting qualifications, such as Chartered Financial Analyst, Certified International Investment Analyst and Financial Risk Manager.

BUSINESS STRATEGIES

As the PRC futures industry continues to evolve and mature, we aim to gradually transition our business from a futures commissioned merchant to a provider of comprehensive futures and derivatives products, as well as risk management solutions across multiple business lines, offering customized OTC derivatives trading to industrial clients and convenient trading, clearing and futures asset management services to professional and retail clients. We believe we will have significant opportunities to expand our business in the future. We intend to take advantage of these opportunities and build upon our competitive strengths by pursuing the following strategies:

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Capitalize on the growth potential of the futures industry in China and strengthen our market position in the futures brokerage business

Our futures brokerage business and client base are our core competitive strengths and a key foundation for our other business lines. We plan to implement the following measures to strengthen our market position in the futures brokerage business and capture the growth potential of the futures industry in China:

- *Optimize client base:* We intend to optimize our client base by strengthening our focus on serving institutional and professional clients, partly in response to the CSRC's policy to encourage the development of institutional clients by specifying the daily average balance of institutional clients and its growth as one of the criteria CSRC considers in determining the regulatory ratings of futures companies. Futures companies with higher rankings in terms of daily average balance of institutional clients and its growth generally enjoy higher regulatory ratings. The number of institutional clients in our futures brokerage business increased from 1,268 as of December 31, 2012 to 1,775 as of December 31, 2014, and our institutional client balances increased significantly from RMB584.3 million as of December 31, 2012 to RMB1,165.6 million as of December 31, 2014. Compared to retail clients, institutional clients generally maintain a higher level of account balance, thereby contributing more to our interest income, and have greater demand for asset management and commodity trading and risk management services, creating increased cross-selling opportunities with those business lines.
- *Optimize branch network:* We intend to establish "light branches" starting in 2015, which generally occupy less space, require lower operating costs and fewer employees compared to traditional branches. Our "light branches" are intended to focus more on client coverage and lower our operating costs. In addition, we intend to strengthen the function of our branch network as our full-service business platform and sales window for providing customized services to our corporate and professional clients.
- *Develop client-centric IT platform:* We believe that Internet finance is likely to serve as a driver of reform and progress in China's financial sector. We intend to improve the functionality and user experience of our online trading systems and to migrate more of our services online to quickly expand our customer base and increase customer loyalty. We also plan to build a more sophisticated CRM system that is capable of performing "big data" analytics of client preferences and behavior to enable us to offer more customized services to clients and conduct more targeted sales and marketing efforts.
- *Enhance sector-focused business teams:* Depending on client demand and futures market condition, we plan to enhance our sector-focused business teams, which cover industries such as steel, chemicals and non-ferrous metals, and provide more professional advisory services from an industry perspective.
- *Enhance our capabilities in research, pricing, trading and sales:* We plan to strengthen the capabilities of our research team, which provides research reports and regular updates to our clients to assist them in identifying and evaluating risk management and trading opportunities. We also intend to further integrate the work of our research team with the operations of our

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various business lines, strengthen our pricing, trading and sales capabilities with respect to options and other products, and in our business operations to better utilize the insights from our research team.

Expand our commodity trading and risk management business to meet increasing and diverse risk management needs of our corporate clients

Leveraging the opportunities arising from the fast-growing PRC futures and derivatives markets, we are committed to developing a competitive commodity trading and risk management business focused on matching the risk management needs of our corporate clients. We also aim to increase the synergies between this business and our futures brokerage business through cross-selling. In particular, we intend to implement the following measures:

- expand the geographical and product coverage of our commodity trading, by applying proven models and strategies to new geographical areas such as the Yangtze River Delta and the Pearl River Delta, and to new commodities such as non-ferrous metals and precious metals;
- become a trader of OTC derivatives and a market-maker of exchange-traded derivatives, with the anticipated introduction of new derivatives such as interest rate futures, exchange rate futures and options on futures. We intend to leverage our relationships with large agricultural and industrial enterprises in and outside of Shandong and provide these clients with more diverse risk management products, such as swaps and index derivatives, as more OTC and exchange-traded products become available;
- attract, incentivize and retain experienced investment professionals with expertise in futures and derivatives. In particular, for our OTC derivatives business, we plan to recruit professionals experienced in sales, pricing, risk management and information technology; and
- enhance our in-house research capabilities and establish our proprietary database by aggregating and categorizing price-related information acquired from our commodity trading activities.

Our commodity trading and risk management business recorded an operating margin of 4.4% in 2014, compared to 43.2% and 23.5% in our futures brokerage and futures asset management businesses, respectively, in 2014. The operating margin of our commodity trading and risk management business was lower than our other business segments during the Track Record Period, primarily due to substantial start-up expenses at its early stage of development. As such, we intend to contribute 40% of the proceeds from this Global Offering, or approximately HK\$299.1 million, to Luzheng Trading, our commodity trading and risk management subsidiary, to expand its business and revenue significantly, and thereby improve the economies of scale and profitability of our commodity trading and risk management business.

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Expand our futures asset management business to provide comprehensive product offerings to meet the increasing wealth management needs of retail and institutional clients

We believe our futures asset management business is a strategically important business with long-term growth potential and will allow us to improve our revenue mix and effectively serve our retail and institutional clients with professional investment expertise.

We plan to leverage our strategically-located branch network and substantial customer base to capture potential cross-selling opportunities between our futures asset management business and other business lines and to diversify our product offerings and develop our active management capabilities in order to expand our AUM and operating income. In particular, we intend to implement the following measures:

- continue to expand the AUM of our collective asset management schemes. Our first collective asset management scheme was introduced in the second quarter of 2015, where we manage client assets for a group of clients;
- develop and offer “fund of funds” and “manager of managers”-based asset management schemes and enhance our ability to select, evaluate and manage a portfolio of investment funds in the PRC fund market. Fund of funds is an investment strategy of holding a portfolio of third-party investment funds, rather than investing directly in futures and other derivatives. Manager of managers is an investment strategy of directly selecting different investment managers and giving them mandate to make investment decisions; and
- develop our active management capabilities through training and continuously developing qualified asset managers in-house and attracting experienced professionals from leading PRC and international financial institutions.

Pursue selective acquisitions in China and overseas to expand our market presence

Leveraging our competitive strengths in Shandong and China, including our diversified futures business, strategic branch network and research capabilities, we intend to enhance our client base, market share and brand recognition in China through mergers and acquisitions, thereby creating greater value for our clients and enhancing our overall profitability. We intend to selectively acquire PRC futures firms located in the Yangtze River Delta, Bohai Economic Rim and Pearl River Delta in China with strong local brand recognition and customer base that enable us to establish our local presence quickly and complement our existing businesses.

As the PRC regulatory requirements continue to be relaxed and futures and derivatives markets become more globalized, we believe that an increasing number of overseas investors will seek to enter the PRC market while PRC enterprises are seeking localized risk management services for their overseas operations. To better meet the growing needs of our existing and prospective clients in China and overseas for cross-border futures and derivatives services, we plan to prudently enter international markets, principally the United States and United Kingdom, through establishing new subsidiaries or through acquisitions. We intend to selectively acquire overseas futures intermediaries with distinctive market position, suitable scale that meet our clients’ demands and the necessary licenses that will enable us to enter new markets quickly.

BUSINESS

As of the Latest Practicable Date, we have not identified any acquisition target in China or overseas.

Strengthen our IT and risk management capabilities to facilitate our business growth and build a first-class professional workforce

We believe IT infrastructure and information systems are essential for the effective management and successful development of our business and strive to improve our IT infrastructure. We plan to further improve and upgrade our IT systems to adapt to the more complex needs of our new businesses, as well as those of our clients. In particular, we intend to develop a comprehensive online platform that is capable of providing one-stop futures and derivatives solutions covering risk management, investment and financing, purchase and sale of commodities, logistics and advisory services, thereby integrating our entire business and services capabilities to enhance our competitive advantage. In addition, we intend to develop our own trading system that is customized around our client needs and our product and service offerings, which enables us to provide differentiated services to clients and increase customer loyalty. We have formulated our IT equipment renewal policy to ensure that we maintain a technological edge in our IT systems. We renew our key IT equipment every three years by procuring advanced equipment of well-known global brands and adopting industry-leading technology deployment plans.

In response to the CSRC's opinions to encourage the outsourcing of information technology services by small- and medium-sized futures firms, we established Luzheng Information, our IT subsidiary in February 2015, which will provide IT outsourcing and software development services to other PRC futures firms and to enhance our IT capacities. In particular, we intend to design and offer customized IT solutions, including using "Cloud"-based technology, to small- and medium-sized futures firms, enabling them to reduce start-up costs and launch their businesses quickly.

We believe continuing development of our risk management and internal control capabilities are pivotal to our sustainable growth. We plan to strengthen our overall risk management and regulatory compliance by implementing the following strategies:

- enhancing our internal control and risk management framework, especially for futures asset management and commodity trading and risk management businesses;
- building a risk management system that provides monitoring and alerting of market risks and operational risks in relation to investment decision-making and execution in our futures asset management business;
- building a risk management system that provides automated monitoring, alerting and reporting of market risks in commodity trading;
- formulating a systematic approach for sensitivity analysis, stress testing and VaR reporting in our OTC derivatives trading; and
- collecting and analyzing customer trading and credit information for standardized client selection and credit evaluation system in our commodity trading and risk management business.

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We believe the key to our future success is having a talented team of committed individuals who exhibit an international vision and strong executive capability. Our human resources strategy includes:

- attracting high-end talent with innovative and global vision, particularly in OTC derivatives trading and futures asset management businesses;
- strengthening employee training programs to enhance professional qualifications and market competitiveness; and
- implementing a market-oriented hiring mechanism and creating a system for effective talent evaluation focused on long-term career development.

OUR BUSINESS

We provide a wide range of futures products and services to institutional and retail clients. Our main products and services by business line include:

<u>Business Lines</u>	<u>Main Products and Services</u>
Futures brokerage	<ul style="list-style-type: none"> • Commodity futures brokerage • Financial futures brokerage
Futures asset management	<ul style="list-style-type: none"> • Targeted asset management schemes • Collective asset management schemes
Commodity trading and risk management	<ul style="list-style-type: none"> • Commodity trading • OTC derivatives trading

The following table sets forth our operating income by segment for the years indicated:

	<u>Year ended December 31,</u>					
	<u>2012</u>		<u>2013</u>		<u>2014</u>	
	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>
	<i>(RMB in millions, except for %)</i>					
Futures brokerage	269.9	87.7%	259.3	82.1%	221.6	68.8%
Futures asset management	-	-	0.2	0.1%	8.5	2.6%
Commodity trading and risk management	-	-	3.3	1.0%	13.7	4.3%
Headquarters and others ⁽¹⁾	37.9	12.3%	52.9	16.8%	78.5	24.4%
Inter-segment elimination	-	-	-	-	(0.3)	(0.1%)
Total	307.8	100.0%	315.7	100.0%	322.0	100.0%

⁽¹⁾ Income from headquarters and others consists primarily of interest income from our own cash and bank balances and investment income from our investments in wealth management products and equity securities, which are part of our treasury management activities. Expenses from this segment consist primarily of staff cost and administrative expenses due to back-office functions that cannot be allocated to any other business segment, and impairment losses of our investments in certain wealth management products.

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Futures Brokerage

Overview

We are a member of the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange and the China Financial Futures Exchange. As of December 31, 2014, we offered brokerage services for all of the futures products available in China, consisting of commodity futures, such as metals, energy products and agricultural products, and financial futures, such as stock index futures and treasury-bond futures.

In 2012, 2013 and 2014, operating income from our futures brokerage business amounted to RMB269.9 million, RMB259.3 million and RMB221.6 million, respectively, representing 87.7%, 82.1% and 68.8% of our total operating income during those years, respectively.

As part of our business strategy, we started to focus more on corporate clients and professional investors who generally trade less frequently but maintain a higher level of account balance compared to retail clients and have a greater demand for value-added services, such as commodity trading and risk management and futures asset management. This has partly resulted in a decrease in our commission and fee income during the Track Record Period while increasing our client balances and interest income from client settlement reserve funds as well as income from our other business lines.

Commodity Futures

We offer brokerage services for all of the commodity futures products traded at the three commodity futures exchanges in the PRC, namely, the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange and the Dalian Commodity Exchange:

Futures Exchange	Futures Products (as of December 31, 2014)
Shanghai Futures Exchange	copper, aluminium, zinc, lead, gold, silver, rebar, wire rod, hot-rolled coil, fuel oil, bitumen and natural rubber
Zhengzhou Commodity Exchange	strong gluten wheat, common wheat, cotton No. 1, white sugar, rapeseed oil, early rice, rapeseed, rapeseed meal, japonica rice, late indica rice, pure terephthalic acid (PTA), flat glass, thermal coal, methanol, ferrosilicon and manganese silicon
Dalian Commodity Exchange	corn, corn starch, No. 1 soybeans, No. 2 soybeans, soybean meal, crude soybean oil, RBD palm olein, fresh hen egg, fiberboard, blockboard, linear low density polyethylene (LLDPE), polyvinyl chloride (PVC), polypropylene (PP), coke, coking coal and iron ore

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The following table sets forth the breakdown of our trading volume and our market share in each of the three commodity futures exchanges in the PRC:

	Year ended December 31,					
	2012		2013		2014	
	Amount	Market share	Amount	Market share	Amount	Market share
	<i>(RMB in billions, except for %)</i>					
Trading volume						
Shanghai Futures Exchange . . .	1,069.3	1.20%	1,576.9	1.31%	1,292.9	1.02%
Zhengzhou Commodity Exchange . . .	518.1	1.49%	478.5	1.27%	680.9	1.46%
Dalian Commodity Exchange . . .	<u>1,004.7</u>	1.51%	<u>1,364.0</u>	1.45%	<u>1,071.7</u>	1.29%
Total	<u>2,592.0</u>	1.36%	<u>3,419.4</u>	1.35%	<u>3,045.6</u>	1.19%

Source: CFA

The following table sets forth the breakdown of our trading volume and our market share by commodity futures categories:

	Year ended December 31,					
	2012		2013		2014	
	Amount	Market share	Amount	Market share	Amount	Market share
	<i>(RMB in billions, except for %)</i>					
Trading volume						
Steel	191.7	1.42%	343.7	1.54%	431.8	1.22%
Non-ferrous metals	409.2	1.12%	464.7	1.30%	369.1	0.87%
Grease and oil	805.4	1.56%	810.3	1.49%	706.0	1.30%
Energy and chemicals	796.9	1.32%	1,316.5	1.35%	963.7	1.35%
Cotton	89.0	2.13%	23.4	1.58%	51.7	1.18%
Others	<u>299.9</u>	1.20%	<u>460.8</u>	1.11%	<u>523.3</u>	1.10%
Total	<u>2,592.0</u>	1.36%	<u>3,419.4</u>	1.35%	<u>3,045.6</u>	1.19%

Source: CFA

Financial Futures

We offer brokerage services for the stock index futures and treasury bond futures traded on the China Financial Futures Exchange, the only exchange for the trading of financial futures in the PRC. Our financial futures clients comprise financial institutions, including securities firms, mutual funds and private equity funds, as well as corporate and retail clients.

As of December 31, 2014, we were one of the 24 general clearing members of the China Financial Futures Exchange. During the Track Record Period, we provided settlement and clearing services to four futures firms that were not clearing members of the China Financial Futures Exchange, and generated settlement and clearing services income from such arrangements. For details, see “Financial Information – Results of Operations – Net commission and fee income – commission and fee income.” Our agreement with each of these futures firms has a 12-month term and can be automatically renewed for an additional 12-

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month term to the extent that no party to the agreement provides a written notice to the other party to terminate the agreement within 30 days of its expiration date. Our agreement with one of these futures firms was terminated in November 2013, after such firm submitted its application for clearing membership to the China Financial Futures Exchange. Pursuant to the agreements, these futures firms are required to maintain a minimum of RMB500,000 in settlement reserve funds.

The following table sets forth the breakdown of our trading volume and our market share in each of the two financial futures:

	Year ended December 31,					
	2012		2013		2014	
	<i>Amount</i>	<i>Market share</i>	<i>Amount</i>	<i>Market share</i>	<i>Amount</i>	<i>Market share</i>
	<i>(RMB in billions, except for %)</i>					
Trading volume						
Stock index futures	2,843.9	1.87%	4,539.6	1.61%	3,878.0	1.19%
Treasury bond futures	–	–	6.7	1.09%	18.0	1.02%
Total	<u>2,843.9</u>	1.87%	<u>4,546.3</u>	1.61%	<u>3,896.0</u>	1.19%

Source: CFA

As more financial futures products, such as the foreign exchange futures, become available in China, we plan to offer brokerage services for such financial futures products to our clients and further diversify our product portfolio.

Brokerage Commission and Fee Income

We execute orders to buy or sell futures contracts on behalf of our clients and charge them a commission for our services. The following table sets forth the average brokerage commission rates that we charged during the Track Record Period:

	Year ended December 31,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(bps)</i>		
Average brokerage commission rates⁽¹⁾			
Commodity futures	0.614	0.447	0.393
Financial futures	0.209	0.116	0.089
Total	0.402	0.258	0.223

⁽¹⁾ Average brokerage commission rate equals the aggregate of net commission and fee income from futures brokerage business and refunds of trading fees as divided by our futures brokerage trading volume.

Due primarily to the intense competition in the futures brokerage market in China in general, our average brokerage commission rates have decreased in recent years. We believe the average brokerage commission rates in China may continue to decrease. See “Risk Factors – Risks Relating to Our Business – We rely on our futures brokerage business for a majority of our operating income.”

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To increase the competitive strengths of our futures brokerage business, we plan to implement the following:

- Diversifying our revenue base by further developing value-added business lines such as asset management and commodity trading and risk management;
- Developing “light branches” to extend our customer reach and increase operational efficiency;
- Promoting cross-selling among different business lines and attracting more institutional and professional investors;
- Further differentiating customers based on their risk profiles and risk management needs in order to provide more diversified and customized products and services; and
- Enhancing our IT-based service capabilities to offer comprehensive online futures services and to increase operating efficiency and customer base.

Historically, futures exchanges in the PRC have refunded a portion of the trading fees paid by futures firms in connection with futures transactions, in order to promote the development of the futures market. However, the amount of the refunded trading fees and frequency of such practices are at the discretion of the futures exchanges. We have received such refunds of trading fees from the futures exchanges every month during the Track Record Period. The futures exchanges usually refund part of the trading fees we paid in the previous month, without any prior notification. We recognize refunds of trading fees as our other income upon receipt of such from the futures exchanges. In 2012, 2013 and 2014, the refunds of trading fees to us were RMB54.7 million, RMB41.8 million and RMB38.6 million, respectively, accounting for 20.3%, 16.1% and 17.4% of our operating income from the futures brokerage business during the same periods.

Client Balances and Interest Income

As a member of the PRC futures exchanges, we are required to deposit a minimum of RMB2 million in settlement reserve fund at each futures exchange. The futures exchanges also specify the margin requirement for each futures contract.

We evaluate the client’s financial condition, risk level and credit history, and typically require a margin rate that is higher than the minimum margin rate required for a particular product by the futures exchange.

At the end of each trading day, the client’s account is adjusted to reflect the client’s gain or loss, a practice referred to as “marking to market” the account. If the balance in the client’s brokerage account falls below the margin balance as calculated in accordance with our margin rate requirement, we issue a margin call and request that the client either bring the account balance up to the margin requirement before the market opens on the next trading day or close out the position voluntarily. If the client does not fulfill the margin call or close out the position voluntarily in a timely manner, we exercise our rights to close out the position in accordance with the futures brokerage contract. For details of our margin call procedures, see “Business – Internal Control Measures – Futures Brokerage – Client margin deposit management.”

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The balance in a client's brokerage account consists of client margin deposits and settlement reserve funds. We earn interest on the settlement reserve funds, which are either deposited with a futures exchange and accrued interest at the rate ranging from 1.98% to 2.40%, or deposited with a bank and accrued interest at a rate ranging from 0.35% to 5.10%, as negotiated between the bank and us. The client margin deposits are placed with the futures exchanges but do not accrue any interest. Pursuant to our futures brokerage contracts with our clients, we do not pay any interest on a client's brokerage account balance.

The PRC futures exchanges impose a daily price up and down limit on the trading of futures, which limit (generally ranging from 4% to 10%) varies by futures contract and is determined by the futures exchanges based on market conditions and other considerations. The daily price limit on a futures contract is typically less than the margin ratio for such contract specified by the futures exchange. The price limit regulation effectively limits the risk exposure of our clients and us.

The following table sets forth the total client balances of our futures brokerage business and national market share as of the dates indicated:

	As of December 31,					
	2012		2013		2014	
	<i>Amount</i>	<i>Market share⁽¹⁾</i>	<i>Amount</i>	<i>Market share⁽¹⁾</i>	<i>Amount</i>	<i>Market share⁽¹⁾</i>
	<i>(RMB in millions, except for %)</i>					
Client balances	2,285.0	1.29%	2,328.0	1.19%	4,143.3	1.53%

⁽¹⁾ Source: CFA

As our total client balance increased during the Track Record Period, our interest income as a percentage of total operating income of our brokerage business also increased during the same period. For more details, see "Financial Information – Results of Operations – Net interest income."

Branch Network

As of December 31, 2014 and the Latest Practicable Date, we had 24 futures branches, consisting of ten branches in Shandong province and 14 branches in Beijing, Shanghai, Tianjin, Zhejiang, Guangdong and other provinces. We also maintain a strategic presence in the cities of Dalian and Zhengzhou, where the futures exchanges are located. Our main geographic focus is on the Yangtze River Delta, the Pearl River Delta and the Bohai Economic Rim, each of which has a vibrant economy and a high level of futures market participation and activities.

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The following map illustrates the distribution of our branch network as of December 31, 2014:



As of December 31, 2014, all of the 224 securities branches in China of Qilu Securities, our Controlling Shareholder, are capable of conducting futures IB business, which allows them to introduce potential clients and direct futures order flows to us. As of December 31, 2014, we had 83,886 futures brokerage customers, of which 8.3% were introduced to us through Qilu Securities' futures IB business. For further discussion on IB services between Qilu Securities and us, see "Connected Transactions – Non-Exempt Continuing Connected Transactions – Continuing Connected Transactions Relating to Qilu Securities and/or its Associates – A. IB Services."

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Clients

As of December 31, 2012, 2013 and 2014, the total number of our clients was 72,075, 78,235 and 83,886, respectively. The following table sets forth the number of our client base categorized by retail and institutional clients:

	As of December 31,		
	2012	2013	2014
Client type			
Retail	70,807	76,804	82,111
Institutional	1,268	1,431	1,775
Total	72,075	78,235	83,886

We have successfully maintained a stable client base. As of December 31, 2014, 49.9% of our brokerage clients had maintained business relationships with us for more than five years.

Active clients are the clients who traded with us at least once in three years. As of December 31, 2012, 2013 and 2014, the total number of our active clients was 28,786, 25,867 and 23,007, respectively, and 63.6%, 56.1% and 50.9% of our total active clients are from Shandong, respectively, as of those dates.

A majority of our brokerage clients are individuals, corporations and other institutions based in Shandong. As of December 31, 2012, 2013 and 2014, 71.6%, 68.3% and 65.7% of our futures brokerage clients opened their accounts in our futures branches in Shandong, respectively. See “Risk Factors – Risks relating to Our Business – Our business is concentrated in Shandong and our business, financial condition and results of operations may be materially and adversely affected by a significant deterioration in our business in Shandong.”

Trading Platforms

We provide clients with a variety of trading platforms. Our clients can trade at physical trading counters in our branches, or trade remotely via telephone, personal computers or mobile devices. Online trading has become the primary trading method for our futures brokerage clients. In 2014, our online trading volume accounted for substantially all of our total futures brokerage trading volume.

We believe that our online trading platform is complementary to our existing futures branches across China, which we expect together will deliver targeted customer sales and marketing, customer-friendly experience, more diverse products offering and enhanced transaction convenience. We intend to improve our online platform by enhancing clients’ experience, offering more diverse products and integrating our corporate website, online trading portal and other internal resources into this online platform.

Marketing and Customer Services

We offer futures brokerage services through our corporate website and mobile platforms and our branch network. Our sales and marketing team consists primarily of client managers, who are our employees, and third-party futures brokerage agents. Both the client managers and the futures brokerage

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agents receive performance-based remuneration. As of December 31, 2014, we had 184 client managers and 2,055 futures brokerage agents. The following table sets forth the number of our client managers and futures brokerage agents during the Track Record Period:

	<u>As of December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Client managers	166	175	184
Futures brokerage agents	2,831	1,965	2,055

The number of our futures brokerage agents decreased by 27.4% from 2,831 as of December 31, 2012 to 2,055 as of December 31, 2014, as a result of our initiative to reduce reliance on futures brokerage agents and to enhance the service quality of our client managers.

To monitor the performance of our futures brokerage agents and to comply with relevant PRC rules and regulations, we have implemented stringent measures to govern various aspects related to futures brokerage agents, including requirements on the qualification and training of futures brokerage agents, the maximum contractual term and the termination of futures brokerage agency agreements, the management of information provided by futures brokerage agents, the contractual scope of operations and conduct of our futures brokerage agents, and related sanctions. These measures also provide guidance on the remuneration schemes for our futures brokerage agents.

We strive to meet client needs through high-quality client services. In addition to our corporate website, we provide real-time assistance through our customer service hotline “400-618-6767,” including answering inquiries about products, trading rules, account status and trading software. In addition, we provide brokerage clients with our investment analysis and recommendations of financial products via text messages and emails.

Futures Asset Management (in designated accounts)

We commenced our asset management business in January 2013, and our AUM has achieved stable growth, increasing from RMB61.0 million as of December 31, 2013 to RMB182.0 million as of December 31, 2014. Our asset management schemes consist of targeted asset management schemes and collective asset management schemes. In accordance with the Rules for the Asset Management Business of Futures Firms (Trial) (《期貨公司資產管理業務管理規則(試行)》) of the PRC, we manage client assets through a separate, designated account for each asset management scheme. Unlike mutual funds (known as publicly offered funds in the PRC), asset management schemes issued by PRC futures firms are privately offered and generally have a minimum subscription amount of RMB1.0 million.

For each targeted asset management scheme, we manage assets for a single client pursuant to the specific terms of the bilateral contract between the client and us through a designated account. We invest client assets primarily in the futures and derivatives markets. As of December 31, 2014, we had 27 targeted asset management schemes outstanding, the total AUM of which was RMB182.0 million. Such schemes have a one-year term, and the minimum subscription threshold is RMB1.0 million. We generally charge annual management fees at 1.0% of the AUM. We also earn performance fees that amount to 25% to 40% of the investment return on our products.

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We launched our collective asset management schemes in May 2015. For each collective asset management scheme, we manage client assets for a group of clients while keeping client assets in a designated account pursuant to applicable laws and in accordance with the collective asset management contract. We invest client assets primarily in the futures and derivatives markets. As of May 31, 2015, we managed two collective asset management schemes with a total AUM of RMB51.2 million. Such schemes have a one-year term, and the minimum subscription threshold is RMB1.0 million. We generally charge annual management fees at 1.75% of the AUM. We also earn performance fees that amount to 0% to 30% of the investment return on our products.

As of December 31, 2014, we had three licensed investment managers. We plan to recruit more investment management professionals as our futures asset management business expands.

Commodity Trading and Risk Management

In 2013, we commenced our commodity trading and risk management business, which includes commodity trading and OTC derivatives trading. Manufacturing companies and trading companies, whose operations involve the purchase and sale of commodities, are exposed to fluctuations in commodity price. Our commodity trading and risk management business primarily assists clients in managing commodities price risk.

In commodity trading, we take principal positions in the physical trading and futures trading of commodities to facilitate the risk management needs of our clients, while we take advantage of hedging and arbitrage opportunities to manage our risks and earn gains. In addition, we also trade other derivatives, primarily options on commodity futures, with our counterparty clients over-the-counter to provide them with customized commodity risk management solutions.

Our commodity trading and risk management business is subject primarily to market and credit risks, including that (i) the actual price movement differs from our expectations and therefore our hedging or arbitrage activities fail to manage risks and capture gains, and (ii) our counterparty clients default under our contracts with them. See “Risk Factors – Risks Relating to Our Business – Our commodity trading and risk management business is subject to significant market risk and credit risk.” We have established internal control measures to mitigate these risks. For more details, see “– Internal Control Measures – Commodity Trading and Risk Management.”

Our commodity trading and risk management business is carried out by eight traders, each of whom is designated to conduct trades in relation to a particular product category, such as agricultural products, metals, energy and chemicals. Our traders have on average ten years of experience in the research and trading of commodities.

Commodity Trading

In commodity trading, we take principal positions in the physical trading and futures trading of commodities to facilitate the risk management needs of our seller or buyer clients. We assist our seller clients to manage the risk of decreasing price of the commodities they produce or own, and assist our buyer clients to manage the risk of increasing price of the commodities they need to purchase. Our clients,

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particularly buyer clients, are generally not sophisticated in effectively hedging their commodity risk directly through the futures and derivatives market, either due to their relatively small operations and low bargaining power or their being less experienced in derivatives instruments compared to larger enterprises.

We initially purchase and agree to take delivery of selected commodities from our seller clients on a future date based on market demand, trading volume and arbitrage opportunities, and we simultaneously execute a combination of hedging and arbitrage activities on the futures market to manage our commodity risk and determine the price at which we can sell these commodities to our buyer clients at a later date for a profit. This type of commodity trading is also known as basis trading in the PRC futures industry. Trading activities conducted by Luzheng Trading on the futures market are an integral part of basis trading and intended to manage commodity price risk while capturing gains. As a result, we consider that our physical and futures commodity trading falls within the permitted categories of businesses, including basis trading, warehouse receipt financing, cooperative hedging, commodity pricing and market-making as well as other risk management services as set out in Working Guidelines on the Establishment of Subsidiaries by Futures Firms to Carry out Main Pilot Businesses of Risk Management (revised) (《期貨公司設立子公司開展以風險管理服務為主的業務試點工作指引》). In addition, Luzheng Trading has completed the applicable filing requirements with the CFA for its futures trading according to the foregoing working guidelines. Based on the above, our PRC legal advisors are of the view that the commodity trading business of Luzheng Trading falls into the businesses as permitted under the foregoing working guidelines. As advised by our PRC legal advisors, we are in compliance with the foregoing working guidelines because: (i) our futures trading activities are solely conducted through Luzheng Trading; (ii) all of Luzheng Trading's revenue since its establishment has been generated from the business permitted under the foregoing working guidelines; and (iii) the applicable filing procedures have been completed by Luzheng Trading.

On the physical market, based on our seller and buyer clients' targeted business and risk management needs, we enter into a contract with each of them under which we purchase and agree to take delivery of, or sell, a specific quantity and type of commodities from or to them at a predetermined price during a future period, usually up to one month. We are typically required to prepay a portion, usually 20% to 30%, of the total commodity price, to the seller clients upon entering into contracts with them while the remainder will be paid once we subsequently sell the commodities to our buyer clients and receive the sales proceeds.

On the futures market, we conduct the following trading activities to manage our risks while capturing gains:

- *Hedging:* Once we enter into the purchase contracts with our seller clients to purchase physical commodities on a future date, we simultaneously take a back-to-back short position in the futures of the same commodity to protect us against a potential decrease in commodity prices. Once we enter into the sales contracts with our buyer clients to sell these physical commodities, we neutralize our corresponding short position in commodity futures. As of December 31, 2014, the hedging ratio (the ratio of the short positions in commodity futures to the long positions in physical commodities) in our commodity trading was 89.5%. For further discussion on our hedging ratio, see "Business – Internal Control Measures – Commodity Trading and Risk Management – Managing Exposure."

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- Arbitrage:* We take advantage of the price difference between (i) same commodity futures with different maturity dates, and (ii) two futures on related commodities, and trade these related products in the opposite direction to determine our selling prices at which we can make a profit. Arbitrage opportunities arise when we believe that the two products are mispriced relative to one another and that the mispricing will correct itself so that the gain on one side of the trade will more than compensate for the loss on the other side of the trade.

We adjust our trading strategies from time to time based on the type of commodities, market conditions and other factors, and we do not separately track the scale of our hedging or arbitrage activities.

The following table sets forth the key operating and financial information of our commodity trading during the Track Record Period:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions, except %)</i>		
Daily average of funds used			
Physical commodity trading	–	5.3	16.7
Commodity futures trading	–	8.9	2.7
Total	<u>–</u>	<u>14.2</u>	<u>19.4</u>
Gain or loss on physical commodity trading	–	2.8	(15.3)
Gain on commodity futures trading	–	0.3	25.9
Total gain	<u>–</u>	<u>3.1</u>	<u>10.6</u>
Rate of return ⁽¹⁾	–	21.8%	54.6%

⁽¹⁾ Rate of return is total gain divided by total daily average of funds used.

In 2013 and 2014, we primarily conducted commodity trading for agricultural products which we purchased from seller clients that are producers. Most of our other physical commodities are purchased from seller clients that are reputable commodity trading companies in China. As of December 31, 2014, we traded with over 20 seller clients and over 100 buyer clients, with whom we did not have any long-term contracts.

Typically, we store purchased commodities in the seller clients' warehouse and the buyer clients make delivery arrangements directly with the seller clients. To the extent that the seller clients do not offer storage services, we store the purchased commodities in warehouses operated by third-party vendors that are also responsible for insuring the commodities against potential damage. When a buyer client requires that we make delivery arrangements, we make adequate assessment of shipping risks, fully evaluate the qualifications of the shipping companies and buy shipping insurance.

OTC Derivatives Trading

We also trade derivatives, primarily options on commodity futures, with our counterparty clients over-the-counter to provide customized commodity risk management solutions to them. We commenced our OTC options trading business in June 2014 and since then we have offered four options on commodity futures involving RBD palm olein, soybean meal and cotton No. 1 in 2014.

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We study our clients' business and risk management needs and provide customized solutions, which enable our clients to minimize their commodity risk. We tailor the specification of options, including exercise dates and strike prices, to facilitate the risk management needs of our clients. For all option contracts we entered into during 2014, we acted as a buyer on the option contract, under which we paid the option premium and received from the seller the performance bond with a value greater than the option premium. We also plan to act as a seller on an option contract, where we will receive the option premium but are exempted from posting a performance bond to the buyer. We manage the associated price risk by conducting hedging transactions on the futures market in which we simultaneously trade the same commodity futures in the opposite direction. As exchange-traded futures options are expected to become available in the PRC in the near future, we intend to use a more diverse range of derivatives instruments to conduct more effective hedging and arbitrage activities to manage our risks in OTC derivatives trading while earning additional gains.

We engage with clients that are creditworthy and experienced in managing the risks of financial derivative instruments. We conduct on-site visits to prospective clients to better understand their risk management needs and customize our products accordingly. We enter into agreements with clients based on the master agreement promulgated by the CFA.

We are currently in the process of launching more OTC derivatives products in our commodity trading and risk management business, in order to provide more customized risk management solutions for our clients.

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TREASURY MANAGEMENT

Our principal businesses have generated net operating cash inflow during the Track Record Period. To better utilize such excess cash generated from our operating activities, we have engaged in treasury management by investing in financial assets, such as collective asset management schemes and trust schemes issued by PRC financial institutions, and stocks. The table below sets forth our investment in financial assets during the Track Record Period:

	<u>As of December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Available for sale			
– Trust schemes	0	114.7	161.8
– Debt instruments	0	100.3	100.3
– Collective asset management schemes	37.7	74.9	76.1
– Investment in exchange memberships	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>
	<u>39.1</u>	<u>291.3</u>	<u>339.5</u>
Fair value through profit and loss			
– Collective asset management schemes	20.3	–	–
– Stocks	<u>–</u>	<u>–</u>	<u>1.6</u>
	<u>20.3</u>	<u>–</u>	<u>1.6</u>
Total investment in financial assets	<u><u>59.4</u></u>	<u><u>291.3</u></u>	<u><u>341.1</u></u>

Trust schemes

Trust schemes we invested in during the Track Record Period are issued by Shandong International Trust Corporation (山東省國際信託有限公司), an Independent Third Party of our Company, with the underlying investments being mainly in loans and receivables and unlisted equity instruments. The risk level of these trust schemes is considered medium because such schemes have financial returns similar to fixed-income securities but are subject to risks relating to the credibility of the issuing financial institutions. Such trust schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structured design within trust schemes where principal and return of the senior tranche is guaranteed by junior tranche investors. We select trust schemes issued by PRC trust companies with a strong financial condition (generally over RMB1.0 billion of registered capital and an average net profit RMB100.0 million for each of the past three years), a sound credit history (without any product default for the past three years) and a low financial leverage (generally with a debt-to-equity ratio less than 30%). We generally prefer trust companies that are controlled by a state-owned enterprise in China.

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Debt instruments

Debt instruments we invested in during the Track Record Period represent unlisted debt instruments issued by a non-related party with a maturity of 12 months. Such non-related party is principally engaged in investment in sectors such as energy, finance, commerce and agriculture. The risk level of these debt instruments is considered medium because such instruments are fixed-income securities but are subject to risks relating to the credibility of the issuer. Following the repayment of the outstanding debt instrument of RMB100.3 million on June 20, 2014, we reinvested in a new debt instrument of the same amount issued by the same non-related party on June 27, 2014, and the new debt instrument will mature on June 26, 2015. The new debt instrument has the same interest rate, maturity term and collateral as the original debt instrument, but is not a roll-over of the original debt instrument. The counterparty did not have difficulty in honoring the repayment obligations.

Collective asset management schemes

Collective asset management schemes we invested in during the Track Record Period are issued and managed by Qilu Securities, Wanjia Funds and other non-related financial institutions, with the underlying investments being mainly in stocks and bonds listed on stock exchanges, bonds quoted on the interbank market and listed financial and commodity futures in the PRC. The risk level of these collective asset management schemes is considered high because such schemes are equity in nature and are subject to fluctuations in market prices of underlying investments. For asset management schemes issued by PRC securities firms, we select companies with a stable asset management track record and a sizeable AUM (with a market ranking of 50 or above), a strong risk management capability (maximum historical decrease in net asset value less than 20%) and a sound capital adequacy (with a net capital of over RMB100.0 million) as well as a high regulatory rating (category A or above). For asset management schemes issued by PRC fund management companies, we select companies with a stable track record and sizeable AUM (with a market ranking of 50 or above), a strong risk management capability (maximum historical decrease in net asset value less than 20%) and a sound financial condition (generally over RMB100.0 million of registered capital and an average net profit RMB30.0 million for each of the past three years). We intend to increase our investment in asset management schemes in which Qilu Securities and/or its associates acted as the manager. For further discussion on such investment, see “Connected Transactions – Non-Exempt Continuing Connected Transactions – Continuing Connected Transactions Relating to Qilu Securities and/or its Associates.”

Stocks

In 2014, based on our deep insights into the PRC financial sector, we used a small portion of our available cash to purchase a selected portfolio of stocks, consisting of PRC securities firms and other financial institutions, as we believed the stock market surge in the second half of 2014 could significantly improve the operating results of PRC securities firms and their stock prices.

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Investment return

The following table sets forth the average daily balance of, and average investment return on, our treasury management activities for the years indicated:

	Year ended December 31,		
	2012	2013	2014
<i>(RMB in millions, except risk category)</i>			
Risk category of underlying investments			
– Collective asset management schemes	high	high	high
– Trust schemes and debt instruments	medium	medium	medium
– Stocks	N/A	N/A	high
Average daily balance			
– Collective asset management schemes	78.9	68.3	117.2
– Trust schemes and debt instruments	42.0	319.4	323.7
– Stocks	–	–	7.3
Total	120.9	387.7	448.2
Gains from treasury management⁽¹⁾			
– Collective asset management schemes	(1.1)	(3.0)	11.4
– Trust schemes and debt instruments	2.9	23.9	25.5
– Stocks	–	–	18.0
Total	1.8	20.9	54.9
Average investment return⁽²⁾			
– Collective asset management schemes	N/A	N/A	9.7%
– Trust schemes and debt instruments	6.9%	7.5%	7.9%
– Stocks	N/A	N/A	246.6%

⁽¹⁾ Gains from treasury management include (i) realized and unrealized investment gains or losses recognized under “net investment gains,” (ii) unrealized investment gains or losses recognized under “available-for-sale financial assets revaluation reserve” and (iii) impairment losses.

⁽²⁾ Average investment return equals our gains from treasury management divided by total average balance.

Investment strategies

Our investment strategy is to actively capture opportunities to increase return on our own cash balances while ensuring sufficiency of working capital and protection of principal invested. We generally do not invest directly in individual stocks unless we have an in-depth understanding of the relevant stocks and believe there are opportunities for value investing. We have an in-depth understanding of a stock when we have acquired knowledge of its shareholding structure, business, financial performance, management as well as opportunities and risks through the study of publicly available information. We invest primarily in wealth management products issued by PRC financial institutions, such as collective asset management schemes and trust schemes.

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Other aspects of our investment strategy are summarized below:

Selection criteria of trust companies/asset management companies	<ul style="list-style-type: none">• Shareholders background (state-owned enterprise is preferred)• Financial strength• Reputation in the industry• Compliance• Proven track record• Scale of asset under management
Selection criteria of individual products	<ul style="list-style-type: none">• Sufficiency of collateral and guarantee for trust schemes and debt instruments; experienced asset manager with good reputation for collective asset management schemes
Asset allocation strategy	<ul style="list-style-type: none">• Excess cash will be invested only if relevant risks are controllable, our liquidity needs are satisfied and regulatory requirements are complied with• Primarily invested in trust schemes and asset management schemes with medium to low risk, expected to account for not less than 80.0% of total amount available for investment• Not more than 20.0% will be invested in stocks, primarily those of financial institutions (such as securities companies and insurance companies) after careful consideration of market conditions and fundamentals of the companies involved• Aimed at establishing a well diversified portfolio
Buy and sell strategy	<ul style="list-style-type: none">• Trust schemes, debt instruments and asset management schemes will be held to maturity• Other asset management schemes without open-up period or maturity date and stocks will be sold at our discretion, taking into account market conditions and other relevant factors (such as prospect of the issuer's industry and business, valuation as well as the availability of other investment opportunities)
Expected holding period	<ul style="list-style-type: none">• Usually longer than one year for collective asset management schemes; usually not exceeding one year for trust schemes and debt instruments; for stocks, the holding period of which is determined at our discretion.
Expected return rate	<ul style="list-style-type: none">• Approximately 8.0% per year for trust schemes; expected return rate for stocks and collective asset managements will be adjusted continuously taking into account factors such as market conditions and valuation
Background and profile of borrowers	<ul style="list-style-type: none">• We carefully review the feasibility study prepared by trust companies to understand the business and financial strength of borrowers• Borrowers should be regional state-owned or leading enterprises, whose business should be consistent with industry policies promulgated by government.• Collateral and guarantor are required

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|--------------------|---|
| Risk tolerance | • See “– Relevant risk management and internal control measures” |
| Ongoing assessment | • Investment in trust schemes, debt instruments and asset management schemes will be reviewed on a monthly basis. Detailed information will be obtained from trust companies or asset management companies on a quarterly basis |
| | • Investment in individual stocks will be monitored on a daily basis |

Derivative trading and hedging strategies

According to the Futures Trading Management Regulations in China, PRC futures companies are prohibited from participating in proprietary trading of futures. For that reason, we do not engage in any hedging arrangement which involves the use of stock index futures or options in our treasury management activities. However, this restriction on hedging activities does not extend to subsidiaries of PRC futures companies established to conduct commodities trading and risk management business. See “Regulatory Environment – Regulation on Operations – Risk Management Business” and “– Our Business – Commodity Trading and Risk Management” for a description of the arbitrage and hedging activities in our commodity trading and risk management business.

Risk exposures

Our treasury management activities are exposed to the following risks:

Credit risks

Credit risk refers to the risk of counterparty’s failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. Credit risks arising from our treasury management activities are primarily related to our investment in trust schemes that are debt in nature. The maximum credit risk exposure is the carrying amount of such investment.

Price risks

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Price risks arising from our treasury management activities are primarily related to our investment in (i) trust schemes that are equity in nature, (ii) collective asset management schemes, and (iii) stocks.

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The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, trust schemes and collective asset management schemes in nature of equity by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB'000)</i>		
Profit before tax			
– Increase by 5%	1,016	–	80
– Decrease by 5%	(1,016)	–	(80)
Other comprehensive income before tax			
– Increase by 5%	1,883	5,245	6,304
– Decrease by 5%	(1,883)	(5,245)	(6,304)

Interest rate risks

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risks arising from our treasury management activities are primarily related to our investment in debt instruments and certain trust schemes that are debt in nature.

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for our investment in debt instruments and certain trust schemes that are debt in nature. A 50 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB'000)</i>		
Net interest income			
– Increase by 50 bps	–	353	405
– Decrease by 50 bps	–	(353)	(405)

Relevant risk management and internal control measures

For collective asset management schemes and trust schemes, we consider credibility of the issuers the most important factor in determining whether to invest in a particular scheme or not. Accordingly, during the Track Record Period, we have primarily invested in schemes issued by either Qilu Securities, our Controlling Shareholder, and its associate, Wanjia Asset Management Co., Ltd., or trust companies with strong financial condition and sound operating history, such as Shandong International Trust Corporation (山東省國際信託有限公司) which is under the supervision of the Shandong SASAC. In addition, to minimize credit risk, we only select trust schemes that are backed with asset collateral and guarantors, typically with a term not exceeding one year.

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For stocks, we consider market risk resulting from fluctuations in market prices of the stocks the most important risk to monitor. To minimize market risk, we implement a stop-loss policy for our stock investments, usually with a threshold of 10% of our initial purchase price. Depending on market conditions such threshold can be increased to 30% of the initial purchase price, subject to approval from our investment decision-making committee, to avoid unnecessary loss arising from premature exercise of stop-loss orders when the markets are extremely volatile.

Our PRC legal advisors, Jia Yuan Law Offices, have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC laws and regulations in our treasury management activities.

Our treasury management activities are conducted by three members in our finance department, led by the general manager of such department who has over 20 years of working experience in the securities and financial industries in China. These three individuals have an average working experience of eight years in the securities and financial industries in China, and are all licensed to engage in futures, securities, funds and accounting businesses. Our treasury management is also supported by our research team and jointly overseen by the risk management team of our finance department and our Risk Management Department. The risk management team of our finance department has one member with over five years of working experience in the securities and financial industries in China, and all are licensed to engage in futures, securities, funds and accounting businesses. Our Risk Management Department has one member with over 15 years of working experience in the risk management functions and securities industry in China, and is licensed to engage in futures, securities and fund businesses.

RIZHAO PHYSICAL COMMODITY TRADING BOARD

Establishment

Rizhao Physical Commodity Trading Board was incorporated on May 16, 2014 in the PRC with a registered capital of RMB100 million. Upon completion of the equity restructuring in May 2015, we have a shareholding of 29.5% in Rizhao Physical Commodity Trading Board, with the remaining 70.5% held by 5 other shareholders, all of which are Independent Third Parties of our Company. See “History, Reorganization and Corporate Structure – Major Acquisitions, Disposals and Mergers” for details. We appointed two out of the seven members of the board of directors of Rizhao Physical Commodity Trading Board, namely, Mr. Feng Yipeng, who is a business director of our Company and in charge of covering industrial clients in the steel and non-ferrous metals sectors, and Ms. Xu Dongmei, a manager of the external relations and cooperation department of our Company. We do not participate in the daily operations of Rizhao Physical Commodity Trading Board. Rizhao Physical Commodity Trading Board was established with an aim to capitalize on the geographic advantages of the Rizhao Port (located in the demonstration region designated in the China and South Korea Free Trade Agreement and the Bohai Economic Rim) and provide a commodity trading platform with computerized and structured services for our existing and prospective corporate clients. As advised by our PRC legal advisors, Rizhao Board is not a formal futures exchange established by the State Council and there is no regulatory licensing requirement or laws or regulations governing its operations under the prevailing regulatory regime in the PRC.

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Current business

Rizhao Physical Commodity Trading Board is principally engaged in the provision of electronic trading and ancillary services for bulk commodities, such as arrangement of inventory financing, facilitation of title transfer, settlement and logistics services. Target customers of Rizhao Physical Commodity Trading Board are enterprises engaged in the production and consumption of bulk commodities. Those enterprises operating in compliance with relevant rules and regulations are eligible to trade on Rizhao Physical Commodity Trading Board.

Currently and at an initial stage, iron ore is the only type of physical commodity traded on the Rizhao Physical Commodity Trading Board. To encourage enterprises' use of services provided by Rizhao Physical Commodity Trading Board, membership fee and trading fee are currently waived and service fees for arranging inventory financing are currently the main source of income of Rizhao Physical Commodity Trading Board. With the gradual expansion in the number of members and customers, membership fee and trading fee are expected to be another source of income for Rizhao Physical Commodity Trading Board. Service fees will also be collected from members for the introduction of new types of physical commodity to be traded on Rizhao Physical Commodity Trading Board.

Obligations and risk exposures

As Rizhao Physical Commodity Trading Board merely serves as a third party trading platform and is neither directly involved in the process of title transfer, fund custody and financing nor provides any guarantee for parties trading on such platform, any default by customers in the execution of commodity trading transactions would not result in any direct operational risk or economic loss to Rizhao Physical Commodity Trading Board. However, reputation of Rizhao Physical Commodity Trading Board and its shareholders (including us) might be adversely affected.

Development plan

The Rizhao Physical Commodity Trading Board intends to (i) expand trading services to cover more categories of physical commodities such as agricultural and energy products, and continue to optimize its trading, storage and transport services for physical commodities; (ii) provide trading services for OTC derivative products; and (iii) establish itself as a regional center for price quotation of physical commodities and OTC derivative products.

Profitability

The business of Rizhao Physical Commodity Trading Board is expected to break even in 2016 and to become profitable in 2017. Given that Rizhao Physical Commodity Trading Board is our associated company, its profit contribution will be in the form of share of profit or loss of Rizhao Physical Commodity Trading Board under the equity method of accounting. We do not expect significant profit contribution from Rizhao Physical Commodity Trading Board during its early stage of development, due to the long term and strategic nature of such investment.

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Strategic importance to us

The investment in and development of the Rizhao Physical Commodity Trading Board is in alignment with and an integral part of our business strategy to focus on corporate clients as well as to diversify our operations and optimize our revenue mix. In 2012, 2013 and 2014, the daily average balance of our corporate clients was RMB619.6 million, RMB923.0 million and RMB1,033.2 million, respectively, accounting for 25.0%, 31.2% and 31.0%, respectively, of the daily average balance of all of our clients. Our participation in the development of the Rizhao Physical Commodity Trading Board enables us to better understand the supply and demand and the pricing mechanism of physical commodities. This will in turn enhance our research capabilities and ability to serve our existing and potential clients. Luzheng Trading intends to make use of Rizhao Physical Commodity Trading Board as a platform to trade physical commodities or OTC derivative products as a principal or act as an agent to provide customized derivative products and services to our existing and potential clients. Furthermore, we can also gain access to corporate clients trading on the platform of the Rizhao Physical Commodity Trading Board. For the financial results from this business, see “Financial Information – Results of Operations – Share of losses in an associate accounted for using the equity method.”

RESEARCH

We established our research centers in Jinan, Shanghai and Beijing. Our research areas cover the major sectors in the futures market, such as finance, steel, non-ferrous metals, grease and oil, energy and chemicals, and cotton.

Our research team provides research reports and regular updates to our brokerage customers, assisting them in identifying and evaluating investment and hedging opportunities. In addition, our research team provides valuable support to our other business lines, such as our futures asset management and commodity trading and risk management businesses.

As of December 31, 2014, our research team consisted of 31 research analysts based in Jinan, Beijing and Shanghai, of whom three held doctoral degrees, 19 held master’s degrees and the remaining held bachelor’s degrees. One of our research analysts holds the Financial Risk Manager certification, awarded by the Global Association of Risk Professionals, a non-for-profit independent organization. We also encourage our research analysts to attend professional training programs to enhance their research expertise.

INFORMATION TECHNOLOGY

Our IT system is a vital component of our operations, which include transaction handling, customer service and risk management functions. In order to support our growing business operations and meet the developing needs of corporate governance and risk management, we have established a specialized IT department comprising 47 technicians who are responsible for the operation and maintenance of our IT systems, formulating and implementing IT policies, establishing IT standards, managing and supervising the IT divisions of our various branches and providing technological support to them. In February 2015, we established Luzheng Information, a subsidiary specializing in IT development which will provide IT outsourcing and software development services to futures firms that operate on a smaller scale.

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We utilize systems and equipment developed by leading IT providers and place strong emphasis on maintaining and upgrading our IT equipment on a timely basis. We devote substantial resources each year to optimizing and upgrading our IT systems. In 2012, 2013 and 2014, we incurred IT-related expenditures of RMB13.7 million, RMB12.8 million and RMB12.9 million, respectively, for the purchase of IT systems and software. We expect our IT-related expenses to be approximately RMB18.8 million in 2015, primarily for upgrading our IT systems and purchasing IT equipment.

We have the following principal IT systems and platforms for our business operations, customer services and risk management purposes:

- *Brokerage platform:* we use customized trading systems licensed from reputable third-party IT vendors. These trading systems support, among others, transaction handling, customer services and risk management of our business. We offered the 10 Gigabyte trading system in 2014, significantly reducing the system delay in executing customer orders, particularly for high-frequency trading.
- *CRM system:* Our CRM system is capable of tracking customer's trading behaviors and categorizing customer groups accordingly, enabling us to offer customized services to clients, conduct targeted marketing, provide standardized products and services based on client groups and manage clients' risks effectively.

We believe IT infrastructure and information systems are essential for the effective management and successful development of our business and strive to improve our IT infrastructure. As part of our business strategy, we plan to further develop leading technologies through our IT subsidiary to adapt to the developing needs of our clients. We believe our well-developed IT system will improve our operational efficiency, transaction management, and quality of our customer service and internal management.

We monitor our various businesses, such as futures brokerage, futures asset management and commodity trading and risk management activities, on a real-time basis, to ensure sound business operations and manage both ours and our clients' risks. Our advanced IT infrastructure is vital for us to properly manage all categories of risks based on an enterprise-wide approach. We adopt technologies to implement our risk management policies across all business lines and management procedures while enhancing risk management efficiency. For example, we monitor closely our clients' open positions and margin levels to control the risks for our clients. In addition, our trading platforms enable us to monitor closely the abnormal capital moves in our clients' accounts and any trading activities which may raise anti-money-laundering concerns, thus detecting and halting fraudulent or illegal trading activities which may jeopardize our business and reputation.

To manage the risks inherent in our online trading system and the Internet finance in general, we have utilized various IT safety controls, including firewalls, data encryption and intrusion detection, client identity verifications, dynamic and mobile number-linked passcodes, SSL certificates as well as IP and MAC address tracking, to safeguard our clients' information and ensure the smooth operation of our IT system. In addition, we have established an operating and maintenance monitoring mechanism to supervise the operations of our IT team, thus preventing human error from jeopardizing our IT systems. Under our operating and maintenance monitoring mechanism, any operating and maintenance activities must be conducted through the authorized account of an operator, which ensures the accountability of the operating

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and maintenance activities. With the responsibility allocated to each individual, the operating and maintenance monitoring mechanism effectively prevented the occurrence of human error in operating and maintaining our system. To maintain and safeguard our servers, we closely monitor and record important parameters such as CPU and memory usage, hard-drive disk space and network traffic, in order to detect and forestall hidden problems of our system and to ensure stable operations of our servers.

In addition, we have adopted measures to back up data for our key systems on a real-time basis. We maintain three data recovery centers in Shanghai and Jinan. We have formulated detailed contingency plans in the event of a system failure. According to the contingency plan, we will send notices both internally across different departments and externally to the Shandong branch of CSRC, China Futures Association, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange and China Financial Futures Exchange. We will also send notices to our investors immediately through our website, and direct our clients to trade by means of telephone until the IT system is restored. During the Track Record Period, we did not experience any IT-related incident or failure.

MAJOR CLIENTS AND SUPPLIERS

We serve a diverse base of individual and institutional clients across a spectrum of sectors. Our major clients are mainly institutional clients and high-net-worth individuals. All of our clients are located in the PRC, primarily Shandong. See “Risk Factors – Risks relating to Our Business – Our business is concentrated in Shandong and our business, financial condition and results of operations may be materially and adversely affected by a significant deterioration in our business in Shandong.”

In 2012, 2013 and 2014, revenue attributable to our five largest clients accounted for less than 30.0% of our operating income.

To the knowledge of our Directors, none of our Directors, supervisors, their respective associates or any Shareholders holding more than 5.0% of our issued share capital has any interest in any of our five largest clients as of the Latest Practicable Date.

We have no major suppliers due to the nature of our business.

MARKET AND COMPETITION

As of December 31, 2014, there were 151 registered futures firms in China. The PRC futures industry is highly regulated and PRC futures firms are subject to extensive regulatory requirements on various perspectives, including business licenses, scope of products and services, business development and risk control. Competition in the PRC futures industry has been and is likely to remain intense. According to the CFA, the total trading volume was RMB292.0 trillion in 2014 (adjusted on a unilateral comparable basis), representing a CAGR of 52.0% from 2005 to 2014.

Shandong has considerable potential for futures industry development. Shandong’s GDP has ranked in the top three among all provinces in China for the past three decades. In steel, energy, chemicals, nonferrous metals, agricultural products and other commodity industries, Shandong has exhibited

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considerable competitive advantage in terms of resources and production. As the largest futures firm in Shandong, we have a stable and strong local client base with a diversified business and strategic presence in China.

According to the Shandong Futures Association, in terms of futures trading volume in Shandong in 2014, the top ten futures firms accounted for an aggregate of approximately 73.2% of the total market share. According to the CFA, we ranked first among all futures firms headquartered in Shandong in terms of net assets, Net Capital and client balances as of December 31, 2014. According to the Shandong Futures Association, we ranked first among PRC futures firms in terms of futures brokerage trading volume in Shandong in 2014.

According to the CFA, the total net commission and fee income from futures brokerage business (including refunds of trading fees) of 151 futures firms in China in 2014 was approximately RMB10.2 billion and our total net commission and fee income from futures brokerage business (including refunds of trading fees) was RMB163.3 million in 2014, representing a market share of approximately 1.6%. According to the CFA, in 2014, we ranked among the top 20 in China's futures industry by various indicators such as net profit, fee income, client balances, Net Capital, net assets and registered capital. In particular, we ranked 11th, 15th and 17th among the 151 futures firms in China in terms of net assets, Net Capital and client balances as of December 31, 2014, respectively, and ranked 17th and 19th in terms of net commission and fee income (including refunds of trading fees) and net profit in 2014, respectively.

For futures brokerage business, we compete primarily with other PRC futures firms, such as Galaxy Futures Co., Ltd. and Zhongzhou Futures Brokerage Co., Ltd., in terms of pricing and the range of products and services offered. For futures asset management business, we compete primarily with other PRC futures firms and private equity funds that offer similar products in terms of the range of products and services offered, investment returns and quality of customer service. For commodity trading and risk management, we compete primarily with other futures firms in terms of brand recognition, marketing capacity, service quality, execution capacity, financial strength and pricing.

Some of our competitors may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience and more advanced information technology systems, wider geographic coverage and the ability to offer more financial products and services than us. In addition, with the development of the PRC futures market, more competitors are seeking to enter or expand in the market. We believe that the financial services industry in China is becoming increasingly competitive, which will accelerate the innovation and differentiated development of PRC futures firms. See "Risk Factors – Risks Relating to the PRC Futures Industry – We face intense competition in our futures brokerage business."

INTELLECTUAL PROPERTY RIGHTS

We were established in Shandong in 1995 and currently carry on business under the name 魯証期貨股份有限公司 in the PRC. We also hold a registration for the trademark LUZHENG FUTURES (魯証期貨) in Hong Kong. See "Appendix VI – Statutory and General Information – 2. Further Information about our business – B. Our Intellectual Property Rights – Trademarks" of this prospectus for additional information. We have not been subject to any material infringement of our intellectual properties rights or allegations of infringements by third parties during the Track Record Period.

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EMPLOYEES

We believe that our long-term growth depends on the knowledge, experience and development of our employees. Our human resources department is in charge of the employee recruitment, training, compensation and performance appraisal. The following table sets forth a breakdown of our employees by business function as of December 31, 2014 and the Latest Practicable Date:

	<u>As of December 31, 2014</u>	<u>As of the Latest Practicable Date</u>
Futures brokerage	285	276
Asset management	16	17
Commodity trading and risk management	31	28
Research	31	28
Legal and Compliance, Risk Management	49	52
IT	47	40
Finance	35	35
Administrative	38	38
Total	<u>532</u>	<u>514</u>

The following table sets forth a breakdown of our employees by geographic region as of December 31, 2014 and the Latest Practicable Date:

	<u>As of December 31, 2014</u>	<u>As of the Latest Practicable Date</u>
Shandong	329	334
Outside Shandong	203	180
Total	<u>532</u>	<u>514</u>

We hire our personnel through on-campus recruitment, recruiting websites and professional recruiting firms. In general, we determine employee compensation based on each employee's performance, qualifications, position and seniority. In addition, we provide our employees with supplementary compensation benefits, such as food and beverage allowance, relocation subsidies and telecommunication allowance. We value our employees as important assets and provide them with continuing education and on-the-job training, both externally and internally. We implement various systematic training programs for our employees, based on their responsibilities, relating to professional knowledge, technical skills, operations and management and other areas of knowledge and skill. For example, we sent our employees to participate in an advanced training program taught by a senior expert in the field of futures and options from the U.S., organized by the Shandong Futures Association. In 2014, we sent two of our key employees to the U.S. for short-term advanced training program organized by Dalian Commodity Exchange in order to familiarize them with the international rules and practice in futures trading. In addition, we organize internal training programs to provide continuous training to new employees, senior employees and management, and evaluate our employees' professional skills by holding regular examinations.

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In accordance with relevant local government requirements in the regions where we operate, we make contributions to employee pension funds and purchase medical insurance, unemployment insurance, maternity insurance and injury insurance for them. We also make contributions to the employee housing fund in accordance with applicable PRC regulations.

During the Track Record Period, we did not have any strikes, protests or other material labor conflicts that may materially impair our business and image. We have established a labor union and we believe that we have maintained a good relationship with our employees and value their contribution and welfare at all times.

INSURANCE

We maintain insurance coverage for certain of our assets, including motor vehicles. Consistent with customary industry practice in the PRC, we do not maintain any business interruption insurance.

We believe that we have maintained insurance coverage we consider necessary and sufficient for our operations and customary for the industry in which we operate. Moreover, our policies are subject to standard deductibles, exclusions and limitations. Therefore, insurance might not necessarily cover all losses incurred by us and we cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies.

All of our insurance policies are underwritten with reputable insurance providers and we review our insurance policies annually.

PROPERTIES

Our headquarters are located at 15-16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong, China. As of the Latest Practicable Date, in the PRC, we owned 11 properties with an aggregate gross floor area of approximately 4,540.6 square meters and we leased 27 properties with an aggregate leasable area of approximately 10,312.9 square meters.

As of December 31, 2014, our property interests represented approximately 0.6% of our total assets. Accordingly, this prospectus is exempt from the requirements under the Hong Kong Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Hong Kong Listing Rules, a prospectus is exempt from this requirement if the carrying amounts of a listing applicant's property activities and non-property activities are below 1.0% and 15.0%, respectively. A similar exemption applies under section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance and under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

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Owned Properties

As of the Latest Practicable Date, we owned 11 properties in China, with an aggregate gross floor area of approximately 4,540.6 square meters. We have obtained the complete and valid building ownership certificates for these 11 properties. As advised by our PRC legal advisors, we have legal ownership of such properties and we have the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of such properties.

Leased Properties

As of the Latest Practicable Date, we leased 27 properties in China, with an aggregate gross floor area of approximately 10,312.9 square meters.

For 24 leased properties with an aggregate gross floor area of 8,618.6 square meters, representing 83.6% of the aggregate gross floor area of our leased properties, our landlords have obtained the relevant building ownership certificates or have been authorized to lease the properties. Our PRC legal advisors are of the view that the our leases with the landlords of these 24 leased properties are legally valid and binding, and we have obtained the rights to use such properties.

For the remaining three leased properties with an aggregate gross floor area of 1,694.4 square meters, representing 16.4% of the aggregate gross floor area of our leased properties, our landlords have not obtained the relevant building ownership certificate. We have requested that these landlords provide proof of authority to lease or apply for the relevant certificates. We use these three properties primarily for offices and a futures branch. Among these three leased properties with defective title:

- The landlords of two properties with 556.4 square meters (representing 5.4% of the aggregate gross floor area of our leased properties) have obtained relevant construction work planning permits and, according to our PRC legal advisors, our lease agreements with these landlords are legal and valid and our rights in relation to the leased properties will be protected by law; and
- The landlord of the remaining one property with 1,138.0 square meters (representing 11.0% of the aggregate gross floor area of our leased properties) has not obtained relevant construction work planning permits but confirmed, in its official capacity as a government authority in Shandong, that it holds the ownership of this property and is entitled to lease this property to us.

As advised by our PRC legal advisors, as these three properties are leased by us, we are not subject to potential legal liabilities because of the defective titles that our landlords hold. Our Directors are of the view that the defective titles will not individually or collectively have a material and adverse effect on our business and this Global Offering because (i) the landlords of the three leased properties with defective titles have confirmed that they hold ownership of these properties or are entitled to lease these properties; (ii) the three leased properties with defective titles comply with mandatory requirements on safety and disaster prevention imposed by PRC law; (iii) there has not been any third-party or governmental authority challenging the defective titles or ordering us to stop using these properties, claiming indemnities from us or

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imposing fines on us, and (iv) we do not consider these defective leased properties crucial to our core business operations given their relatively small size and we believe we would be able to relocate in a timely manner at minimal expense and would not materially affect our business or financial position.

In addition, our Directors are also of the view that the rental costs for the three properties with defective title would not be materially different should the landlords obtain relevant building ownership certificates.

RISK MANAGEMENT

Overview

We value the importance of an effective risk management system, which helps us achieve the following business goals: (i) compliance with laws, regulations and internal policies; (ii) preventing operational risks and moral risks; (iii) ensuring the safety and integrity of our clients' assets and our own assets; (iv) ensuring the reliability, completeness and timeliness of our business record, financial record and other information; and (v) enhancing our operational efficiency and effectiveness for further business development.

Our risk management and internal control system was designed based on the following principles:

Comprehensiveness: Risk management covers all our departments and the entire process of our businesses. We continuously strengthen the risk awareness of our employees and enhance their abilities to identify and prevent risks.

Effectiveness: We develop a risk control system that reflects our risk conditions under the principle of *Comprehensiveness*, and ensure the effectiveness of the system in directing business and preventing and mitigating risks.

Independence: The departments responsible for risk management are separate from our other departments to ensure their independence in supervising our business.

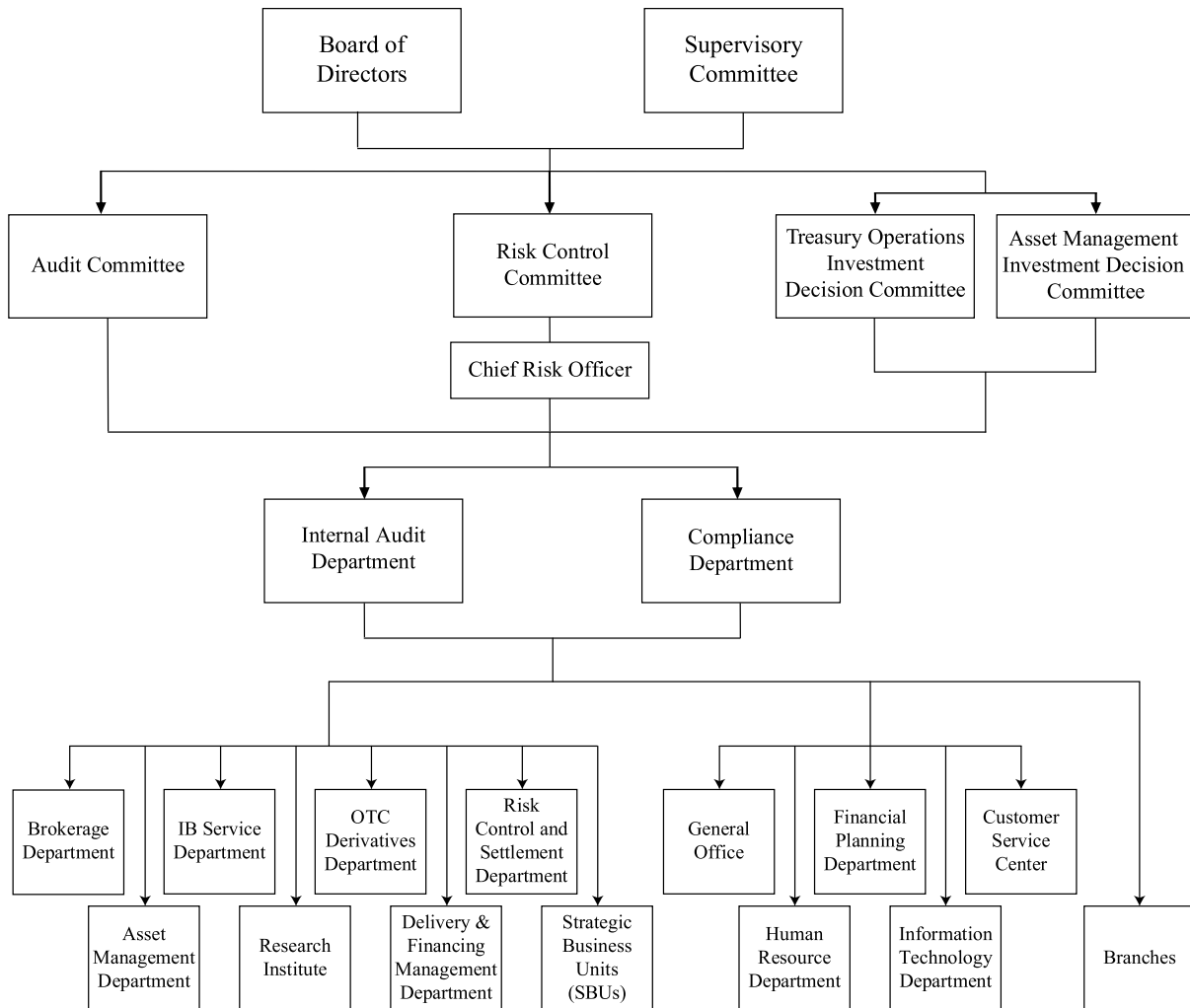
Cost-efficiency: Our risk management balances between cost and efficiency. We aim to achieve adequate risk management in a cost-efficient manner.

Risk Management System

We have established a four-level risk management structure, consisting of: (i) the Board and the Supervisory Committee; (ii) the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; (iii) the Compliance Department and the Internal Audit Department; and (iv) frontline risk management teams at our business departments and branches.

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The organizational structure of our risk management is illustrated below:



Board and Supervisory Committee

The Board is at the highest level in our risk management structure and is ultimately responsible for establishing an effective risk management environment. Its main responsibilities include: (i) developing the overall risk management policies and internal control systems; (ii) developing the overall company governance policies; (iii) determining substantial matters, including venture capital, sales or acquisition of assets, assets pledge and connected transactions within its authorized scope; and (iv) appointing or dismissing the General Manager, the Secretary of the Board and the Chief Risk Officer and determining their remunerations.

The risk management responsibilities of our Supervisory Committee include supervising the Board in carrying out its fiduciary duties, senior management and relevant managers in their risk management work, reducing financial and legal risks in our operations, and protecting the interests of our Shareholders and our Group.

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Risk Control Committee, Audit Committee, Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee

Our Risk Control Committee, Audit Committee, Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee are the second level of our risk management structure.

Our Risk Control Committee is responsible for: (i) analyzing and evaluating our risk profiles and our overall risk management; (ii) making suggestions and proposals for enhancing our risk management and internal control systems; and (iii) supervising our basic management system, decision-making procedures and risk control system.

Our Audit Committee is principally responsible for our overall audit related matters. In particular, it is responsible for: (i) reviewing our internal audit system and its operation; (ii) proposing the appointment or replacement of our external audit firm; (iii) liaising between internal and external audit firms; (iv) reviewing our internal control system; and (v) reviewing our financial information and relevant disclosure, including connected transactions.

Our Asset Management Investment Decision Committee is principally responsible for (i) reviewing the scale of our asset management products; (ii) reviewing major issues in product design, operations and liquidation; and (iii) studying and determining major issues raised by our Asset Management Department.

Our Treasury Operations Investment Decision Committee is principally responsible for (i) reviewing the scale of our treasury operations; (ii) reviewing prospective investment portfolio, stop-loss measures and other major issues; and (iii) studying and determining major issues raised by our Treasury Department.

Chief Risk Officer

The Chief Risk Officer is appointed by the Board. The Chief Risk Officer should obtain adequate qualifications approved by the CSRC before he or she is appointed by us. Ms. Ji Qihong is our Chief Risk Officer, and has approximately 17 years of experience in the financial industry. For details about Ms. Ji's background, see "Directors, Supervisors, Senior Management and Employees."

The Chief Risk Officer is responsible for inspecting and investigating possible regulatory violations and risk concerns in our operations, and ensuring effective implementation and compliance of our internal policies on the customer deposit safety, risk monitoring, corporate governance, internal control, brokerage business, settlement business, customer risks management, information safety, position held by close relatives of our employees and other policies critical to our continuing operation. The Chief Risk Officer reports potential illegal activities or significant risk concerns to the Shandong Bureau of the CSRC, the Board and the Supervisory Committee.

Compliance Department and Internal Audit Department

The third level of our risk management structure consists of our Compliance Department and Internal Audit Department.

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Compliance Department

Our Compliance Department is principally responsible for (i) establishing compliance-related policies and business procedures, and inspecting and monitoring the implementation of our policies and business procedures; (ii) identifying and managing the compliance risks encountered in our operations, and providing compliance advice to those non-compliance issues; (iii) providing compliance training and consultation; (iv) assisting the compliance checks conducted by relevant authorities; (v) providing advice to management from a compliance and risk-control perspective; and (vi) evaluating, supervising and preparing reports on the risk management of our business lines.

In addition, our Compliance Department is responsible for (i) monitoring unusual transactions; (ii) handling customer complaints received and transferred by relevant authorities and supervising our handling of customer complaints received by our customer service centers; (iii) ensuring legal compliance and handling our arbitrations and lawsuits; (iv) establishing anti-money laundry policies and procedures and monitoring their implementation; and (v) others.

As of December 31, 2014, our Compliance Department had six members with an average of seven years of relevant experience. Two of them hold master's or higher degrees and two of them hold legal practicing qualifications. Our Compliance Department is led by Mr. WANG Hairan, who is also a Supervisor of our Company.

Internal Audit Department

Our Internal Audit Department is responsible for establishing our internal audit and review policies and procedures and supervising their implementation. In addition, this department conducts internal inspection and review on the capital management, reasonableness and legitimacy of revenue and expenses and economic efficiency of each of our subsidiaries. This department conducts regular inspection on and supervises our operation procedures and performance, and evaluates the effectiveness of our internal control measures. Upon requests of our senior management or relevant authorities, this department also conducts special inspections.

As of December 31, 2014, the Internal Audit Department had three members. Two of them hold a master's degree and the other is a certified accountant. Our Internal Audit Department is led by Ms. JI Qihong, our Chief Risk Officer.

Risk Management Functions at Department and Branch Levels

Our frontline risk management functions include our various departments and branches. Their risk management responsibilities include: (i) formulating internal control and risk management measures for the operations and management at department or branch level; (ii) performing risk management functions at department or branch level, such as the identification of major risks and implementation and monitoring of control measures; and (iii) reporting to higher risk management authorities.

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Risk Management at Luzheng Trading

Luzheng Trading, our wholly-owned subsidiary engaged in the business of commodity trading and risk management, has established a four-level risk management structure, consisting of: (i) the board of directors; (ii) the Manager Council; (iii) the Risk Control Department, the Credit and Legal Department, the Business Management Department and the Finance Management Department; and (iv) frontline risk management teams.

Board. The board of directors is at the highest level in Luzheng Trading's risk management structure, and is responsible for: (i) developing the internal control systems and governance policies; (ii) reviewing and determining major investment plans; (iii) developing business strategies; and (iv) determining the overall investment scale and risk limits.

Manager Council. The Manager Council assumes the duty of the Investment Decision Committee and the Risk Management Committee of Luzheng Trading within the scope authorized by its Board. Its responsibilities include: (i) developing the internal control system and risk management systems; (ii) evaluating the overall risk environment and determining relevant risk control policies; (iii) reviewing the feasibility of business plans; and (iv) handling business risks.

Risk Control Department. The Risk Control Department monitors risks at Luzheng Trading. It is responsible for implementing the internal control system, evaluating the overall business risks, monitoring trade risks and handling risks according to relevant requirements.

Credit and Legal Department. The Credit and Legal Department manages the credit risk and legal risk of Luzheng Trading. It is responsible for evaluating the clients' credit status, issuing opinions on conducting business and ensuring legal compliance in the area of business management, business model and contracts.

Business Management Department. The Business Management Department manages the risks of goods ownership, inventory, and logistics, among others. It is responsible for managing the risks of logistics and inventory regarding Luzheng Trading's commodities and assessment business.

Finance Management Department. The Finance Management Department manages the financial risks of Luzheng Trading. It is responsible for advising on business scope and fund allocation based on asset liquidity.

Frontline risk management teams. The frontline risk management teams are responsible for the preliminary risk assessment of clients' credit status, business agreements and business models. The teams provide information relating to clients or market risks to the relevant departments at Luzheng Trading in charge of risk control.

As of December 31, 2014, Luzheng Trading had eight members with risk management responsibilities with an average of four years of relevant experience. One of them holds a master's degree, two are enrolled in part-time master's programs, and one holds legal practicing qualifications.

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Monitoring and Management of Major Risks

We monitor and manage the credit, market, liquidity, compliance and operational risks in our businesses.

Credit Risk

Credit risk refers to the risk resulting from the failure of a debtor or counterparty to timely perform its contractual obligations. Our credit risk mainly exists in commodity trading and risk management and our futures brokerage business.

For credit risks related to our commodity trading and risk management, we established a client credit evaluation system and assess the creditworthiness of our existing and prospective clients based on our on-site investigation and third-party investigations, and adjust the credit ratings of our clients on a continuous basis. We determine whether to engage a prospective client and specific forms of trading based on the clients' credit evaluation results in order to prevent default risk.

For credit risks related to our futures brokerage business, during account opening, we obtain basic information about the clients and establish risk profiles for our clients based on their wealth, professional knowledge on futures, trading experiences, risk appetite and risk tolerance, and provide services to our clients and implement risk management measures accordingly.

We require our clients to maintain higher margin deposits than those required by the futures exchanges. Clients are required to replenish their margin deposits within a specific period of time if such margin deposits fall short. We will close out the position if our clients fail to replenish their margin deposits in time.

The PRC futures exchanges impose the daily price up and down limit on the trading of futures, and the daily price up and down limit (generally ranging from 4% to 10%) varies by futures contract and is determined by the futures exchanges based on market conditions and other considerations. The price up and down limit on a futures contract is typically less than the margin ratio for such contract specified by the futures exchange. The price up and down limit regulation effectively limits the risk exposure of our clients and us.

Market Risk

Market risk refers to the possibility of loss or decreases in our income resulting from the changes in the market which are different from expectations, including the risk of price fluctuation in equity-based assets and interest rate risk.

To minimize market risk, we have adopted the following measures:

- Establishing a systematic investment mechanism, with our research team providing investment recommendations and our operations team providing market guidance to our research team;

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- Our operations teams are required to submit an application to risk management departments before every transaction, with details on possible market risks, consequences and maximum risk tolerance level; depending on the nature of the proposed transaction, review and approval by senior management may be needed, and for significant transactions, review and approval by the Board is required; and
- Evaluating our risk exposure by quantitative measures, and utilizing risk control measures such as hedging and stop-loss to mitigate the damages when the market conditions deviate from our expectations.

Liquidity Risk

Liquidity risk refers to the risk of whether the assets can be liquidated to repay debts in a foreseeable period without value depreciation. Specifically, it refers to the risk of concentrated position and low turnover rate in our asset management business, and the risk of concentrated position and inactive contracts in our commodity trading and risk management business.

We strengthened the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management. We established a risk evaluation and monitor system focusing on Net Capital. Our Financial Planning Department conducts comprehensive or special stress tests on the risk control indexes on a regular or *ad hoc* basis. Before we make any significant business decisions which could affect the risk control indexes, such as significant business expansion and large assets acquisition, we will conduct sensitivity analysis.

In particular, for our commodity trading and risk management business, we have specified in our relevant business procedures that, for physical commodity trading, we select those commodities that are more actively traded, preferably those in compliance with the settlement standards set out by the exchanges; for futures trading, we select the contracts with the largest or second-largest open interest within the same family of futures contracts, meaning futures contracts with the same underlying commodity.

Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, self-discipline penalties and loss of property or reputation because the business activities or employee conduct violate laws, regulations or rules.

In response to compliance risk, our Compliance Department participates in every step of our business, from establishing internal policies and procedures based on the regulatory requirements to reviewing business documents and contracts for compliance purposes. In addition, our Compliance Department provides compliance training and consultation. Our Internal Audit Department oversees our compliance risk through their audits and inspections. Our Compliance Department and Internal Audit Department assist our Chief Risk Officer in taking charge of the overall compliance work of our business.

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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 adopted the following measures:

- Implementing strict operation control mechanisms to reduce the risks of technical irregularities or human error and enhance the effectiveness of operational risk management;
- The Internal Audit Department regularly conducting internal auditing and evaluating the effectiveness of operational risk management; and
- Each month, setting aside 5% of our net commission and fee income of our futures brokerage business as risk reserve fund, taking into account potential operational risks.

INTERNAL CONTROL MEASURES

We have implemented a series of risk management and internal control measures to manage the specific risks relating to our business activities.

Futures Brokerage

The key risks we monitor for our brokerage business include credit risk, operational risk and compliance risk. We manage the risks related to the futures brokerage business through the following measures:

Account management

We have set up strict rules for verifying client identity, preserving information, evaluating client appropriateness for dealing futures, as well as for opening and re-examining client accounts.

Preventing misappropriation of client funds

We maintain designated bank accounts for client funds, which are segregated from our own funds. We have implemented a centralized management system for our client funds. On a daily basis, the Financial Planning Department cross-checks client fund information generated by our trading system against client fund balances collected from banks and futures exchanges. Both the Financial Planning Department and the Risk Control and Settlement Department review and approve the reconciliation of client fund information obtained from our trading system with that from banks and futures exchanges. After that, we submit the client fund information to the CFMMC, which matches the information on client funds collected from the banks and futures exchanges against that submitted by the futures companies. Clients of futures companies are assigned a unique log-in name and password and are able to access the system operated by the CFMMC to check their fund position. As such, the risk of client funds misappropriation is minimized.

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Client margin deposit management

The futures exchanges specify the margin requirement for each type of futures contract. We evaluate a client's financial condition, risk level and credit history, and require a margin ratio higher than the minimum margin ratio required by the futures exchange for a particular product. We adjust our margin requirement from time to time, taking into account market fluctuations and other market conditions.

We issue margin calls in two scenarios: (i) after market closes, as part of our daily "marking to market" practice, when the client's brokerage account balance falls below our margin requirement; and (ii) during trading hours, as part of our real-time monitoring mechanism and particularly for certain accounts explained below, when the client's brokerage account balance falls below the futures exchanges' margin requirement.

At the end of each trading day, the client's account is adjusted to reflect the client's gain or loss, a practice referred to as "marking to market" the account. If the client's brokerage account balance falls below the margin balance as calculated with our margin requirement, we issue a margin call and request that the client either bring the account balance up to the margin requirement before the market opens on the next trading day or close out the position voluntarily. Our margin calls are included in the daily settlement bills issued by the CFMMC to the relevant client, and we also issue margin calls through phone calls and text messages. We maintain a proper record of such phone calls and text messages on audiotape and our CRM system, respectively. If the client does not fulfil the margin call or close out the position voluntarily in a timely manner, we exercise our right to close out the position in accordance with the futures brokerage contract.

Our Risk Control and Settlement Department monitors each client's account position on a real-time basis through the dedicated IT system of our futures brokerage system, particularly focusing on clients whose account balances, after "marking to market" at the end of the previous trading day, have fallen below the margin balance calculated according to our margin requirement. If the client's brokerage account balance falls below the margin balance as calculated with the futures exchanges' margin requirement, which is lower than our requirement, we promptly issue a margin call through our dedicated IT system and request that the client either bring the account balance up to the margin requirement or close out the position voluntarily. If the client does not fulfil the margin call or close out the position voluntarily in a timely manner, we exercise our right to close out the position in accordance with the futures brokerage contract.

Considering the risk that we may not be able to close a client's position immediately when the market price of the relevant futures declines sharply for an extended period, we generally require clients to deposit margin amounts that are greater than the minimum margin rate required by the futures exchanges, with an aim to create buffer.

Segregation of businesses

We require our futures brokerage business to be segregated from other businesses with conflicts of interest, such as futures asset management. Key functions, such as account-opening, withdrawal and transfer of funds, accepting delegation from clients and clearing and settlement should be properly segregated. We separately handle and manage our clients' funds and our own funds. Our IT system for our futures brokerage business and other businesses with conflicts of interest are mutually independent or physically separated.

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Trading

We have established various policies to regulate futures trading. For example, we prohibit employees from accepting unauthorized futures asset management requests from customers, providing profit guarantees to customers or participating in futures trading. The IT system used in our futures brokerage business is physically independent from those used in our other business lines that may have potential conflicts of interest with our futures brokerage business. We also conduct real-time monitoring of the trading activities and respond to unusual transactions in accordance with exchange rules.

Mechanisms for follow-up calls and handling client complaints

We have established a coordinated client service platform to make follow-up calls for some clients. Meanwhile, we prominently display information about the hotlines, email addresses and faxes that handle client complaints at our website and our branches, to ensure the concerns of our clients are handled properly and in a timely manner. We maintain a proper record of such phone calls on audiotape.

Futures Asset Management

The key risks we monitor for our asset management business include market, interest rate, liquidity, operational and compliance risks. We manage the risks related to our futures asset management business through the following measures:

Investment decision-making procedures

We have established a three-level management system for our futures asset management business, which comprises the Board, the Asset Management Investment Decision Committee and our Asset Management Department.

The Asset Management Investment Decision Committee, within the authorized scope from the Board, reviews the products, business scale, significant operational matters, assets allocation proposal, and significant risks associated with our futures asset management business. The Asset Management Department is responsible for the daily operation of our futures asset management business, and its major functions include product design, marketing, investment management and real-time monitoring of the risks associated with our futures asset management business.

Management of trading procedures

We assign different personnel to issue investment orders and execute trades. Investment managers issue trading orders in accordance with the authorization and the scope of investment specified in asset management agreements. Traders strictly follow such orders in executing trades, and the risk control personnel oversee the risks. Both the issuance and the execution of trading orders are recorded.

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Segregation of business

We require the asset management business to be segregated from our brokerage and other futures businesses in order to prevent insider trading and avoid conflicts of interest. A senior executive is prohibited from managing both the asset management and brokerage businesses simultaneously. These two business departments may not be led by the same individual.

Due diligence on client identity

We conduct due diligence on client identity to understand the client's financial condition, investment experience, investment preferences, risk awareness and risk tolerance level. We also require our clients to provide assurance on the legality of the source and usage of the assets under management on a timely basis so that we can recommend products or services suitable for the client's risk tolerance level.

Risk disclosure

We require our product design personnel to fully disclose the risks related to our products in our product prospectuses. If a product prospectus contains investment recommendations, confirmative forecasts on futures market trends may not be included. We also require our market development personnel to explain the asset characteristics, investment scope, investment restrictions, risk-return characteristics and other aspects of the asset management contracts, and proactively disclose risks to our clients.

Real-time risk monitoring

The risk control personnel at our Asset Management Department are engaged in real-time monitoring of our asset management business, using the IT system for our asset management business.

We centralize the management of our clients' assets and prohibit any department or branch from conducting asset management business without our consent.

Commodity Trading and Risk Management

The key risks we monitor for our commodity trading and risk management business include market risk, credit risk, liquidity risk and operational risk. We manage the risks related to our commodity trading and risk management business through the following measures:

Diversification

Luzheng Trading adopts a three-tier mechanism to ensure diversification and prevent concentration in position of derivative financial instruments concerning particular product categories:

- As a company-wide measure, Luzheng Trading has limited funding allocated to the trading of derivative financial instruments to 35% of its net assets. At least 65% of its net assets will be set aside for the trading of physical commodities and general corporate purposes;

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- The total funding allocated to the trading of derivative financial instruments will then be further allocated among our traders, taking into account their actual funding utilized and performances; and
- The total funding allocated to each trader will also be further allocated among trading strategies approved at the beginning of each year.

Evaluation and Approval of Trading Strategies

Each trader is required to submit a request for approval in respect of each type of proposed transaction. Such request contains a brief description of the transaction, hedging or arbitrage strategy, risk management, funding required and potential gain or loss. Approval by senior management as well as the relevant risk management departments of Luzheng Trading is required before this type of transaction can be carried out.

To ensure the effectiveness of hedging, we only approve the trading of physical commodities with corresponding futures traded on a futures exchange in the PRC.

Selecting Commodity Types and Contracts with Good Liquidity

We require the physical commodities involved in commodity trading to be actively traded and liquid, and we select commodity types and contracts that are actively traded and have large positions for hedging purposes.

Evaluating Client Creditworthiness

We perform credit assessment based on indicators such as business scale and financial condition before commencing business with a particular client. Publicly available information and search reports prepared by independent agents are reviewed in the process of credit assessment. The management of Luzheng Trading decides whether to engage a client and the specific forms of transaction with the client based on credit assessment results.

Managing Exposure

Our policy is to hedge all positions established in the course of providing commodity trading and risk management for our clients, although in practice, the hedging ratio (the ratio of short positions in commodity futures to the long positions in physical commodities) in our commodity trading has been less than 100%, because (i) the gain on our long position in physical commodities is reduced by value-added taxes at a rate ranging from 13% to 17%. Matching gain on our long position in physical commodities with corresponding loss on our short position in commodities futures would mean proportionate reduction in the volume of commodities futures; and (ii) commodities futures traded on futures exchanges are highly standardized in various aspects, including contract size and grade and quality specifications, which means we may not be able to enter into an opposite position in commodities futures of exactly the same volume as our position in physical commodities.

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The Risk Control Department of Luzheng Trading issues warnings when it identifies any unhedged position to the relevant trader and requires rectification on the same day. In addition, to assess our overall exposure, the Risk Control Department of Luzheng Trading generates a report on a daily basis consolidating all positions established by the traders.

We conduct hedging activities for our commodity trading by entering into commodity futures contracts. A commodity futures contract is generally valued by ton and settled by physical commodities at maturity, usually one year after signing. During the term of a commodity futures contract, we are able to buy or short-sell our desired amount of commodity futures on margin based on our hedging needs and our prediction of the upcoming market conditions. The margin deposit ratio for each commodity futures ranges from 5% to 10% of the contract value. Depending on different products, the minimum price movement is RMB1 to RMB5 per ton and the daily maximum price movement is a 4% to 5% increase or decrease of the settlement price from the previous trading day.

Multi-level Review

We have developed detailed business procedures based on specific business forms, and conduct multi-level review of major operational phases.

Real-time Monitoring

The Risk Control Department of Luzheng Trading monitors all positions established by the traders on a real-time basis.

Treasury Management

Authorized by our shareholders, we have established a three-tier decision-making structure for approving our treasury management activities, namely, the Board, the Investment Decision Committee and the investment team of our finance department.

The following sets forth the authorization thresholds under our three-tier decision-making structure for approving our treasury management activities:

Our Board is responsible for:

- Approving annual investment plan;
- Approving investments with 10% or more of our net assets as shown in the latest audited financial statement; and
- Deciding other important matters in relation to investments under our treasury management activities.

Our Investment Decision Committee is responsible for:

- Formulating an annual investment plan; and

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- Approving investments with less than 10% of our net assets as shown in the latest audited financial statement.

The investment team of our finance department is responsible for:

- Preparing an investment plan in relation to our treasury management activities;
- Performing preliminary assessment on financial institutions and providing recommendations;
- Performing risk assessment and feasibility studies, and advising on selection of investment products;
- Performing a sensitivity analysis and stress test on investments; and
- Executing, managing and disposing of investments.

We take into account the risk level in our investment decision making process:

- Low risk investments include wealth management products issued by banks and insurance companies, bond funds;
- Medium risk investments include trust schemes; and
- High risk investments include stocks and equity funds.

Investments of low-risk securities need to be approved by more than half of the members of the Treasury Management Investment Decision Committee. Investments of medium- to high-risk securities need to be approved by more than two-thirds of the members of Treasury Management Investment Decision Committee.

We give the investment team of the finance department the assignment of providing feasibility reports or other assessment reports of proposed investments for our Investment Decision Committee or our Board to make informed investment decisions. Our decision-making process takes into consideration various factors, including the opinions of the investment decision-making committee or other relevant departments, our cash flow, the time value of the money, risk of the investment and other indicators, in order to select suitable products for investment. Our Investment Decision committee is composed of eight members with an average working experience of 16 years in the securities and financial industries in China. All members are licensed to engage in futures businesses.

Inventory Control

The Business Management Department of Luzheng Trading evaluates and manages the risks in relation to the storage, logistics and inventory of physical commodities. Luzheng Trading's frontline business teams, Business Management Department and Finance Management Department are jointly responsible for reviewing inventory changes of physical commodities and stock-taking at the end of each month, in order to mitigate operational risks in inventory control.

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Chinese Wall

A Chinese Wall is a barrier to ensure that material non-public information would not be utilized for insider trading or inappropriately released among departments with conflicting interests. We recognize the importance of managing the conflict of interest faced by our operations to protect the interests of our clients and employees. Thus, we have established Chinese Walls between businesses with conflicting interests. We identify, evaluate and manage material non-public information and possible conflict of interest in our business, and set up our Chinese Wall through segregation of duties, business and information systems. We prevent and reduce the potential conflict of interest by controlling the flow of material non-public information, and ensure compliance with relevant rules and regulations. Specifically, we have implemented the following measures:

- we operate departments with conflicts of interest, such as futures brokerage, asset management, treasury operations and research departments, in physically segregated offices and use computers, facsimile machines, printers and other office equipment separately. We set access control for business departments with sensitive information, and restrict employees from entering into other departments with conflicts of interest;
- we separately manage the funds and futures accounts associated with our futures brokerage, asset management, treasury operations and other businesses with potential conflict of interest; and
- the IT systems for our different businesses with conflicts of interest are mutually independent or logically separated.

We believe that our information segregation system and Chinese Wall mechanism have been effective in preventing insider trading and managing conflicts of interest during the Track Record Period.

Segregation of Duties

To minimize the opportunity for collusion and improper trading, our business lines are divided among our various departments, and our transaction, settlement, finance and IT personnel have different duties and functions. No employee may work for two or more posts with conflicting interests. The operational authorization of our employees is granted after strict review and under active management.

Conflict of Interest

Conflict of interest may arise between (i) our various operating units; (ii) our clients and us; (iii) our employees and us; or (iv) our clients and our employees.

In order to prevent conflict of interest, we have adopted the following specific measures:

- research personnel are prohibited from providing false or misleading information;

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- investment analysis, forecasts or recommendations provided to the public, different clients and various departments regarding the same issue and at the same time shall not contain contradictory views; and
- information briefs, news updates and information systems that are only intended for internal use shall not be disclosed to the public by any method.

In addition, we require our employees to learn and comply with internal policies, such as prioritizing client interests, treating clients fairly, guarding against insider trading, preserving confidentiality, complying with Chinese Walls as well as complying with the restrictions on employees' futures investments. We also require employees to timely disclose any conflict of interest. During the Track Record Period, we did not experience any material failure to protect confidential information of our clients.

Anti-Money Laundering

We have built anti-money laundering procedures into our internal control system and daily operation in strict compliance with the PRC laws and regulations on anti-money laundering as well as relevant requirements of the PBOC and the CSRC. We comply with the "know-your-client" principles and undertake steps for client identification and continuous review of client identification. In addition, we have carried out different due diligence investigations and other risk control measures for different clients based on their risk classifications, and established the significant and suspicious transaction reporting system according to the requirements.

We have properly maintained the identity information and transaction records of our clients. According to the confidentiality requirements, we have provided an anti-money laundering training program for employees and strengthened clients' awareness and understanding of anti-money laundering. We also actively cooperate with the PBOC in various anti-money laundering actions such as on-site inspection and off-site supervision.

We have never engaged in, or knowingly assisted, any money laundering activities. For risks regarding money laundering activities, see "Risk Factors – Risks Relating to Our Business – We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis."

LEGAL AND REGULATORY

Licensing Requirements

We conduct our futures business mainly in the PRC and are subject to the restrictions and regulatory requirements of the PRC. Our Directors and our PRC legal advisors, Jia Yuan Law Offices, have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements and guidelines in all material respects and obtained all permits and licenses necessary for our operations in accordance with PRC laws and regulations. We are not required to renew these licenses, and during the Track Record Period and up to the Latest Practicable Date, these licenses have not been suspended due to any material non-compliance incidents. To the best knowledge of our Directors, our Directors confirm that as of the Latest Practicable Date all of our employees conducting

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futures related business have obtained the relevant licenses required for their business activities. During the Track Record Period and up to the Latest Practicable Date, neither our Company nor any of our Directors has been subject to auditing or administrative penalty by the CSRC or its local counterparts.

Legal Proceedings

We are a party to a number of legal proceedings arising in the ordinary course of our business. Our Directors and PRC legal advisors confirmed that, during the Track Record Period and up to the Latest Practicable Date, none of the legal proceedings to which we were a party, individually or in the aggregate, would have a material effect on our business, financial condition or results of operations.

Regulatory Non-compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, including but not limited to the CSRC and its local offices, the CFA and the futures exchanges in the PRC. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no incidents of regulatory non-compliance that led to regulatory measures and the deduction of regulatory points by the CSRC or fines imposed by any regulatory authorities in China, or in which our employees were prosecuted or convicted.

Regulatory Inspections

The CSRC and other regulatory agencies conduct periodic or random inspections, examinations and inquiries in respect of our compliance with the laws, regulations, guidelines and regulatory requirements applicable to us and our business. During the Track Record Period and up to the Latest Practicable Date, the periodic and random inspections conducted on us by the CSRC and its local delegate offices covered our risk management, internal control, corporate governance and various business areas that we are engaged in, and the scope of which included our various futures branches. Although these inspections have not revealed any material risks or non-compliance incidents and have not resulted in any fines or other administrative penalties, they revealed certain deficiencies with respect to our business operations, risk management and internal controls. We immediately took remedial measures and improved our risk management and internal control systems based on the regulatory agencies' recommendations. The following sets forth examples of recent inspections:

- On July 10 and 11, 2014, the Hunan Bureau of the CSRC conducted an on-site inspection of our Changsha branch in Hunan and issued a regulatory opinion on August 15, 2014, which identified that: (i) this branch did not prominently display the original copy of its business permit and business license, but only displayed their photocopies; (ii) certain employees publicly listed on the name roll of the branch actually held positions in our headquarters rather than actually serving in Changsha branch; and (iii) the branch did not communicate with the headquarters promptly regarding the clients' follow-ups, did not conduct clients' follow-ups and as a result was not able to provide relevant documents on clients' follow-ups. According to these recommendations, we immediately took rectification measures, which include: (i) displaying the original copies of our business permit and business license prominently in our Changsha branch; (ii) removing the names of our employees who were transferred to our headquarters from the name roll of the Changsha branch where they used to work; and (iii)

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updating the documents regarding the clients' follow-ups that were previously conducted and filing relevant documents in both our headquarters and the branch. On August 20, 2014, we submitted a rectification report to the Hunan Bureau of the CSRC, and as of the Latest Practical Date, we have not received any follow-up questions from such authority to our remedial measures nor the rectification report.

- On July 31 and August 1, 2014, the Shandong Bureau of the CSRC conducted an on-site inspection of our Weifang branch in Shandong and issued a regulatory letter on September 5, 2014, which indicated that: (i) one of our staff accepted and executed telephone orders from clients, which did not follow our internal protocols that only authorized personnel could accept and execute orders from clients; (ii) the service term of some staff was not consistent with the information published on the website of CFA; and (iii) surveillance videos on the branch's trading sector were stored for less than six months. According to these recommendations, we immediately took rectification measures, which include: (i) reiterating relevant internal protocols prohibiting unauthorized personnel from accepting client's trading orders by telephone, and reinforcing the supervision of the equipments and facilities of the branch's trading sector to prevent any form of wireless Internet connection in the trading sector; (ii) improving the on-site disclosure of public information to ensure that such information is consistent with information provided on CFA's website; and (iii) extending the backup of surveillance videos and ensuring that surveillance videos in the branch's trading sector are stored for a minimum of six months. On September 15, 2014, we submitted a rectification report to the Shandong Securities Regulatory Bureau of the CSRC, and as of the Latest Practical Date, we have not received any follow-up questions from such authority to our remedial measures or the rectification report.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, (i) Qilu Securities was interested in approximately 87.48% of our issued share capital; (ii) Laiwu Steel was interested in approximately 45.71% of the issued share capital of Qilu Securities and was the holding company of Qilu Securities; and (iii) Laiwu Steel was wholly owned by Shandong Steel.

Immediately following completion of the Global Offering, Qilu Securities will be interested in approximately 63.24% of our enlarged issued share capital assuming the Over-allotment Option is not exercised (or approximately 60.61% if the Over-allotment Option is fully exercised). Therefore, Qilu Securities, Laiwu Steel and Shandong Steel will remain as our Controlling Shareholders upon Listing.

OUR RELATIONSHIP WITH QILU SECURITIES

Principal business of our Group

Our main businesses include futures brokerage, futures asset management, and commodity trading and risk management.

Principal business of Qilu Securities

Qilu Securities was established on May 15, 2001 with a registered capital of approximately RMB5,212.3 million. The principal businesses of Qilu Securities are securities brokerage, securities underwriting and sponsorship, and proprietary trading.

As of the Latest Practicable Date, apart from the Group and Qilu International Futures Limited (齊魯國際期貨有限公司), Qilu Securities does not hold any equity interests in any company principally engaged in futures brokerage business. Qilu International Futures Limited is a corporation licensed to carry on type 2 (dealing in futures contracts) regulated activities under the SFO in Hong Kong. Since the Group has not been authorized to engage in such regulated activities in Hong Kong, our Group and Qilu Securities are not in competition with respect of futures brokerage business.

Business Delineation-Asset Management

As of the Latest Practicable Date, apart from Qilu International Asset Management Limited (齊魯國際資產管理有限公司), Qilu Securities does not hold any equity interests in any company principally engaged in the asset management business in Hong Kong. Qilu International Asset Management Limited is a corporation licensed to carry on type 9 (assets management) regulated activities under the SFO in Hong Kong. Since the Group has not been authorized to engage in such regulated activities in Hong Kong, our Group and Qilu Securities are not in competition with respect of such regulated asset management business conducted in Hong Kong.

Qilu Securities also engages in the securities asset management business in the PRC through Qilu Securities (Shanghai) Asset Management Co., Ltd. (齊魯證券(上海)資產管理有限公司), a wholly-owned subsidiary of Qilu Securities, and Wanjia Funds Management Co., Ltd. (49% of its equity interest is owned by Qilu Securities).

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Although both Qilu Securities and the Company engage in the assets management related business in the PRC, we believe that our futures asset management business and Qilu Securities' securities asset management business, each of which is detailed below, are not in substantive competition for the following reasons:

1. in relation to targeted categories of assets to be invested, our futures asset management business principally invested in the futures market, including futures, options and other derivative financial instruments (the "futures asset management business"), whereas the asset management business of Qilu Securities principally invested in the securities market, including stock, bonds, trusts and funds (the "securities asset management business"). The differences among such targeted assets are attributable to the respective expertise of Qilu Securities and us. Furthermore, the proportion of the futures products to the entire invested asset portfolio in the asset management business of Qilu Securities during the Track Record Period was insignificant. As of December 31, 2012, 2013 and 2014, based on the information provided by Qilu Securities, the total amount of assets under management by Qilu Securities was approximately RMB36 billion, RMB165 billion and RMB186.6 billion, respectively, and the proportion allocated to the futures market during the same period was nil, 0.02% and 0.20%, respectively, primarily for the purpose of managing risks associated with its securities investment portfolios. This is whereas as of December 31, 2012, 2013 and 2014, the total amount of assets under our futures asset management business was approximately nil, RMB61.2 million and RMB182.0 million, respectively, all of which was invested in futures products traded in the futures exchanges in the PRC;
2. our futures asset management business and Qilu Securities' securities asset management business are regulated by different laws and regulations of the PRC. The assets management business of futures firms shall comply with the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》), the Pilot Measures on Asset Management Business of Futures Companies (《期貨公司資產管理業務試點辦法》) and the Administrative Rules on Asset Management Business of Futures Companies (Trial) (《期貨公司資產管理業務管理規則(試行)》), while the assets management business of securities firms shall comply with Administrative Measures on Client Asset Management of Securities Companies (《證券公司客戶資產管理業務管理辦法》), the Implementation Rules of the Collective Asset Management Business of Securities Companies (《證券公司集合資產管理業務實施細則》) and the Implementation Rules for the Targeted Asset Management Business of Securities Companies (《證券公司定向資產管理業務實施細則》). Moreover, our futures asset management business and Qilu Securities' securities asset management business are monitored by various industrial associations of the PRC. As a futures firm, our futures asset management business is currently monitored by the China Futures Association, while the assets management business of Qilu Securities, as a securities firm, is monitored by Securities Association of China. As such, the regulatory environment is distinctive as to the asset management businesses of Qilu Securities and our Group; and
3. we were approved by the CSRC to engage in the asset management business in November 2012. Our futures asset management business has been developing for a relatively short period of time and is still in its initial development stage. For the years ended December 31, 2012, 2013 and 2014, the revenue generated from our futures asset management business was

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

approximately nil, is RMB0.2 million and RMB8.5 million, respectively. Qilu Securities, on the other hand, started to provide asset management services to clients after obtaining an approval from the CSRC in December 2008. Its asset management business has been developing for over six years and the scale of their management business is relatively large compared to ours. Based on the information provided by Qilu Securities, for the years ended December 31, 2012, 2013 and 2014, the revenue generated from its securities asset management business was approximately RMB14.2 million, RMB88.6 million and RMB123.8 million, respectively.

For reasons stated above, we believe that there is no substantive competition between our futures asset management business and the securities asset management business of Qilu Securities in the PRC.

Save as stated above, the remaining business of Qilu Securities is not in any competition, actual or potential, at all with our Group's business. In light of the foregoing, we believe there is no substantive competition between our current business and the business of Qilu Securities.

OUR RELATIONSHIP WITH LAIWU STEEL

Laiwu Steel was established in May 1999 with a registered capital of approximately RMB3,922.7 million. It is primarily engaged in steel smelting, and the production and sale of steel.

There is a clear delineation between the principal businesses operated by Laiwu Steel and our Group. Laiwu Steel confirms that as of the date of this prospectus, Laiwu Steel did not have any interest in a business (other than Qilu Securities and our Group) which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

OUR RELATIONSHIP WITH SHANDONG STEEL

Established in March 2008, Shandong Steel is a large state-owned enterprise under the direct supervision and administration of Shandong SASAC with a registered capital of RMB10,450 million. Shandong Steel is primarily engaged in the production and sale of steel products, including steel and steel billets.

There is a clear delineation between the principal businesses operated by Shandong Steel and our Group. Shandong Steel confirms that as at the date of this prospectus, Shandong Steel did not have any interest in a business (other than Qilu Securities and our Group) which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

To avoid any actual or potential competition between the businesses of Qilu Securities, Laiwu Steel and Shandong Steel (our "Controlling Shareholders") and our Company, our Controlling Shareholders undertook on June 15, 2015 (the "Non-Competition Undertaking") that, subject to certain exceptions and save as disclosed in this section under "Our Relationship with Qilu Securities", our Controlling Shareholders

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

shall not, and shall procure their associates (except for any members of our Group) will not, engage in the PRC in any business which directly or indirectly competes with the core businesses (futures brokerage, futures asset management, and commodity trading and risk management businesses) of our Company (“Restrained Businesses”) within the period that (a) the H Shares of our Group are listed on the Stock Exchange, and (b) our Controlling Shareholders and their respective associates are entitled to exercise no less than 30% voting power of our Company or are deemed to be the Controlling Shareholders of our Group (“Restrained Period”).

The Non-Competition Undertaking described above does not apply to the following circumstances:

- our Controlling Shareholders having interests in the Shares of any member of our Group;
- our Controlling Shareholders having interests in the shares of a company other than our Group, provided that:
 - (i) any Restrained Businesses conducted or engaged in by such company (and assets relating thereto) account for less than 10% of our Group’s consolidated revenues and consolidated assets as shown in our Group’s latest audited financial statements;
 - (ii) our Controlling Shareholders and their respective associates are not entitled to appoint a majority of the directors of that company. In addition, that company shall at any time have at least one shareholder whose shareholding is more than the shareholding in aggregate owned by our Controlling Shareholders and their respective associates or that company is controlled by a third party; and
 - (iii) our Controlling Shareholders and their respective associates are not in control of the board of directors of that company.

Option for New Business Opportunities

Our Controlling Shareholders have undertaken in the Non-Competition Undertaking that:

within the Restrained Period, if our Controlling Shareholders and their respective associates (except for any members of our Group) become aware of, notice, are recommended for or provided with a new business opportunity which will directly or indirectly compete with the Restrained Businesses, including but not limited to the opportunities which are the same with or similar to the Restrained Businesses (“New Business Opportunities”), our Controlling Shareholders shall and shall procure that its associates (except for any members of our Group) refer or recommend the New Business Opportunities to our Group subject to relevant laws, requirements or contractual arrangements with third parties:

- (i) our Controlling Shareholders shall provide our Group with a written notification that includes all reasonable and necessary information known by the Controlling Shareholders and/or their respective associates (including the nature of the New Business Opportunities and necessary information relating to the cost of the relevant investment or acquisition) for our Group to

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consider (a) whether the New Business Opportunities constitute competition or potential competition with the Restrained Businesses; and (b) whether engaging in such New Business Opportunities would be in the best interests of our Group (the “Offer Notice”); and

- (ii) our Group shall respond to our Controlling Shareholders and/or their respective associates (except for any members of our Group) within 30 days upon receipt of the Offer Notice. If our Group fails to reply to our Controlling Shareholders and/or their respective associates (except for any members of our Group) within the above period, it shall be deemed to have abandoned the New Business Opportunities. If our Group determines to take up the New Business Opportunities, our Controlling Shareholders and/or their respective associates (except for any members of our Group) would be obligated to offer such New Business Opportunities to our Group.

Pre-emptive Rights

Our Controlling Shareholders have undertaken that:

within the Restrained Period, if our Controlling Shareholders and/or their respective associates (except for any members of our Group) intend(s) to transfer, sell, lease or license royalties to a third party any businesses engaged in by our Controlling Shareholders and/or their respective associates (except for any members of our Group) that competes or potentially could compete with the Restrained Businesses or any other businesses that could in direct or indirect competition with the Restrained Businesses, it shall offer our Group the pre-emptive right in terms of such opportunity with equal terms subject to relevant laws, requirements or contractual arrangements with third parties:

- (i) our Controlling Shareholders and/or their respective associates (except for any members of our Group) shall provide our Group with written notice no later than the time of any such disposals (“Disposal Notice”). For the avoidance of doubt, our Controlling Shareholders and/or their respective associates (except for any members of our Group) are entitled to provide information and/or a Disposal Notice to any third parties at the same time as or after providing the Disposal Notice to our Group;
- (ii) our Group shall reply to our Controlling Shareholders and/or their respective associates in writing within, whichever the later of, the 30th day after receipt of the Disposal Notice and expiration of the period offered to third parties by our Controlling Shareholders and/or their respective associates for them to reply prior to exercising its pre-emptive rights;
- (iii) if our Group intends to take up such pre-emptive rights, the terms shall be determined with reference to fair market price; and
- (iv) our Controlling Shareholders and/or their respective associates (except for any members of our Group) shall not dispose of such businesses and interests to any third parties unless (a) our Group declines in writing to purchase such businesses and interests; (b) the notice of exercising such pre-emptive rights has not been received by Controlling Shareholders and/or their associates from our Group within, whichever the later of, the 30th day after receipt of the Disposal Notice and expiration of the period offered to third parties by our Controlling

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Shareholders and/or their respective associates for them to reply; or (c) our Group fails to offer the same or more favorable terms of acquisitions than those offered by any third parties to our Controlling Shareholders and/or their respective associates (except for any members of our Group).

For the avoidance of doubt, the terms of disposal offered by our Controlling Shareholders and/or their respective associates (except for any members of our Group) to any third parties shall not be more favorable than those offered to our Group.

Option for Purchase

Within the Restrained Period, on the condition that no relevant laws and regulations are breached and agreements with third parties are complied with, our Group is entitled to acquire any businesses operated by our Controlling Shareholders and/or their respective associates (except for any members of our Group) which compete or potentially could compete with the Restrained Businesses or any businesses or any interests of our Controlling Shareholders and/or their respective associates (except for any members of our Group) which are gained through the New Business Opportunities (“Option for Purchase”). Our Group is entitled to exercise the Option for Purchase at any time, and our Controlling Shareholders and/or their respective associates (except for any members of our Group) shall offer the Option for Purchase to our Group based on following conditions:

The commercial terms of the proposed acquisition shall be formed solely by the committee consisting of our independent non-executive Directors after consulting the views of independent experts. Furthermore, such commercial terms shall be based on negotiation between the parties in line with normal commercial practice of our Group, which ensures that the negotiation will be fair, reasonable and in the interests of our Group as a whole, and to the same degree thereof as the negotiations with our Controlling Shareholders and their respective associates.

However, if a third party has the pre-emptive rights in accordance with applicable laws and regulations and/or a prior legally binding document (including, but not limited to, articles of association and/or shareholders’ agreements), Options for Purchase of our Group shall be subject to such third-party rights. In such a case, our Controlling Shareholders and/or their respective associates (except for any members of our Group) will use their best efforts to persuade the third party to waive its pre-emptive rights.

Controlling Shareholders’ Further Undertaking

Our Controlling Shareholders have further undertaken that, subject to relevant laws, requirements or contractual arrangements with third parties:

- (i) upon the request of our Group, it shall and shall procure that its associates (except for any members of our Group) provide any necessary information for the implementation of the Non-Competition Undertaking;

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- (ii) it would allow the authorized representatives or auditors of our Group to have reasonable access to the financial and corporate information necessary to its transactions with third parties, which would assist our Group in determining whether our the respective Controlling Shareholder and/or its associates have complied with this Non-Competition Undertaking; and
- (iii) it would ensure that within 10 business days of receipt of the written request from our Group, necessary confirmation shall be made in writing as to our Controlling Shareholders' and their respective associates' performance under the Non-Competition Undertaking and our Controlling Shareholders and their respective associates shall allow such confirmation to be included in the annual reports of our Group.

Corporate Measures in relation to the Implementation of the Non-Competition Undertaking

Our Company will also adopt the following procedures to ensure that the undertakings under the Non-Competition Undertaking are observed:

- (i) *Review by independent non-executive Directors* – our independent non-executive Directors will be responsible for reviewing the options for New Business Opportunities, pre-emptive rights and Option for Purchase granted by our Controlling Shareholders, and deciding whether or not to take up business opportunities as referred to in the Offer Notice, Disposal Notice and/or the Option for Purchase. In deciding whether to take such business opportunities, our independent non-executive Directors will consider various factors, including the due diligence to be conducted towards the target businesses, the purchase prices and the benefits that such opportunities will bring to our Group, as well as whether we have adequate management and resources to manage and operate such businesses.
- (ii) *Increased transparency* – our Controlling Shareholders have undertaken to provide all information necessary for the enforcement of the options for New Business Opportunities, pre-emptive rights and Option for Purchase. We will provide our independent non-executive Directors with the Offer Notice and Disposal Notice (as the case may be) on the new business opportunity or pre-emptive rights referred to us by our Controlling Shareholders within seven days of receipt, and our independent non-executive Directors would be allowed to propose the exercise of the Option for Purchase at any time.
- (iii) *Public disclosure of decisions* – our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the exercise or non-exercise of options for New Business Opportunities, pre-emptive rights and Option for Purchase, either through our annual report or by way of announcements to the public. Our independent non-executive Directors will report in our annual report (a) their findings on the compliance by our Controlling Shareholders with the Non-Competition Undertaking and (b) any decision made pursuant to the options and pre-emptive rights granted to the Company and the basis of such decision.

Our Directors are of the view that our independent non-executive Directors have sufficient experience in assessing whether or not to take up new business opportunities, exercise an option for purchase or pre-emptive rights. In any event, our independent non-executive Directors may appoint a financial adviser or

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professional expert to provide advice, at the cost of the Company, in connection with the exercise or non-exercise of the New Business Opportunities, Option for Purchase and pre-emptive rights under the Non-Competition Undertaking.

Termination of the Non-Competition Undertaking

The Non-Competition Undertaking will become effective upon Listing and remain in full force. It will be terminated upon the earlier of:

- (i) our H Shares no longer being listed on the Stock Exchange (except for the circumstances under which our H Shares are temporarily suspended to be listed in accordance with the Listing Rules); and
- (ii) our Controlling Shareholders and their respective associates (except for any members of our Group), individually or in aggregation directly and/or indirectly, holding less than 30% of the voting rights or having control of 30% voting rights in any of our general meeting.

Based on the legally binding obligations of our Controlling Shareholders as set out in the Non-Competition Undertaking and the related grant of the option for New Business Opportunities, pre-emptive rights and Option for Purchase, and the information sharing and other mechanisms in place as described above to monitor compliance by our Controlling Shareholders, our Directors are of the view that our Company has taken all appropriate and practicable measures to ensure compliance by our Controlling Shareholders with its obligations under the Non-Competition Undertaking.

INDEPENDENCE FROM QILU SECURITIES

Having considered the following factors, our Directors are satisfied that we will operate independently of Qilu Securities and its associates after the Global Offering:

Management Independence

Currently, three of the ten members of our Board and one of the six members of our Supervisory Committee also hold offices in Qilu Securities. The following table sets forth the positions held by our Directors, Supervisors and senior management in Qilu Securities:

<u>Name of Director/ Supervisor</u>	<u>Position held in our Company</u>	<u>Position held in Qilu Securities</u>
Mr. Chen Fang	Executive Director	Vice President
Mr. Lu Xiangyou	Non-executive Director	Vice President, Chief Compliance Officer and Chief Risk Officer
Mr. Zhang Yunwei	Non-executive Director	Office Manager
Mr. An Tie	Chairman of the Supervisory Committee	General Manager of the Audit Department

Except for the above-mentioned individuals, none of the Directors, Supervisors and senior management of our Company holds any position in Qilu Securities.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As the vice president of Qilu Securities, Mr. Chen Fang is mainly responsible for the matters related to the management of Luzheng Futures, and does not participate in the daily business operations and management of Qilu Securities. Therefore Mr. Chen does not expect that his position with Qilu Securities will take up a substantial amount of his time. He will be able to devote sufficient time to the management of our Company.

Mr. Lu Xiangyou and Mr. Zhang Yunwei are our non-executive Directors and do not participate in our daily business operations and management. As members of the Board, Mr. Zhang and Mr. Lu participate only in formulating our corporate and business strategies and the decision-making process of significant events. Mr. An Tie, as a Supervisor, is responsible for supervising the operational and financial activities of our Company and is not involved in the daily business management and operation of the Company.

Save as stated above, our remaining Directors, Supervisors and senior management are independent from Qilu Securities and have relevant experience to ensure that the Board performs its functions effectively.

We believe our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from Qilu Securities due to the following reasons:

- (a) the decision-making mechanism of the Board as specified in the Articles of Association has set out relevant provisions to avoid conflicts of interest, including but not limited to: (i) if the relevant proposal causes conflicts of interest between our Group and Qilu Securities, the Director(s) associated with Qilu Securities should abstain from voting and should not be included in the quorum of the meeting of the Board, and the remaining seven Directors have sufficient relevant knowledge and experience to make decisions for us; and (ii) when connected transaction(s) are considered, independent non-executive Directors of the Company shall give their independent opinions to the Board and/or our Shareholders on the relevant connected transaction(s) pursuant to the Hong Kong Listing Rules;
- (b) we have appointed four independent non-executive Directors (accounting for more than one-third of the Board) to balance the numbers of interested Director(s) and independent non-executive Directors for the protection of the interests of the Group and the Shareholders as a whole; and
- (c) our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of the Group and the Shareholders as a whole.

Based on the above, and taking into account the fact that there is no substantive competition between our current business and the business of Qilu Securities, we believe that the Board and our management are sufficiently independent of Qilu Securities and its associates.

Operational Independence

We engage in businesses that are independent of those operated by Qilu Securities and its associates. We have obtained the relevant qualifications and licenses, independent operating premises, trademarks, domain names and electronic information systems needed for our futures related businesses.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

We own or have the right to use all the operational facilities and technologies relating to our business. We also have our own clients and serve them with our own employees. We have sufficient capital to operate our business independently.

In addition, we currently conduct our principal business independently and we have the ability to formulate and implement our own operational decisions independently. We have our own organizational structure and departments which are under specific authority independent from Qilu Securities. We also maintain a comprehensive set of internal control procedures for promoting efficient business operation. With reference to relevant laws, regulations and rules, we develop sound corporate governance practice and have adopted our rules of procedure for general meeting, rules of procedure for Board meeting, rules of procedure for Supervisory Committee meeting, and connected transactions regulations.

We have entered into certain continuing connected transactions in relation to provision of services to or by Qilu Securities and/or its associates. Such services are not provided to or by Qilu Securities and/or its associates on an exclusive basis and may be offered to or by Independent Third Parties on similar terms. See “Connected Transactions” of this prospectus for details.

Financial Independence

As of the Latest Practicable Date, there was no outstanding loan granted by Qilu Securities or any of its associates to us and there was no guarantee provided for our benefit by Qilu Securities or any of its associates. We have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations.

We have established a finance department which is independent from Qilu Securities with a team of independent financial staff, as well as a sound and independent audit system, a standardized financial and accounting system and a comprehensive financial management system. We can make financial decisions independently. Both our Company and Qilu Securities have opened their own bank account without sharing the same account. We have made tax filings and have paid tax independently of Qilu Securities pursuant to applicable laws and regulations. Therefore, we are financially independent of Qilu Securities.

INDEPENDENCE FROM LAIWU STEEL AND SHANDONG STEEL

We believe that after the Global Offering, we will operate independently of Laiwu Steel and Shandong Steel for the following reasons:

- (a) Laiwu Steel and Shandong Steel have provided a non-competition undertaking to us on June 15, 2015;
- (b) Laiwu Steel and Shandong Steel exercise control of our equity interest through Qilu Securities. None of our Directors, Supervisors or senior management holds office in Laiwu Steel or Shandong Steel. Therefore our management is sufficiently independent of Laiwu Steel and Shandong Steel;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) We engage in businesses that are clearly different from those operated by Laiwu Steel and Shandong Steel. We have obtained the relevant qualifications and licenses, independent operating premises, trademarks, domain names and electronic information systems needed for our futures business. We currently conduct our principal business independently and we have the ability to formulate and implement operational decisions independently. Therefore, we operate independently of Laiwu Steel and Shandong Steel; and

- (d) As of the Latest Practicable Date, there was no outstanding loan granted by Laiwu Steel, Shandong Steel or any of their associates to us and there was no guarantee provided for our benefit by Laiwu Steel, Shandong Steel or any of their associates. We have sufficient capital to operate our business independently, and have adequate internal resources to support our daily operations. Therefore, we are financially independent of Laiwu Steel and Shandong Steel.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

Upon Listing, transactions between us and our connected persons will constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

Upon Listing, the following entities, with whom we have entered into certain transactions in the ordinary and usual course of our business, will become our connected persons:

- **Qilu Securities**

Qilu Securities was established under the laws of the PRC in May 2001 with a registered capital of approximately RMB5,212.3 million. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading.

As of the Latest Practicable Date, Qilu Securities owned approximately 87.48% of the total issued share capital of our Company and is therefore a Controlling Shareholder of us. Upon completion of the Global Offering, Qilu Securities will own approximately 63.24% of the total issued share capital of our Company (assuming the Over-allotment Option is not exercised) or approximately 60.61% of the total issued share capital of our Company (assuming the Over-allotment Option is exercised in full). As a result, Qilu Securities will continue to be our Controlling Shareholder after the Listing, and will hence become our connected person upon Listing.

- **Associates of Qilu Securities (excluding our Group)**

Associates of Qilu Securities (excluding our Group), including the subsidiaries and the companies in which Qilu Securities holds 30% or more of the equity interest, for instance Qilu Securities (Shanghai) Asset Management Co., Ltd., Wanjia Funds Management Co., Ltd. and Qilu International Holdings Limited, are our connected persons by virtue of their being associates of Qilu Securities as defined under Chapter 14A of the Listing Rules.

- **Shandong Steel**

Shandong Steel was established under the laws of the PRC in March 2008 with a registered capital of RMB10,450 million. It is primarily engaged in the production and sale of steel products such as steel and steel billets.

As of the Latest Practicable Date, Shandong Steel owned 100% equity interest in Laiwu Steel. Meanwhile, Laiwu Steel's interest in our Controlling Shareholder Qilu Securities was approximately 45.71% and Laiwu Steel is the holding company of Qilu Securities. Shandong Steel is therefore a Controlling Shareholder of us. As a result, Shandong Steel will continue to be a Controlling Shareholder of us, and will hence become our connected person upon Listing.

CONNECTED TRANSACTIONS

- **Associates of Shandong Steel (excluding our Group)**

Associates of Shandong Steel (excluding our Group), including the subsidiaries and the companies in which Shandong Steel holds 30% or more of the equity interest, for instance Laiwu Steel, Qilu Securities and their respective subsidiaries, are our connected persons by virtue of their being associates of Shandong Steel as defined under Chapter 14A of the Listing Rules.

Accordingly, the following transactions between each of our connected persons and us, which have been entered into in the ordinary course of our business on a continuing basis, will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules upon Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions Relating to Qilu Securities and/or its Associates

Financial Services Framework Agreement

In the ordinary and usual course of our business, we regularly provide specific financial services (as detailed below) to Qilu Securities and its associates. On the other hand, Qilu Securities and its associates also regularly provide various financial services (as detailed below) to us. To comply with the requirements of the Listing Rules, we entered into a financial services framework agreement (the “Financial Services Framework Agreement”) with Qilu Securities to engage in the following services with Qilu Securities and/or its associates in the ordinary and usual course of our business. As the highest applicable percentage ratio for the three years ending December 31, 2015, 2016 and 2017 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, and announcement and independent shareholders’ approval requirements under Rules 14A.35 and 14A.36 of the Listing Rules. The Financial Services Framework Agreement is for a fixed term of three years effective on the Listing Date, subject to renewal.

- Mutual Provision of IB services:** Qilu Securities and/or its associates and us will mutually provide IB services to each other in the ordinary and usual course of our business on a continuing basis;
- Purchase of the Asset Management Plans:** we will purchase the asset management schemes in which Qilu Securities and/or its associates act as the manager in our ordinary and usual course of business on a continuing basis; and
- Receipt of Securities Brokerage and other Financial Services:** Qilu Securities and/or its associates will provide securities brokerage and other financial services to us in the ordinary and usual course of our business on a continuing basis.

CONNECTED TRANSACTIONS

The following table sets forth a summary of the transactions under the Financial Services Framework Agreement with Qilu Securities or its associates:

Nature of transaction	Historical amounts for the year ended December 31	Proposed annual caps for the year ending December 31
	<i>(RMB/thousands)</i>	<i>(RMB/thousand)</i>
1. IB Services		
Commissions charged by Qilu Securities and/or its associates for provision of IB services to us	2012: 7,008 2013: 9,166 2014: 11,608	2015: 22,000 2016: 27,000 2017: 32,000
Commissions charged by us to Qilu Securities and/or its associates for provision of IB services by us	2012: nil 2013: nil 2014: nil	2015: 720 2016: 825 2017: 900
2. Purchase of Asset Management Schemes		
Average daily amount invested	2012: 75,600 2013: 50,000 2014: 70,800	2015: 130,000 2016: 210,000 2017: 260,000
Asset Management Fees (as defined below) charged by Qilu Securities and/or its associates	2012: 756 2013: 500 2014: 708	2015: 1,310 2016: 2,110 2017: 2,610
3. Securities Brokerage and other Financial Services		
Commissions charged by Qilu Securities and/or its associates	2012: 15 2013: nil 2014: 81	2015: 500 2016: 600 2017: 700
Total Commissions charged by Qilu Securities and/or its associates to us	2012: 7,779 2013: 9,666 2014: 12,397	2015: 23,810 2016: 29,710 2017: 35,310
Total Commissions charged by us to Qilu Securities and/or its associates	2012: nil 2013: nil 2014: nil	2015: 720 2016: 825 2017: 900

A. *IB Services*

Principal terms:

IB services between Qilu Securities and/or its associates and us under the Financial Services Framework Agreement include the following:

CONNECTED TRANSACTIONS

Qilu Securities and/or its associates' IB services provided to us: In our ordinary and usual course of business, Qilu Securities and/or its associates provide IB services to us. In particular, Qilu Securities and/or its associates introduce potential clients to us for the engagement of our futures brokerage business. In addition, Qilu Securities and/or its associates will also provide the following services to such clients introduced to us: (i) assisting clients in opening futures accounts; (ii) providing clients with updates of futures markets; (iii) assisting clients with their risk control and management; and (iv) other related financial services. Qilu Securities and/or its associates will charge us commissions for the provision of such IB services.

Our IB services provided to Qilu Securities: Likewise, we also provide IB services to Qilu Securities, i.e., we introduce potential clients to Qilu Securities for the engagement of its stock option trading business. In 2015, Qilu Securities became one of the eight PRC securities firms which obtained licenses from the CSRC to engage in the stock option trading business. Stock option trading refers to the trading activities that take stock option contracts as subject matters of trading and are carried out in a public and centralized manner, or in other manners approved by the CSRC. In addition, we will also be responsible for conducting comprehensive evaluation of the referred clients. We will charge Qilu Securities commissions for such provision of IB services.

Reasons for the transaction: We, as a futures firm, and Qilu Securities, as a securities company, will achieve sharing of customer resources through mutual provision of IB services. In particular, we could effectively obtain access to the relatively abundant customer resources of Qilu Securities and/or its associates. Besides, both Qilu Securities and us could effectively achieve synergies through mutual provision of IB business while enhancing our customer service capabilities as well as expanding the investment channels and product range we offer to our own customers. In addition, Qilu Securities and/or its associates have been providing IB services to our Group during the Track Record Period and have a deep understanding of our business needs. We did not enter into any similar IB services arrangement with any other parties during the Track Record Period. Thus, the continuous provision of such services by Qilu Securities and/or its associates to us would foster the development of our futures business.

Pricing terms:

- (i) the commission charged by Qilu Securities and/or its associates for the provision of IB services to us will be 60% of the commission revenue generated from such clients introduced by Qilu Securities and/or its associates. Likewise, the commission charged by us for the provision of IB services to Qilu Securities will also be 60% of the commission revenue generated from such clients introduced by us (the "Commission Split");
- (ii) the commission revenue equals the revenue generated from such clients, with deduction of the trading and clearing fees paid to the PRC futures exchanges;
- (iii) the Commission Split of 60% has been determined based on arm's-length negotiations between Qilu Securities and us with reference to the prevailing market commission rates for similar IB businesses and on normal commercial terms, and is consistent with market practice; and

CONNECTED TRANSACTIONS

- (iv) the mutual provision of IB services between Qilu Securities and/or its associates and us, including the Commission Split of 60%, as well as our proposed annual caps for the years ending December 31, 2015, 2016 and 2017 have been approved by the Shareholders of our Company at its general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Qilu Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

Historical figures: In relation to the IB services provided by Qilu Securities and/or its associates to us, the historical figures of commissions for the three years ended December 31, 2012, 2013 and 2014 were RMB7,008,000, RMB9,166,000 and RMB11,608,000, respectively. The commission split for the provision of IB services to us by Qilu Securities and/or its associates for the two years ended December 31, 2012 and 2013 and the six months ended June 30, 2014 was 40%. Such split was further amended to 60%, which was consistent with the then prevailing market rates and was also approved by the independent Shareholders of the Company. Such Commission Split of 60% was subsequently used for the provision of IB services by us to Qilu Securities.

We entered into an agreement with Qilu Securities to provide stock option trading IB services to Qilu Securities in January 2015 following Qilu Securities' obtaining the license from the CSRC to engage in stock option trading business. There was no historical figure of commissions for the years ended December 31, 2012, 2013 and 2014. In addition, the Company did not record any commissions for the stock option trading IB services provided to Qilu Securities for the five months ended May 31, 2015, as Qilu Securities' stock option trading is a new business started in early 2015. However, we expect to introduce potential clients to Qilu Securities for the engagement of its stock option trading business for the rest of 2015 and the two years ending December 31, 2016 and 2017.

Annual caps: The maximum aggregate annual amounts in respect of the commissions for the mutual IB services between Qilu Securities and/or its associates and us for the three years ending December 31, 2015, 2016 and 2017 shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31		
	<i>(RMB/thousand)</i>		
	2015	2016	2017
Commissions for Qilu Securities' and/or its associates' IB services provided to us	22,000	27,000	32,000
Commissions for the IB services provided to Qilu Securities and/or its associates by us	720	825	900

Basis of caps:

In respect of the IB services provided by Qilu Securities and/or its associates to us, the above proposed annual caps are determined on the basis of: (i) historical transaction amounts and their growth trend; (ii) the expected trading turnover of the futures brokerage business introduced by Qilu Securities and/or its associates for the year ending December 31, 2015 of approximately RMB4,044 billion, which is estimated based on (a) the actual trading turnover of the futures brokerage business introduced by Qilu Securities and/or its associates for the five months ended May 31, 2015 of approximately RMB1,426 billion

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based on the unaudited management account of the Company; (b) the expected trading turnover of the futures brokerage business introduced by Qilu Securities and/or its associates for the remaining seven months ending December 31, 2015 of approximately RMB2,618 billion, which is estimated based on the average monthly trading turnover achieved for the two months ended April and May 2015 of approximately RMB374 billion according to the unaudited management account of the Company; and (c) the continuous introduction of new futures products as well as recent measures undertaken by the PRC government such as reduction in base interest rate by the PBOC in November 2014, March 2015 and May 2015; (iii) the expected trading turnover of the futures brokerage business introduced by Qilu Securities and/or its associates for the years ending December 31, 2016 and 2017 of approximately RMB5,257 billion and RMB6,834 billion, respectively, which are estimated by taking into consideration the expected growth trend; (iv) the commission of approximately RMB8,000,000 for the provision of IB services by Qilu Securities and/or its associates to us based on the unaudited management accounts of our Company for the five months ended May 31, 2015; (v) the net brokerage commission rate of 0.00090%, 0.00085% and 0.00080% for the years ending December 31, 2015, 2016 and 2017, respectively, by making reference to the actual average net brokerage commission rate of 0.00090% for the five months ended May 31, 2015; and (vi) the Commission Split of 60.0%.

In respect of the IB services provided by us to Qilu Securities, the above proposed annual caps are determined on the basis of: (i) the Commission Split of 60%; (ii) the commission (with the deduction of fees charged by the stock exchanges) currently charged by Qilu Securities for its stock options trading business to other Independent Third Parties, which amounts to approximately RMB6.00 for each of the stock options contract. In respect of our provision of IB services to Qilu Securities, the commission for each of the stock options contract adopted in the estimation of the proposed annual caps is RMB6.00, RMB5.50 and RMB5.00 for the three years ending December 31, 2015, 2016 and 2017, respectively, and the estimated number of stock options trading contracts we introduce to Qilu Securities is approximately 200,000, 250,000 and 300,000 for the three years ending December 31, 2015, 2016 and 2017, respectively; and (iii) along with the significant surge in trading volume in the PRC stock market since the end of 2014, the sentiment of the investing public has been improving and is expected to improve in the foreseeable future. These improvements in investor confidence will in turn result in an increase in trading volume for the stock option trading business that we may introduce to Qilu Securities through IB services.

B. Purchase of the Asset Management Schemes

Principal terms:

In our ordinary and usual course of business, we participate in asset management schemes in which Qilu Securities and/or its associates act as the manager. Qilu Securities and/or its associates, as the manager, will invest under such asset management schemes in a certain scope of financial products. In this regard, we will pay management fees, subscription fees and redemption fees (as the case may be, and hereinafter collectively referred to as the “Asset Management Fees”) to Qilu Securities and/or its associates.

Reasons for the transaction: Investment in asset management schemes could enhance our Company’s investment return and, compared with other investments, the return on investment in assets management schemes is relatively more stable and thus in line with our risk management requirements. In addition, we have invested in various asset management schemes managed by Qilu Securities and/or its

CONNECTED TRANSACTIONS

associates during the Track Record Period and thus have developed a better understanding of their investment strategy and performance, which are the key factors we consider in selecting asset management schemes.

Pricing terms:

- (i) Asset Management Fees charged by Qilu Securities and/or its associates as the manager in the asset management plan are calculated based on our investment amounts times the Asset Management Fees rate;
- (ii) for collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such plan equally and evenly, including our Group and any other Independent Third Party investor participants. Such Asset Management Fees rate is also consistent with the prevailing market rates for collective asset management schemes issued by any other Independent Third Parties with similar scales of investment;
- (iii) for targeted asset management schemes, (a) the Asset Management Fees rate charged by Qilu Securities and/or its associates as the manager is comparable to, or no less favorable than, those charged by Qilu Securities to any other Independent Third Parties for similar targeted asset management schemes; (b) such Asset Management Fees rate is also comparable to, or no less favorable to our Group, than the Asset Management Fees rate charged by any other Independent Third Party managers in other similar targeted asset management schemes we participated in; and (c) the Asset Management Fees rate has been determined based on arm's-length negotiations between Qilu Securities and/or its associates and us with reference to the prevailing market commission rates for similar targeted management schemes on normal commercial terms, and is consistent with market practice; and
- (iv) the investment in the asset management schemes in which Qilu Securities and/or its associates act as the manager, including the charged Asset Management Fees rate, as well as the proposed annual caps for the three years ending December 31, 2015, 2016 and 2017, have been approved by the Shareholders of our Company at its general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Qilu Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

Historical figures: During the Track Record Period, we participated in five asset management schemes in which Qilu Securities and/or its associates acted as the manager. The average daily amount invested in these asset management schemes were approximately RMB75.6 million, RMB50.0 million and RMB70.8 million, and the Asset Management Fees paid by us to Qilu Securities and/or its associates were approximately RMB756,000, RMB500,000 and RMB708,000, respectively, for the three years ended December 31, 2012, 2013 and 2014. The Asset Management Fees rates for such five asset management plans were 1%, 1.2%, 0.58%, 1% and 1%, respectively. For the first quarter of 2015, the Company did not invest in the new asset management schemes in which Qilu Securities and/or its associates acted as the manager.

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Annual caps: The maximum aggregate annual amounts in respect of the Asset Management Fees charged by Qilu Securities and/or its associates to us for the three years ending December 31, 2015, 2016 and 2017 shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31		
	<i>(RMB/thousand)</i>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Average daily amount invested	130,000	210,000	260,000
Asset Management Fees (based on the Asset Management Fees rate of 1% and the subscription fee of RMB10,000)	1,310	2,110	2,610

Basis of caps: The above proposed annual caps are determined on the basis of: (i) historical transaction amounts; (ii) the average daily amount invested in the above-mentioned asset management schemes for the first quarter of 2015 was approximately RMB39.3 million, which was lower than the average daily amount invested in 2014 due to the expiration of certain asset management schemes in late 2014 and the first quarter of 2015. The Company intends to invest an additional RMB100 million for the rest of 2015 in the asset management schemes in which Qilu Securities and/or its associates acted as the manager; (iii) the Asset Management Fees of approximately RMB117,000 paid by us to Qilu Securities and/or its associates for the first quarter of 2015 based on the unaudited management accounts of the Company; (iv) the assumed Asset Management Fees rate at 1%, which is derived based on the Asset Management Fees rates during the Track Record Period. Given that the types of schemes the Company is going to invest in are expected to be similar to those invested in during the Track Record Period, the Asset Management Fees rate is expected to remain constant, despite the increase in the investment amount; and (v) in consideration of the increase in our Company's revenue for the previous year and the additional cash inflow incurred by the Company's expansion of business, the capital utilized by the Company in investment, including investment in asset management schemes, increased accordingly and drove up the corresponding Asset Management Fees paid by us to Qilu Securities and/or its associates.

C. Securities Brokerage and other Financial Services Provided by Qilu Securities

Principal terms: As part of our treasury management activities, Qilu Securities and/or its associates provide securities brokerage services to us in our ordinary course of business, including but not limited to trading of securities, bonds and funds, subscription for new shares and reverse repo of treasury bonds, as well as other financial services in our ordinary course of business, for which Qilu Securities and/or its associates charged us commissions.

Reasons for the transaction: In consideration of the enhancement of our capital return by securities investment during our treasury management activities and our lack of necessary qualifications for engaging in securities brokerage business, we need to conduct securities brokerage and other financial services through Qilu Securities and/or its associates, which has/have the necessary qualifications for engaging such business. In addition, we have engaged Qilu Securities and/or its associates for securities brokerage and other financial services during the Track Record Period. Qilu Securities and/or its associates have developed a good understanding of our needs. This is a key factor we consider in selecting a provider of securities brokerage and other financial services.

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Pricing policy:

- (i) the commissions charged by Qilu Securities and/or its associates for its provision of securities brokerage and other financial services will be determined based on arm's-length negotiations between Qilu Securities and/or its associates and us with reference to the prevailing market commission rate for similar business, and is consistent with the market practice;
- (ii) the commissions charged by Qilu Securities and/or its associates for its provision of securities brokerage and other financial services to us is comparable to, or no less favorable than, those charged by Qilu Securities and/or its associates to any other Independent Third Parties, and the corresponding commission rate is also within the range as set by futures exchanges in the PRC; and
- (iii) the securities brokerage and other financial services provided by Qilu Securities and/or its associates, including the commission rate, as well as the proposed annual caps for the three years ending December 31, 2015, 2016 and 2017, have been approved by our Shareholders at its general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Qilu Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

Historical figures: For the securities brokerage and other financial services provided by Qilu Securities and/or its associates, the historical figures of commissions for the three years ended December 31, 2012, 2013 and 2014 were RMB15,000, nil and RMB81,000, respectively. In relation to our securities trading business, we did not conduct any securities trading business through Qilu Securities and/or its associates for the two years ended December 31, 2012 and 2013, and the historical trading volume of such securities trading business for the year 2014 was approximately RMB151 million. The commission of RMB15,000 in 2012 was derived from our trading of funds products with Qilu Securities and/or its associates.

Annual caps: The maximum aggregate annual amounts of commissions in respect of the securities brokerage and other financial services provided by Qilu Securities and/or its associates for the three years ending December 31, 2015, 2016 and 2017 shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31		
	<i>(RMB/thousand)</i>		
	2015	2016	2017
Commissions	500	600	700

Basis for Caps: The above proposed annual caps are determined on the basis of: (i) historical transaction amounts and their growth trend; (ii) the average commission rate of 0.05% during the Track Record Period . While the average commission rate of securities brokerage services in the PRC has been decreasing due to intense competition, such rate is assumed to remain constant in determining the proposed annual caps for the sake of prudence; (iii) our securities trading volume conducted through Qilu Securities and/or its associates of approximately RMB163 million, and commission of RMB80,000 paid by us to Qilu Securities and/or its associates for the first quarter of 2015 based on the unaudited management accounts of

CONNECTED TRANSACTIONS

the Company; and (iv) in consideration of the relatively moderate performance of the PRC stock market during the Track Record Period (excluding the period at the end of 2014), in particular the suspension of new stocks application, the securities trading amount of our Company was hence relatively small historically. According to the data published by CSRC on its official website, trading volume of the PRC stock market for the first quarter of 2015 already reached RMB41,215.8 billion, equivalent to approximately 55.4% of the annual trading volume for the year 2014. Along with the significant surge of trading volume in the PRC stock market since the end of 2014, the sentiment of the investing public has been improving and is expected to improve in the foreseeable future. Such improvement in market sentiment, together with the larger amount of capital available for the Company's investment activities, including investment in stocks, is expected to result in higher trading volume of securities to be conducted through Qilu Securities and/or its associates, as well as the corresponding commission paid by us. The volume of our securities trading conducted via Qilu Securities and/or its associates is expected to be approximately RMB1,000 million, RMB1,200 million and RMB1,400 million for the three years ending December 31, 2015, 2016 and 2017, respectively.

Continuing Connected Transactions Relating to Shandong Steel and/or its Associates

Futures Brokerage Services Framework Agreement

In our ordinary and usual course of business, we provide futures brokerage and other related financial services to our clients, including Shandong Steel and/or its associates. To comply with the requirements of the Listing Rules, we entered into a futures brokerage services framework agreement (the "Futures Brokerage Services Framework Agreement") with Shandong Steel to provide futures brokerage and other related financial services to Shandong Steel and/or its associates in the ordinary and usual course of our business. As the highest applicable percentage ratio for the three financial years ending December 31, 2015, 2016 and 2017 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 0.1%, but less than 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and announcement requirement under Rule 14A.35 of the Listing Rules. The Futures Brokerage Services Framework Agreement is for a fixed term of three years effective on the Listing Date, subject to renewal.

Principal terms: In our ordinary and usual course of business, we provide futures brokerage and other related financial services to Shandong Steel and/or its associates. In particular, we execute trading of commodity and financial futures on behalf of Shandong Steel and/or its associates in return for a management fee and performance fee (the "Futures Commissions") for such services.

Reasons for the transaction: Both the steel production and sales business of Shandong Steel and Laiwu Steel as well as the assets management and proprietary investment business of Qilu Securities and/or its associates require hedging through futures trading. Given that our Company has extensive experience in the futures industry, Shandong Steel and/or its associates entrusted us to provide futures brokerage services to them. Besides, we have been continuously providing futures brokerage services to Shandong Steel and/or its associates (including but not limited to Laiwu Steel and Qilu Securities) during the Track Record Period. As Shandong Steel and/or its associates have a better understanding of the respective investment and capital needs of each other, we believe that we would be able to achieve higher return from our services provided.

CONNECTED TRANSACTIONS

Pricing policy:

- (i) although our Futures Commissions for the provision of futures brokerage services vary according to different kinds of futures products, such commissions for the same futures products are applicable to all our clients, including Shandong Steel and/or its associates, and other Independent Third Party clients;
- (ii) the Futures Commissions charged by us for the provision of futures brokerage and other financial services are based on a percentage that is at a premium of the Futures Commissions rate set by the PRC futures exchanges with reference to the prevailing market futures commissions rate, and is consistent with market practice; and
- (iii) the provision of futures brokerage and related financial services to Shandong Steel and/or its associates, including the Futures Commissions rates, as well as the proposed annual caps for the years ending December 31, 2015, 2016 and 2017, have been approved by the Shareholders of the Company at its general meeting held in April 2015 prior to entering into such Futures Brokerage Services Framework Agreement. Qilu Securities, an associate of Shandong Steel, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

Historical figures: For the futures brokerage services provided by us to Shandong Steel and/or its associates, the historical figures of the Futures Commissions for the years ended December 31, 2012, 2013 and 2014 were approximately RMB278,600, RMB628,100 and RMB 920,300, respectively.

Annual caps:

The maximum aggregate annual amounts of Futures Commissions in respect of our provisions of futures brokerage and other related financial services to Shandong Steel and/or its associates for the three years ending December 31, 2015, 2016 and 2017 shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31		
	<i>(RMB/thousand)</i>		
	2015	2016	2017
Futures Commissions	5,000	7,000	9,000

Basis for Caps: The above proposed annual caps are determined on the basis of: (i) historical transaction amounts and their growth trend; (ii) the Futures Commissions of approximately RMB1,282,900 in respect of the futures brokerage and related financial services provided by us to Shandong Steel and/or its associates for the first quarter of 2015 according to the Company's unaudited management accounts; and (iii) that both the steel production and sales business of Shandong Steel and Laiwu Steel as well as the assets management and proprietary investment business of Qilu Securities require hedging through futures trading, and such businesses are expected to grow continuously.

CONNECTED TRANSACTIONS

OUR DIRECTORS' CONFIRMATION

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions described in the subsection headed “– Non-exempt Continuing Connected Transactions” above have been and will continue to be entered into in our ordinary and usual course of business, on normal commercial terms, and are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps for these transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

THE JOINT SPONSORS' CONFIRMATION

The Joint Sponsors are of the view that the continuing connected transactions described in the subsection headed “– Non-exempt Continuing Connected Transactions” above have been and will continue to be entered into in the ordinary and usual course of business, on normal commercial terms, and are fair and reasonable and in the interest of our Company and Shareholders as a whole, and that the proposed annual caps of these transactions mentioned are fair and reasonable and in the interest of our Company and Shareholders as a whole.

WAIVERS FROM THE STOCK EXCHANGE

In relation to the continuing connected transactions described under the subsection headed “– Continuing Connected Transactions Relating to Qilu Securities and/or its Associates” above (the “Non-exempt Continuing Connected Transactions with Qilu Securities and/or its Associates”), the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2015, 2016 and 2017 is expected to be more than 5%. Accordingly, the Non-exempt Continuing Connected Transactions with Qilu Securities and/or its Associates are subject to the announcement requirement under Rule 14A.35 of the Listing Rules, the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.36 of the Listing Rules. In relation to the continuing connected transactions described under the subsection headed “– Continuing Connected Transactions Relating to Shandong Steel and/or its Associates” above (the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates”), the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2015, 2016 and 2017 is expected to be more than 0.1% but less than 5%. Accordingly, the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates are subject to the announcement requirement under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

As the continuing connected transactions described in the subsection headed “– Non-exempt Continuing Connected Transactions” above are expected to continue on a continuing or recurring basis, our Directors consider that strict compliance with the above announcement and independent shareholders' approval requirements would be impractical, and such requirements would lead to unnecessary administrative costs and would be unduly burdensome to us.

Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted us pursuant to Rule 14A.105 of the Listing Rules, waivers from strict compliance with 1) the announcement and independent shareholders' approval requirements in respect of the Non-exempt Continuing Connected

CONNECTED TRANSACTIONS

Transactions with Qilu Securities and/or its Associates under Rules 14A.35 and 14A.36 of the Listing Rules, and 2) the announcement requirement under Rule 14A.35 of the Listing Rules in respect of the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates, provided that the total value of transactions for each of the three years ending December 31, 2015, 2016 and 2017 will not exceed the relevant annual caps set forth above. Our independent non-executive Directors and auditors of our Company will review whether the Non-exempt Continuing Connected Transactions with Qilu Securities and/or its Associates and the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates have been entered into based on the principal terms and pricing policies under the relevant agreements as disclosed in this section. Such confirmations by our independent non-executive Directors and our auditors will be disclosed annually, as required by the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

OVERVIEW

The Board currently consists of ten Directors, including two executive Directors, four non-executive Directors and four independent non-executive Directors. All Directors are elected by the general meeting for a term of three years and their positions are renewable upon re-election. The major functions and powers of the Board include, but not limited to, convening the general meetings, reporting its own performance at the general meetings, implementing the resolutions passed at the general meetings, deciding on the operating plans and investment plans of our Company, formulating annual financial budget and final accounts plans, formulating profit distribution plans and plans on loss coverage etc. and exercising other powers as conferred by the Articles of Association.

The Supervisory Committee consists of six Supervisors. Employee representative Supervisors are elected democratically by the employee representative congress, while non-employee representative Supervisors are elected by the Shareholder's general meeting. The term of office of each Supervisor is three years, renewable upon re-election. The major powers and functions of the Supervisory Committee include, but are not limited to, monitoring the financial activities of our Company; supervising the performance of duties of Directors and senior management and proposing the removal of Directors and senior management who have acted in breach of the laws, administrative regulations, the Articles of Association or the resolutions passed at the Shareholders' general meeting.

The following tables set forth information regarding our Directors, Supervisors and senior management. As advised by our PRC legal advisers, Jia Yuan Law Offices, all of the Directors, Supervisors and senior management have met the qualification requirements under the relevant PRC laws and regulations for their respective positions.

Directors, Supervisors and Senior Management

The table below sets forth certain details concerning the Directors of our Company.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Major duties</u>	<u>Date of joining the Company</u>	<u>Date of appointment as Director</u>	<u>Relationship with other Directors, Supervisors and senior management</u>
Chen Fang (陳方)	56	Chairman of the Board and executive Director	Responsible for convening and chairing Board meetings, supervising the implementation of various resolutions of the Board by the operation team, representing our Company in the exercise shareholders' rights of our Company over Luzheng Trading	September 2006	September 2006	None

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Major duties</u>	<u>Date of joining the Company</u>	<u>Date of appointment as Director</u>	<u>Relationship with other Directors, Supervisors and senior management</u>
Liang Zhongwei (梁中偉)	41	Executive Director	Taking a proactive role in managing key decisions and our Company's affairs based on the opinions of the staff representative meeting on key matters on corporate reform and development as well as key reform plans and material regulations and systems involving the interests of staff	March 2009	June 2012	None
Lu Xiangyou (呂祥友)	44	Non-executive Director	Participating in formulating general corporate business plans, strategies and major decisions of our Company through the Board	April 2010	April 2010	None
Zhang Yunwei (張雲偉)	51	Non-executive Director	Same as above	September 2006	September 2006	None
Li Chuanyong (李傳永)	47	Non-executive Director	Same as above	December 2012	December 2012	None
Liu Feng (劉峰)	42	Non-executive Director	Same as above	February 2015	February 2015	None
Gao Zhu (高竹)	53	Independent non-executive Director	Same as above	December 2012	December 2012	None
Yu Xuehui (于學會)	49	Independent non-executive Director	Same as above	January 2008	January 2008	None
Wang Chuanshun (王傳順)	50	Independent non-executive Director	Same as above	December 2012	December 2012	None
Wei Wei (魏巍)	40	Independent non-executive Director	Same as above	June 2015	June 2015	None

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table sets forth information regarding the Supervisors of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Major duties</u>	<u>Date of joining the Company</u>	<u>Date of appointment as supervisor</u>	<u>Relationship with other Directors, Supervisors and senior management</u>
An Tie (安鐵)	46	Chairman of the Supervisory Committee	Leading the Supervisory Committee and monitoring the operation and financial activities of the Company	September 2006	November 2008	None
Zhang Shouhe (張守合)	52	Supervisor	Monitoring the operation and financial activities of the Company	December 2012	December 2012	None
Hu Yuyue (胡俞越)	54	Supervisor	Same as above	June 2015	June 2015	None
Mu Yong (牟勇)	39	Supervisor	Same as above	June 2015	June 2015	None
Li Xisheng (李喜生)	47	Employee representative Supervisor	Same as above	February 2007	March 2015	None
Wang Hairan (王海然)	37	Employee representative Supervisor	Same as above	July 2007	June 2015	None

The below table sets forth information regarding the senior management of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Major duties</u>	<u>Date of joining the Company</u>	<u>Date of appointment as senior management</u>	<u>Relationship with other Directors, Supervisors and senior management</u>
Li Xuekui (李學魁)	52	General manager	Leading the overall operations and management of the Company, and in charge of the human resources department and settlement and financing department	September 2006	August 2008	None
Liu Yunzhi (劉運之)	46	Deputy general manager & Chief financial officer	In charge of the general office (the office of the Board) and the financial planning department	January 2007	January 2008	None

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Major duties	Date of joining the Company	Date of appointment as senior management	Relationship with other Directors, Supervisors and senior management
Jiang Hui (姜輝)	43	Deputy general manager	Assisting the general manager in recruitment of different types of professional staffs, connecting and cooperating with various financial institutions and private funds, and in charge of the management center in Shanghai region	December 2008	December 2008	None
Pei Yingjian (裴英劍)	42	Deputy general manager	In charge of the information technology department and customer service center	November 2006	July 2012	None
Yu Dongxin (余東新)	45	Deputy general manager	In charge of brokerage business management department, IB business service department, research institutes and investment advisory business, and be responsible for the preparation of overseas futures agency business	November 2006	July 2012	None
Liu Jianmin (劉建民)	45	Deputy general manager	In charge of the risk control and settlement department and the asset management department	January 2000	September 2014	None
Ji Qiu hong (季秋紅)	43	Chief Risk Officer	In charge of the compliance department and the internal audit department	February 2014	September 2014	None
Meng Tao (孟濤)	33	Secretary of the Board	Organization and coordination of the listing, ordinary business management of the Board, information disclosure and investor relations management	December 2006	February 2015	None

DIRECTORS

Executive Directors

Mr. Chen Fang (陳方), aged 56, joined our Company in September 2006. At present, he is the chairman of the Board and an executive Director of our Company, and serves as a vice president of Qilu Securities, the chairman of the board of directors of Luzheng Trading, the part-time vice president of China Futures Association, the president of Shandong Futures Association, and the chairman of industry development committee of the Dalian Commodity Exchange. Mr. Chen Fang served as the deputy director of the experimental center, the deputy director of the center of environmental science and the deputy dean of

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

the department of environmental engineering in succession in Shandong University from December 1978 to July 2000; served as the deputy office manager of Shandong Province Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資有限公司) from July 2000 to May 2001 and participated in the preparation and establishment of Qilu Securities; served as the general manager of the research and development center, and the general manager of Beijing business department in succession in Qilu Securities from May 2001 to April 2004; served as a vice president of Qilu Securities since April 2004; served as the chairman of the Board and an executive director of our Company since September 2006; and served as the chairman of the board of directors of Luzheng Trading since April 2013. Mr. Chen Fang served as the vice president of Shandong Securities and Futures Association from March 2007 to April 2009; served as the president of Shandong Futures Association since April 2009; served as a council member of China Futures Association since May 2008; served as part-time vice president of China Futures Association since September 2014; and served as the chairman of industry development committee of Dalian Commodity Exchange since March 2012. Mr. Chen Fang was awarded as one of “2010 Top Ten Finance Leaders in Shandong” in March 2011. Save as disclosed above, Mr. Chen Fang has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Chen Fang graduated from Shandong TV University majoring in electronics and obtained a college diploma in February 1982; graduated from school of management of Shandong University majoring in political economics and obtained the graduation certificate for postgraduates in June 2000; and graduated from the Nanyang Business School of Nanyang Technological University, Singapore, majoring in management economics and obtained a master degree in July 2000. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Chen Fang which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Liang Zhongwei (梁中偉), aged 41, joined our Company in March 2009. At present, he is an executive Director of the Company as well as the secretary general of Shandong Futures Association. Mr. Liang Zhongwei served as an employee of Shandong Province Qilu Trust and Investment Co., Ltd. from July 1997 to May 2001; held several positions in Qilu Securities, including assistant to the departmental general manager and departmental senior business manager in succession, from May 2001 to March 2009; served as the office manager and the general manager of human resources department of our Company from March 2009 to September 2013; served as our executive Director of the Company since June 2012; and served as the secretary general of Shandong Futures Association since September 2013. Save as disclosed above, Mr. Liang Zhongwei has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Liang Zhongwei graduated from Shandong University majoring in international economy in July 1997 and obtained a bachelor degree. Mr. Liang Zhongwei obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 2001. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Liang Zhongwei which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Non-Executive Directors

Mr. Lu Xiangyou (呂祥友), aged 44, joined our Company in April 2010. At present, he is a non-executive Director of our Company, as well as a vice president, the chief compliance officer and the chief risk officer of Qilu Securities. Mr. Lu Xiangyou served as a staff member, the deputy director and director of the finance division of Laiwu Steel in succession from July 1993 to September 2002; served as the office

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manager and secretary of the board of directors of Luyin Investment Group Co., Ltd. (魯銀投資集團股份有限公司) from September 2002 to April 2007, during which he served as a member of trust group of risk disposal work team of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from November 2004 to April 2007; served in several positions including the general manager of the human resources department, director and the secretary of the board of directors exercising the responsibilities of the chief compliance officer in Qilu Securities from January 2007 to September 2014; served as the director of the organization department of the party committee of Qilu Securities since December 2008; served as the non-executive Director of our Company since April 2010; served as a non-executive director of Wanjia Funds Management Co., Ltd. since March 2013; served as a vice president and the chief compliance officer of Qilu Securities since August 2013 and served as the chief risk officer of Qilu Securities since December 2013. Save as disclosed above, Mr. Lu Xiangyou has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Lu Xiangyou graduated from Shandong Economic College (山東經濟學院) majoring in accounting and obtained a college diploma in July 1993; graduated from Shandong Provincial Party School majoring in economics and management and obtained a university diploma in December 1998; and graduated from Tianjin University majoring in business administration and obtained a master degree in March 2010. Mr. Lu Xiangyou obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province in February 2006, and the qualification of accountant issued by the Ministry of Finance of the PRC in May 2000. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Lu Xiangyou which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Zhang Yunwei (張雲偉), aged 51, joined our Company in September 2006. At present, he is a non-executive Director of the Company, as well as the office manager of Qilu Securities. Mr. Zhang Yunwei served as a staff member of trust department and the deputy office manager in succession in Shandong Qilu Trust and Investment Co., Ltd. from August 1999 to May 2001; served as the deputy office manager, the general manager in succession of the department of legal affairs from May 2001 to January 2007; served as the office manager of Qilu Securities since September 2004; and served as a non-executive Director of our Company since September 2006. Save as disclosed above, Mr. Zhang Yunwei has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Zhang Yunwei graduated from Shandong University majoring in history and obtained a bachelor degree in July 1986; and graduated from Nankai University majoring in political economics and obtained a master degree in July 1999. Mr. Zhang Yunwei obtained the qualification of lawyer issued by the Ministry of Justice of the PRC in September 1996 and obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province in December 2002. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Zhang Yunwei which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Li Chuanyong (李傳永), aged 47, joined the Company in December 2012. At present, he is a non-executive Director of the Company as well as the deputy manager of Yongfeng Group. Mr. Li Chuanyong served in several positions in succession in Yongfeng Group from June 2003 to April 2005, including the manager of the steel mill, the deputy manager and the director of the steel works; served as the deputy general manager of Yongfeng Group since April 2005; and served as a non-executive Director of our Company since December 2012. Save as disclosed above, Mr. Li Chuanyong has not held a directorship in

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any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Li Chuanyong graduated from Anshan Institute of Iron & Steel Technology majoring in metal pressure and processing and obtained a bachelor degree in July 1990. Mr. Li Chuanyong obtained the qualification of senior engineer issued by the Personnel Department of Heilongjiang Province in September 2000. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Li Chuanyong which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Liu Feng (劉峰), aged 42, joined our Company in February 2015. At present, he is a non-executive Director of our Company, as well as the deputy director of capital operation department of SSAI Holdings. Mr. Liu Feng served as an office staff member of the silkworm cocoon division and the deputy director member of trading and development department of Shandong Silk Corporation (山東省絲綢總公司) from July 1994 to June 2002; served as the manager of comprehensive administration department of Shandong Hengrun Silk Co., Ltd. (山東恒潤絲綢有限公司) from July 2004 to January 2005; served as a principal staff member in the silkworm cocoon unit of Qingdao Hairun Investment Group (青島海潤投資集團) from January 2005 to December 2005; served as the principal staff member of comprehensive administration office of Shandong Silk Group (山東省絲綢集團有限公司) from January 2006 to June 2009; served in several positions in SSAI Holdings in succession from June 2009 to August 2014 such as the clerical director of comprehensive department, the director of equity operation of capital operation department and the senior business manager of capital operation department; served as the deputy director of the capital operation department of SSAI Holdings since August 2014; and served as a non-executive Director of our Company since February 2015. Save as disclosed above, Mr. Liu Feng has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Liu Feng graduated from Shandong Agricultural University, majoring in sericultural science and obtained a bachelor degree in July 1994; graduated from Renmin University of China majoring in business administration and obtained a master degree in July 2004; and graduated from Shandong Agricultural University majoring in the management of agricultural economy and obtained a doctoral degree in June 2011. Mr. Liu Feng obtained the qualification of agronomist issued by the Intermediate Review Commission of Professional Titles in Agriculture of Shandong Silk Corporation in October 1999. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Liu Feng which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Independent Non-Executive Directors

Mr. Gao Zhu (高竹), aged 53, joined the Company in December 2012. At present, he is an independent non-executive Director of our Company as well as the president of UOB Investment (China) Limited (大華大陸投資有限公司) and an independent director of AVIC Futures Co., Ltd. (中航期貨有限公司). Mr. Gao Zhu served as the deputy general manager of Minmetals Investment & Development Co., Ltd. (五礦投資發展有限公司) from June 2002 to October 2010; served as the chairman of the board of directors of Minmetals Haiqin Futures Co., Ltd. (五礦海勤期貨有限公司) from August 2003 to November 2010; served as deputy chairman of the board of directors of Minmetals Star Futures Brokerage Co., Ltd. (五礦實達期貨經濟有限公司) from August 2003 to November 2010; served as the general manager and the deputy chairman of the board of directors of Minmetals Securities Co., Ltd. (五礦證券有限公司) from September 2010 to November 2011; served as the president of UOB Investment (China) Limited since November 2011; served as independent non-executive Director of our Company since December 2012; and served as

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independent director of AVIC Futures Co., Ltd. since December 2014. Save as disclosed above, Mr. Gao Zhu has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Gao Zhu graduated from University of Science and Technology Beijing majoring in industrial management engineering and obtained his highest degree – a master degree in July 1988. Mr. Gao Zhu obtained the qualification of senior international business executive issued by the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Gao Zhu which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Yu Xuehui (于學會), aged 49, joined our Company in January 2008. At present, he is an independent non-executive Director of our Company as well as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所), an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) and an independent director of Minsheng Royal Fund Management Co., Ltd (民生加銀基金管理有限公司). Mr. Yu Xuehui served in succession as the broker and deputy manager of the trading department of China International Futures Co., Ltd. (中國國際期貨經紀有限公司) from March 1993 to October 1997; served as a partner of Beijing Hanhua Law Firm (北京市漢華律師事務所) from November 1997 to October 2005; served as a partner of Beijing Besthold Law Firm from November 2005 to April 2007; served as a partner of Beijing Zhongtian Law Firm since May 2007; served as an independent non-executive Director of our Company since January 2008; served as an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) since March 2008; and served as an independent director of Minsheng Royal Fund Management Co., Ltd. since August 2012. Save as disclosed above, Mr. Yu Xuehui has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Yu Xuehui graduated from Peking University majoring in economic law and obtained a bachelor degree in July 1988. Mr. Yu Xuehui was granted the qualification of lawyer by Beijing Municipal Bureau of Justice in June 1993. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Yu Xuehui which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Wang Chuanshun (王傳順), aged 50, joined our Company in December 2012. At present, he serves as an independent non-executive Director of the Company, and serves as the director of Shandong Branch of Ruihua Certified Public Accountants. Mr. Wang Chuanshun served as a division member in Shandong Audit Office from July 1990 to November 1994; served as deputy director of audit department of Shandong Accounting Firm (山東會計師事務所) from November 1994 to December 1998; served as vice general manager and senior accountant in Shandong Zhengyuan Accounting Firm (山東正源會計師事務所) from January 1999 to December 2004; served as director of Shandong Branch of Ruihua Certified Public Accountants (瑞華會計師事務所山東分所) since January 2005; and served as an independent non-executive Director of our Company since December 2012. Save as disclosed above, Mr. Wang Chuanshun has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Wang Chuanshun graduated from Shandong Agricultural University majoring in management of agricultural economy and obtained a bachelor degree in July 1987; graduated from Southwest Agricultural University and obtained a master degree in July 1990, majoring in agricultural economy and management with research orientation of agriculture accounting and audit. Mr. Wang Chuanshun obtained the qualification of senior accountant issued by the Department of Personnel of Shandong Province in November 1997, and obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in June 2000. Save as disclosed in this prospectus, there

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are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Wang Chuanshun which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Wei Wei (魏巍), aged 40, joined our Company in June 2015. At present, he is an independent non-executive Director of our Company as well as the assistant of the president of CCB International (Holdings) Limited (建銀國際(控股)有限公司). Mr. Wei Wei served as the senior macroeconomic analyst of the research department of China Galaxy Securities Co., Ltd. (中國銀河證券有限公司) from September 2004 to February 2005; served in several positions in the CSRC from March 2005 to July 2014, including the principal staff member of the fourth division of fund department, principal staff member of the overseas division of futures department II, deputy director of the general office and director of the audit office, and director of the innovation department; served as a staff member in China Construction Bank Corporation in August 2014; served as the assistant of the president of CCB International (Holdings) Limited since September 2014; and served as an independent non-executive Director of our Company since June 2015. Save as disclosed above, Mr. Wei Wei has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Wei Wei graduated from Dongbei University of Finance and Economics majoring in finance in the school of finance and obtained a master degree in January 2001; and graduated from Dongbei University of Finance and Economics majoring in finance in the school of finance and obtained a doctoral degree in August 2004. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Directors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Wei Wei which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SUPERVISORS

Mr. An Tie (安鐵), aged 46, joined our Company in September 2006. At present, he serves as the chairman of the Supervisory Committee of our Company as well as the general manager of the audit department of Qilu Securities. Mr. An Tie served in succession as the director of the trust department and deputy general manager of securities clearing department of Shandong Qilu Trust and Investment Co., Ltd. from July 1997 to May 2001; served in succession as the person in charge of the clearing center and general manager of the securities business department of Qilu Securities from May 2001 to December 2004; and served as the general manager of the audit department of Qilu Securities since January 2005. Save as disclosed above, Mr. An Tie has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. An Tie graduated from Shandong University majoring in archive management and obtained a college diploma in July 1989; graduated from Shandong Cadre Correspondence University (山東幹部函授大學) majoring in economic management, and obtained a university diploma in June 1997; completed his courses majoring in monetary banking in Chinese Academy of Social Sciences in July 1999; and graduated from Asia International Open University (Macau) majoring in business management and obtained a master degree in April 2008. Mr. An Tie obtained the qualification of accountant issued by the Ministry of Personnel of the PRC in May 1997. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Supervisors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. An Tie which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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Mr. Zhang Shouhe (張守合), aged 52, joined our Company in December 2012. At present, he is a Supervisor of our Company, as well as the deputy general manager of Jinan Energy Investment. Mr. Zhang Shouhe served as the director of finance department and the deputy chief accountant in Jinan Economic Development Corporation (濟南市經濟發展總公司) from April 1992 to July 1998; served in succession as the deputy manager and the manager of the planning and finance department of Jinan Energy Investment from July 1998 to May 2009; and served as the deputy general manager since June 2009. Save as disclosed above, Mr. Zhang Shouhe has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Zhang Shouhe obtained the college diploma majoring in industrial enterprise management through the higher education examination program for the self-taught of Shandong Province in August 1987; graduated from Shandong Province Party School majoring in foreign economic management and obtained the university diploma in December 1997. Mr. Zhang Shouhe obtained the qualification of senior accountant issued by the High Review Commission of Professional Title in Accounting in Shandong Province in January 2003. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Supervisors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Zhang Shouhe which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Hu Yuyue (胡俞越), aged 54, joined our Company in June 2015. At present, he is a Supervisor of the Company, and he is also the vice president of China Business History Society (中國商業史學會), the consultant to the drafting group of Futures Law in the National People's Congress, the director of institute of securities and futures of Beijing Technology and Business University, a part-time professor of China Agricultural University and Central South University, a standing director of the Capital Enterprise Reform and Development Society, the director of the Beijing University for Business Administration, a member of the committee of strategic development of Zhengzhou Commodity Exchange, a member of the product committee of Shanghai Futures Exchange, deputy director of expert committee of CFLP Bulk Commodity Market and an independent director of five companies (please refer the below therein for details of these companies). Mr. Hu Yuyue served in several positions in succession in the department of economics of Beijing College of Commerce from August 1983 to April 1999, including teaching assistant, lecturer, associate professor and the director of the teaching and research office of trade and economics; served as a professor of the school of economics and the director of securities and futures institute in Beijing Technology and Business University since May 1999; served as an independent director of Minmetals Futures Co., Ltd. since April 2006; served as an independent director of Inner Mongolia Furui Medical Technology Co., Ltd. (內蒙石福瑞醫療科技有限公司) (listed in Shenzhen Stock Exchange; stock code: 300049) from June 2009 to April 2014; served as an independent director of Nanhua Futures Co., Ltd. (南華期貨股份有限公司) since April 2013; served as an independent director of Beijing Urban Construction Investment & Development Co., Ltd. (北京城建集團有限責任公司) (listed in Shanghai Stock Exchange; stock code: 600266) since December 2013; served as an independent director of Shanghai Ganglian E-Commerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300226) since May 2014; served as an independent director of Sinotex Investment & Development Co., Ltd. (中紡投資發展股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600061) since July 2014; served as a member of the product committee of Shanghai Futures Exchange; and served as the Supervisor of our Company since June 2015. Mr. Hu Yuyue was granted by the Ministry of Education of the PRC the "Research Achievement Award of the Second National Regular Institutions of Higher Learning in Social Science" in December 1998; rewarded as "Excellent Young Elite Teacher of Tertiary Schools in Beijing" by Beijing Municipal Education Commission in 1998; selected to the "Hundred Theoretical Talents Plan for the New Century in Beijing" by Beijing Committee of the Communist Party of

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China in 2001; and was entitled by Beijing Federation of Trade Unions “Hu Yuyue Securities and Futures Research Team – Municipal Staff Innovation Studio” (胡俞越證券期貨研究團隊－市級職工創新工作室) in 2011. Save as disclosed above, Mr. Hu Yuyue has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Hu Yuyue graduated from Nanjing University majoring in history and obtained a bachelor degree in July 1983. Mr. Hu Yuyue was granted the title of professor by Beijing High Professional Technical Title Review Committee in September 1999. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Supervisors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Hu Yuyue which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Mu Yong (牟勇), aged 39, joined our Company in June 2015. At present, he is a Supervisor of the Company, as well as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center (北京金石農業產業投資基金管理中心). Mr. Mu Yong served as a staff member in Sichuan Branch of King & Wood Mallesons (金杜律師事務所) from February 2000 to August 2000; served as a legal consultant of Beijing Capital Management Company Limited (北京首創資產管理有限公司) from July 2003 to March 2005; served in succession as level-4 assistant, level-3 assistant, principal staff member and deputy director of the CSRC from March 2005 to May 2013; served as the general manager of Shanxi Dianshi Equity Investment Co., Ltd. (山西典石股權投資管理有限公司) from June 2013 to December 2014; served as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center since January 2015; and served as a Supervisor of our Company since June 2015. Save as disclosed above, Mr. Mu Yong has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law, and obtained a master degree in July 2003. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Supervisors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Mu Yong which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Li Xisheng (李喜生), aged 47, joined our Company in February 2007. At present, he is an employee representative Supervisor of our Company. Mr. Li Xisheng served as an analyst in Weishen Securities Co., Ltd. (蔚深證券有限公司) from August 2000 to December 2000; served as an analyst in Shanghai Shenyin Wanguo Securities Co., Ltd. (上海申銀萬國證券有限公司) from December 2000 to June 2001; served in succession as an analyst and the deputy general manager in the research and development center of Qilu Securities from June 2001 to February 2007; served in succession as the business director and the deputy general manager of our Company from February 2007 to February 2015 and served as an employee representative Supervisor of our Company since March 2015. Save as disclosed above, Mr. Li Xisheng has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Li Xisheng graduated from Jilin University of Technology (吉林工業大學) majoring in automotive application engineering, and obtained a bachelor degree in July 1991; graduated from Shanghai University of Finance and Economics majoring in business administration, and obtained a master degree in January 1999. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Supervisors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Li Xisheng which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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Mr. Wang Hairan (王海然), aged 37, joined our Company in July 2007. At present, he is an employee representative Supervisor, as well as the manager of the compliance and review department of our Company. Mr. Wang Hairan served in several positions in succession in Sanlong Futures Brokerage Co., Ltd. (三隆期貨經紀有限公司) from December 1999 to February 2007, including an employee of the trading department, dealer of Dalian Commodity Exchange, and the deputy manager of the trading department and manager of audit department; served as the office manager of Sanlong Industrial Group (三隆實業集團) from March 2007 to June 2007; served in succession as an employee and the person in charge in the compliance and audit department of the Company from July 2007 to January 2009; served as the deputy manager of Beijing business department of the Company from January 2009 to August 2010; served in succession as an employee and the deputy manager of the compliance and audit department of the Company from August 2010 to April 2014; served as the manager of the compliance and audit department of the Company since April 2014; and served as an employee representative Supervisor of the Company since June 2015. Save as disclosed above, Mr. Wang Hairan has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Wang Hairan graduated from Shandong University, Wei Hai majoring in economic law, and obtained the certificate of college degree in July 1999; graduated from Shandong University majoring in business administration, and obtained the university diploma in January 2008. Save as disclosed in this prospectus, there are no additional matters with respect to the appointment of Supervisors that need to be brought to the attention of the Shareholders and there is no additional information relating to Mr. Wang Hairan which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Li Xuekui (李學魁), aged 52, joined our Company in September 2006. At present, he is the general manager of our Company, as well as a standing director of Shandong Futures Association, the chairman of settlement committee of the Shanghai Futures Exchange and a member of trading committee of Zhengzhou Commodity Exchange. Mr. Li Xuekui served in succession as a teacher and deputy director of academic affairs section of Shandong Banking School of the People's Bank of China (中國人民銀行山東銀行學校) from July 1983 to March 2001; served as the associate professor of Financial College of Shandong Polytechnic University (山東輕工業學院金融職業學院) from March 2001 to November 2002; served in succession in several positions in Qilu Securities from November 2002 to September 2006, including the assistant to the department manager, deputy general manager to the department, general manager to the department and deputy general manager; served as the executive deputy general manager of our Company from September 2006 to August 2008; served as the general manager of our Company since August 2008; served as a member of trading committee of Zhengzhou Commodity Exchange since January 2011; and served as the chairman of settlement committee of the Shanghai Futures Exchange since December 2010. Mr. Li Xuekui served as a council member of Shandong Futures Association since April 2009 and the standing director of Shandong Futures Association since September 2013. Save as disclosed above, Mr. Li Xuekui has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Li Xuekui graduated from Shaanxi Finance College (陝西財經學院) majoring in finance and obtained a bachelor degree in June 1989; graduated from Asia International Open University (Macau) majoring in business administration and obtained a master degree in October 2008. Mr. Li Xuekui obtained the title of associate professor issued by the Office of Educational System Professional Title Reform Group of Shandong Province (山東省教育系統職稱改革領導小組辦公室) in March 2001.

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Mr. Liu Yunzhi (劉運之), aged 46, joined our Company in January 2007. At present, he is the deputy general manager and the chief financial officer of our Company, as well as a non-executive director of Luzheng Trading. Mr. Liu Yunzhi served as a director of the Auditing Firm of the Audit Office of Shandong Province (山東省審計廳審計師事務所) from July 1993 to December 1999; served as a director and the departmental manager in Shandong Shenyuan CPA LLP (山東申元有限責任會計師事務所) from January 2000 to May 2001; served as the departmental manager and deputy senior accountant of Shandong Zhengyuan Hexin (Limited) Certified Public Accountants (山東正源和信有限責任會計師事務所) from June 2001 to January 2002; served as the deputy general manager of the planning and finance department of Qilu Securities from January 2002 to January 2007; and served in succession as deputy general manager and general manager of Jinan business department of the Company from January 2007 to July 2008; served as a member of Financial Committee of the Dalian Commodity Exchange from May 2010 to May 2015; served as the deputy general manager of the Company since January 2008 and the financial officer of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Save as disclosed above, Mr. Liu Yunzhi has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Liu Yunzhi graduated from Jiangxi Finance College (江西財經學院) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) a master degree majoring in business administration in April 2008. Mr. Liu Yunzhi obtained the qualification of senior auditor issued by the High Review Commission of Shandong Province on Qualification of Auditing (山東省審計專業資格高級評審委員會) in May 2002; obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in December 2009; and obtained the qualification of asset valuer issued by the Ministry of Finance of the PRC in October 1999.

Ms. Jiang Hui (姜輝), aged 43, joined our Company in December 2008. At present, she is the deputy general manager of our Company, as well as a non-executive director of Luzheng Trading. Ms. Jiang Hui served as an employee of Heilongjiang Tobacco Futures Co., Ltd. (黑龍江煙草期貨有限公司) from October 1995 to October 1996; served as an employee in Changchun Gaosida Futures Co., Ltd. (長春高斯達期貨有限公司) from October 1996 to December 1999; served as the manager of Dalian business department of Yunnan Binhai Futures Co., Ltd. (雲南濱海期貨有限公司) from December 1999 to January 2001; served as the manager of Dalian business department of Dalian Wanheng Futures Co., Ltd. (大連萬恒期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Save as disclosed above, Ms. Jiang Hui has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Ms. Jiang Hui graduated from Shenyang Sport University (瀋陽體育學院) majoring in physical education and obtained a bachelor degree in July 1992.

Mr. Pei Yingjian (裴英劍), aged 42, joined our Company in November 2006. At present, he is the deputy general manager, as well as the supervisor of information and technology department of our Company and director of Luzheng Information. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of the securities department of Yingda International Trust Co., Ltd. (英大國際信託有限公司) from September 1994 to August 1998; served as the director of the securities department of Shandong International Trust Corporation (山東省國際信託有限公司) from August 1998 to May 2001; served as the director of information and technology department of Qilu Securities from May 2001 to November 2006; served in several positions in succession in our Company

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

from November 2006 to April 2015, including an employee of the information and technology department and general manager of information and technology department; served as the information and technology supervisor of our Company since July 2010; served as the deputy general manager of our Company since July 2012; and served as an executive director of Luzheng Information since February 2015. Save as disclosed above, Mr. Pei Yingjian has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Pei Yingjian graduated from Jinan Machinery University for Employees (濟南機械職工大學) majoring in foreign trade and economy, and obtained the college diploma in July 1994; graduated from Yunnan University majoring in computer science and technology, and obtained a bachelor degree in January 2009. Mr. Pei Yingjian obtained the qualification of engineer issued by Intermediate Review Committee of Shandong Provincial Economic and Trade Commission for Engineering Technology Titles (山東省經濟貿易委員會工程技術職務中級評審委員會) in November 2005.

Mr. Yu Dongxin (余東新), aged 45, joined our Company in November 2006. At present, he is the deputy general manager of our Company, as well as a non-executive director of Luzheng Trading. Mr. Yu Dongxin served as an employee of Jinan Synthetic Fiber Factory (濟南合成纖維廠) from December 1990 to May 1993; served as the manager of settlement department of Shandong Hezexin Financial Information Consulting Co., Ltd. (山東荷澤鑫金融信息諮詢有限公司) from June 1993 to December 1993; served as an employee of Qilu Commodity Exchange from January 1994 to February 1995; served in several positions in succession in Qilu Futures Brokerage Co., Ltd. from February 1995 to November 2006, including the manager of settlement department, manager of business department, manager of Shanghai representative office and manager of business development department; served several positions in our Company from November 2006 to July 2012, including the employee and deputy general manager of settlement department, and the assistant of the general manager of our Company; served as the deputy general manager of our Company since July 2012; and served as a non-executive director of Qilu Trading Co., Ltd. in April 2013. Mr. Yu Dongxin served as the vice secretary-general of Shandong Futures Association since June 2009 to August 2013. Save as disclosed above, Mr. Yu Dongxin has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Yu Dongxin graduated from Shandong University majoring in English language and literature, and obtained the college diploma in December 1991; graduated from Shandong University majoring in English, and obtained the university diploma in December 2007. Mr. Yu Dongxin obtained the qualification of intermediate economist issued by the Ministry of Personnel of PRC in November 2002.

Mr. Liu Jianmin (劉建民), aged 45, joined our Company in January 2000. At present, he is the deputy general manager of our Company and a supervisor of Luzheng Trading. Mr. Liu Jianmin served in succession as the dealer, trading clearing principal and manager of Shanghai trading department of Shandong Metal Material Corporation (山東省金屬材料總公司) from September 1993 to January 2000; served in several positions in our Company from January 2000 to September 2014, including the manager of the market development department, manager of the trading clearing department, assistant of general manager, the general manager of compliance and review department, compliance supervisor, chief risk officer and general manager of the audit department; served as the supervisor of Luzheng Trading since April 2013; and served as the deputy general manager of our Company since September 2014. Save as disclosed above, Mr. Liu Jianmin has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

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Ms. Ji Qihong (季秋紅), aged 43, joined our Company in February 2014. At present, she is the chief risk officer, the general manager of the audit department of and general counsel of our Company. Ms. Ji Qihong served in succession as the technician and assistant engineer in the Transportation Company of Jinan Corporation of Shandong Province Oil Group (山東省石油集團濟南總公司) from July 1992 to June 1998; served as a section member of Shandong Securities Administration Office from June 1998 to October 1999; served in succession as the section member and deputy principal section member of inspection office of Jinan Securities Regulatory Office of the CSRC from October 1999 to August 2001; served in succession as the deputy and principal section member of institutional supervision division of Jinan Securities Office of the CSRC from August 2001 to March 2004; served in several positions in Shandong Regulation Bureau of the CSRC from March 2004 to February 2014, including the principal section member of institutional supervision division, assistant investigator, deputy director and investigator, deputy director of futures supervision division and investigator, and investigator of office of party affairs (discipline inspection and supervision office); served as an employee of our Company from February 2014 to September 2014; served as the chief risk officer and general manager of the audit department of our Company since September 2014; and served as general counsel of our Company since December 2014. Save as disclosed above, Ms. Ji Qihong has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Ms. Ji Qihong graduated from Shandong University majoring in applied chemistry, and obtained a bachelor degree in July 1996; and graduated from Shandong University majoring in civil law and commercial law, and obtained a master degree in November 2008. Ms. Ji Qihong obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in May 2000; obtained the qualification of senior economist issued by the Department of Personnel of Shandong Province in February 2005; and obtained certificate of Certified Enterprise Risk Manager issued by Asia Association of Risk and Crisis Management in August 2014.

Mr. Meng Tao (孟濤), aged 33, joined our Company in December 2006. At present, he is a joint company secretary, the secretary of the Board, the office manager, and the general manager of settlement and financing management department of our Company. Mr. Meng Tao served as an employee of the finance department of Qilu Futures Brokerage Co., Ltd. from July 2004 to December 2006; served in several positions in succession in our Company from December 2006 to March 2012, including an employee and the business manager of the planning and finance department, the business manager and deputy manager of the clearing department, and the general manager of Wenzhou business department; served as an employee Supervisor of our Company from December 2012 to February 2015; served as the office manager of the Company since March 2012; served as the general manager of the settlement and financing management department of our Company since April 2012; served as the general manager of the asset management department of our Company from July 2014 to December 2014; served as the secretary of the Board since February 2015; and served as a joint company secretary of our Company since April 2015. Save as disclosed above, Mr. Meng Tao has not held a directorship in any other listed company in the three years immediately preceding the Latest Practicable Date. Mr. Meng Tao graduated from Qingdao University majoring in accounting, and obtained a bachelor degree in July 2004. Mr. Meng Tao was rated by Finance Office of Shandong Province as one of “Top 100 Young Financial Leaders in Shandong Province in 2013” in December 2014.

COMPANY SECRETARIES

Mr. Meng Tao also serves as a joint company secretary of the Company. For Mr. Meng Tao’s biography, see “Directors, Supervisors, Senior management and Employees – Senior Management.”

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Ms. Ng Wing Shan (吳詠珊) has been appointed as a joint company secretary of the Company with effect from the Listing Date. At present, she is the assistant vice president of SW Corporate Services Group Limited. Ms. Ng Wing Shan has more than ten years of professional experience in the company secretarial field, and has extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies. Ms. Ng Wing Shan is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

BOARD COMMITTEES

Our Company has established five Board committees in accordance with the relevant PRC laws and regulations and the corporate governance practice under the Hong Kong Listing Rules, including the Strategic Development Committee, the Nomination Committee, the Audit Committee, the Remuneration and Appraisal Committee and the Risk Control Committee.

STRATEGIC DEVELOPMENT COMMITTEE

The Strategic Development Committee of our Company consists of five Directors, including Chen Fang, Gao Zhu, Yu Xuehui, Liu Feng and Li Chuanyong. Mr. Chen Fang is currently the chairperson of the Strategic Development Committee. The main responsibilities of the Strategic Development Committee of our Company are as follows:

1. to understand and command the basic operation status of our Company;
2. to review and command the domestic and foreign industry trend as well as relevant policies;
3. to review and planning on the medium-to-long-term development strategies, plans and proposals of our Company, and to formulate and make suggestions for the medium-to-long-term strategies of our Company while assess and control the implementation thereof;
4. to review different business segments of our Company and to manage the medium-to-long-term strategies and development plans for respective segments;
5. to review and make suggestions for the annual operation plans and investment proposals of our Company;
6. to review and make suggestions for plans regarding the increase or reduction of the registered capital, and proposals of corporate merger, division, and dissolution or change of the form of our Company;
7. to review and make suggestions for matters such as major investment, financing, guarantee, capital operation, asset reorganization and asset operation which are subject to the consideration and approval of the Board;
8. to review and make suggestions for the expansion in new markets, new businesses and new products of our Company;

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9. to review and make suggestions for any major reorganization and restructuring proposal of our Company;
10. to review and make suggestions for other material matters affecting our Company's development; and
11. other duties as conferred by the Board.

NOMINATION COMMITTEE

The Nomination Committee of our Company consists of five Directors, including Gao Zhu, Yu Xuehui, Wang Chuanshun, Liang Zhongwei and Zhang Yunwei. Gao Zhu is currently the chairperson of the nomination committee. The main responsibilities of the Nomination Committee are as follows:

1. to review and make suggestions on the selection criteria and procedures for Directors and senior management to the Board;
2. to review the structure, number of members and composition (including skills, knowledge and experience) of the Board at least on an annual basis, to make suggestions for the change of the Board due to strategic change of our Company, and to formulate its own Board diversity policy;
3. to recommend candidates for Directors and senior management to the Board, to examine candidates for Directors and senior management, and to make suggestions to the Board in respect of the appointment or reappointment of Directors and the succession plans of Directors, particularly the chairman and president;
4. to evaluate the independence of independent non-executive Directors; and
5. other duties as conferred by the Board.

AUDIT COMMITTEE

The Audit Committee of our Company consists of five Directors, including Wang Chuanshun, Gao Zhu, Yu Xuehui, Lu Xiangyou and Liu Feng. Wang Chuanshun is currently the chairperson of the audit committee. The Audit Committee is mainly responsible for reviewing and supervising our financial reporting procedures, including:

1. to make suggestions for the appointment, reappointment and change of external auditors, handle issues relating to the resignation or removal of such external auditors and make suggestions for the appointment contracts and audit fees of relevant external auditors; to evaluate the work of the external auditors, and supervise the independence, the objectivity, and the effectiveness, quality and results of work procedures of the external auditors;
2. to supervise the internal audit system and its implementation;

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3. to guide and evaluate the work of the internal auditing department, and to make suggestions as to the appointment and removal of the head of the internal auditing department;
4. to review the financial information of our Company and its disclosure;
5. to review and supervise the effective implementation of the financial reporting system, internal control system and risk management system of our Company;
6. to evaluate and discuss the following arrangements formulated by our Company: whistle-blowing system for employees of our Company to report on any potential misconducts regarding the financial reporting, internal control and other aspects of our Company; to ensure that our Company has put in place appropriate arrangements to carry out fair and independent investigations and follow-up actions for such issues; to serve as the major channel between our Company and the external auditor and to supervise their relationship; and
7. other duties as conferred by the Board.

REMUNERATION AND APPRAISAL COMMITTEE

The Remuneration and Appraisal Committee of our Company consists of five Directors, including Yu Xuehui, Gao Zhu, Wang Chuanshun, Lu Xiangyou and Liang Zhongwei. Yu Xuehui is currently the chairperson of the Remuneration and Appraisal Committee. The main responsibilities of the Remuneration and Appraisal Committee are as follows:

1. to make suggestions for the appraisal standards, general remuneration policies and structure for our Company's Directors and senior management to the Board, and the establishment of formal and transparent procedures for the formulation of the remuneration policies, and to provide corresponding suggestions;
2. to review and approve the proposed remuneration of the management according to corporate operating objectives. The committee shall consider all factors including the remuneration paid by comparable companies, time commitments and duties of the Directors, employment conditions of other positions of our Company, and whether the remuneration shall be based on the results performance;
3. to make suggestion to the Board or determine the remuneration packages of individual executive Directors and senior management, which include benefits in kind, pension and compensation payments, including any compensation payable for loss or termination of their office or appointment according to the authority;
4. to make suggestions to the Board for the specific remuneration of individual executive Directors and senior management members, including non-monetary benefits, pension and compensation (including compensation for the loss or termination of office or termination of appointment);
5. to make suggestions to the Board for the remuneration of non-executive Directors;

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

6. to make suggestions to the Board for the relevant compensation paid to executive Director and senior management for their loss or termination of office or the end of their appointment, and the compensation arrangements regarding the removal or dismissal of Directors due to misconduct (and to ensure the arrangements conform to the terms of contracts, or that otherwise the compensation shall be reasonable and appropriate);
7. to ensure a Director shall not participate in determining his own remuneration;
8. to take charge of the examination and supervision on the implementation of the Company's remuneration system; and
9. other duties as conferred by the Board.

RISK CONTROL COMMITTEE

The Risk Control Committee of our Company consists of three Directors, including Yu Xuehui, Gao Zhu and Zhang Yunwei. Yu Xuehui is currently the chairperson of the Risk Control Committee. The main responsibilities of the Risk Control Committee are as follows:

1. to review and assess on the risk position of our Company;
2. to review and assess on the risk control of our Company;
3. to make suggestions on the optimization of our Company's risk management and internal control;
4. to supervise the legal compliance of our Company's basic management system, decision making procedures and risk control structure; and
5. other duties as conferred by the Board.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Company offers the executive Directors, non-executive Directors, Supervisors and the senior management, as its employees, compensation in the form of salaries, incentive payments, housing allowances, pensions and other social insurance benefits. Independent non-executive Directors of the Company receive compensation according to their duties (including serving as members or chairmen of the Board committees).

For the three years ended December 31, 2012, 2013 and 2014, the total compensation after tax paid to our Directors, Supervisors and the senior management by us was RMB4.1 million, RMB4.6 million and RMB4.0 million, respectively. In accordance with the current arrangements, the total compensation after tax payable to the Directors, Supervisors, senior managements by us for the year ending December 31, 2015 is expected to be approximately RMB4.4 million.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

For the three years ended December 31, 2012, 2013 and 2014, the five highest paid individuals of our Group excluded any director or supervisor. For the three years ended December 31, 2012, 2013 and 2014, the total compensation after tax paid to the five highest paid individuals by the Group was approximately RMB3,186,318, RMB3,477,078 and RMB3,725,400, respectively.

During the Track Record Period, no compensation was paid by our Group or received by any Directors, Supervisors or the five highest paid individuals as incentives for joining our Group or, when they had joined our Group, as compensation for loss of office.

During the Track Record Period, none of our Directors or Supervisors of the Company waived any compensation. Save as disclosed above, during the Track Record Period, there were no other payments paid or payable to our Directors, Supervisors or five highest paid individuals by our Company or any of its subsidiaries.

COMPLIANCE ADVISER

We have appointed Qilu International Capital as our compliance adviser (the “Compliance Adviser”) upon Listing in order to comply with Rule 3A.19 of the Hong Kong Listing Rules.

We have appointed Qilu International Capital as our Compliance Adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the date of the Listing of our Shares on the Stock Exchange and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

The Compliance Adviser shall provide our Company with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and act as one of the principal channels of communication between our Company and the Stock Exchange when necessary;

Our Company agrees to indemnify the Compliance Adviser for actions against and losses incurred by the Compliance Adviser arising out of, or in connection with, certain events including the performance by the Compliance Adviser of its duties under the agreement;

The Compliance Adviser will act as our Company’s additional channel of communication with the Hong Kong Stock Exchange;

Our Company will terminate the appointment of the Compliance Adviser if the Compliance Adviser’s work does not meet our expectation. However, if, after the termination of the appointment of the Compliance Adviser, our Company does not have a compliance adviser for the purposes of meeting the requirements of Rule 19A.05(3)(a) of the Hong Kong Listing Rules, our Company shall not be entitled to exercise such right unless a new compliance adviser acceptable to the Hong Kong Stock Exchange has been appointed by our Company in accordance with the requirements of Rule 19A.05(3)(a) of the Hong Kong Listing Rules. The Compliance Adviser will have the right to terminate its term of office at any time by notice.

SHARE CAPITAL

SHARE CAPITAL

This section presents certain information regarding the share capital of our Company following the completion of the Global Offering.

As of the Latest Practicable Date, the registered share capital of our Company was RMB750 million, divided into 750,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

<u>Description of Shares</u>	<u>Number of shares</u>	<u>Approximate percentage of registered share capital</u>
Domestic Shares	725,000,000	72.50%
H Shares issued and sold to public Shareholders (excluding NSSF) pursuant to the Global Offering	250,000,000	25.00%
H Shares to be offered for sale by the Selling Shareholders under the Global Offering ⁽¹⁾	<u>25,000,000</u>	<u>2.50%</u>
Total Share Capital	<u><u>1,000,000,000</u></u>	<u><u>100%</u></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>Description of Shares</u>	<u>Number of shares</u>	<u>Approximate percentage of registered share capital</u>
Domestic Shares	721,250,000	69.52%
H Shares issued and sold to public Shareholders (excluding NSSF) pursuant to the Global Offering	287,500,000	27.71%
H Shares to be offered for sale by the Selling Shareholders under the Global Offering ⁽¹⁾	<u>28,750,000</u>	<u>2.77%</u>
Total Share Capital	<u><u>1,037,500,000</u></u>	<u><u>100%</u></u>

⁽¹⁾ In accordance with relevant PRC regulations regarding the reduction of state-owned shares, our state-owned shareholders are required to transfer to NSSF such number of Domestic Shares as in aggregate would be equivalent to 10% of the number of the new Shares to be issued by the Company under the Global Offering, or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both. NSSF issued a letter on April 27, 2015 to instruct us to arrange for the sale of the Sale Shares and remit the proceeds therefrom to the account designated by NSSF. See the paragraph headed "Reduction of State-owned Shares" below for more details.

SHARE CAPITAL

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by Qilu Securities, Yongfeng Group, SSAI Holdings, Jinan Energy Investment, Yantai Shengli and Linglong Group and, therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws.

According to stipulations made by the State Council’s securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, the requisite internal approval processes (but without the necessity of shareholders’ approval by class) have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities 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 and to be traded as H Shares on the Stock Exchange, such transfer and conversion will be subject to 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 shareholder voting by class 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 our Shareholders and the public of any proposed conversion.

As confirmed by our PRC legal advisors, Jia Yuan Law Offices, the Articles of Association are consistent with the relevant PRC laws and regulations on the conversion of domestic shares.

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 our Domestic Shares 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 conditioned on (i) our H Share Registrar lodging with the Stock Exchange a letter confirming the

SHARE CAPITAL

proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (ii) 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 transferred 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 unlisted Shares held by it into H Shares, except for the unlisted Shares to be converted and transferred to the NSSF in connection with the Global Offering, which is detailed in the sub-section headed “Reduction of State-owned Shares” of this section.

RANKING

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. 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 RMB. Apart from certain qualified domestic institutional investors in the PRC or through Shanghai-Hong Kong Stock Connect, 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 and qualified foreign strategic investors. We shall pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB. See “Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V – Summary of the Articles of Association” in this prospectus for details of the circumstances under which general meetings and class meetings of the Company are required.

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 the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and our 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 from the Listing Date. We have not approved any share issue plan other than the Global Offering.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The Company Law provides that in relation to the Hong Kong Public Offering of a company, the shares issued by a company prior to the Hong Kong Public Offering shall not be transferred for a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and shall not be transferred for a period of one year from the Listing Date. However, the Shares to be transferred to NSSF by state-owned Shareholders in accordance with relevant PRC regulations regarding the reduction of state-owned shares, are not subject to such statutory restrictions on transfer following their transfer to NSSF.

SHARE CAPITAL

REDUCTION OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding the reduction of state-owned shares, the Selling Shareholders are required to transfer to NSSF such number of Domestic Shares as in aggregate would be equivalent to 10% of the number of the new Shares to be issued by the Company under the Global Offering (being 25,000,000 H Shares before the exercise of the Over-allotment Option and 28,750,000 H Shares after the exercise in full of the Over-allotment Option), or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both. Pursuant to a letter issued by NSSF (She Bao Ji Jin Fa [2015] No. 65) on April 27, 2015, NSSF instructed us to (i) arrange for the sale of the Sale Shares as part of the Global Offering, and (ii) remit the proceeds from the sale of the Sale Shares to an account designated by NSSF.

The reduction of state-owned shares by the Selling Shareholders was approved by SASAC on March 14, 2015. The conversion of those shares into H Shares and the offering for sale of the Sale Shares were approved by CSRC on May 18, 2015. We have been advised by our PRC legal advisers, Jia Yuan Law Offices, that the transfer and the conversion, and the offering for sale of the Sale Shares, have been approved by the relevant PRC authorities and are legal under the PRC laws and regulations.

REGISTRATION OF SHARES NOT LISTED ON AN 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 an overseas stock exchange with the CSDCC within 15 business days upon listing and provide a written report to the CSRC regarding the centralized registration and deposit of its non-overseas listed shares as well as the current offering and listing of shares.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with four cornerstone investors (the “Cornerstone Investors”, and each a “Cornerstone Investor”), who have agreed to subscribe, or cause their designated entities to subscribe, for such number of our Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of approximately US\$40 million (approximately HK\$312 million) (the “Cornerstone Placing”) at the Offer Price.

Assuming an Offer Price of HK\$2.90 (being the low end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be 107,587,000 representing approximately (i) 39.1% of the Offer Shares, assuming that the Over allotment Option is not exercised; (ii) 10.8% of the Shares in issue upon completion of the Global Offering assuming that the Over-allotment Option is not exercised; and (iii) 10.4% of the Shares in issue upon completion of the Global Offering assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$3.27 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be 95,413,000, representing approximately (i) 34.7% of the Offer Shares, assuming that the Over allotment Option is not exercised; (ii) 9.5% of the Shares in issue upon completion of the Global Offering assuming that the Over-allotment Option is not exercised; and (iii) 9.2% of the Shares in issue upon completion of the Global Offering assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$3.64 (being the high end of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investors would be 85,715,000, representing approximately (i) 31.2% of the Offer Shares, assuming that the Over allotment Option is not exercised; (ii) 8.6% of the Shares in issue upon completion of the Global Offering assuming that the Over-allotment Option is not exercised; and (iii) 8.3% of the Shares in issue upon completion of the Global Offering assuming that the Over-allotment Option is fully exercised.

The Cornerstone Placing will form part of the International Offering and none of such Cornerstone Investors will subscribe for any Offer Share under the Global Offering (other than and pursuant to their respective cornerstone investment agreements). The Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respects with the other fully paid H Shares in issue upon completion of the Global Offering and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company (as defined under the Hong Kong Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer 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” in this prospectus.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and independent of other Cornerstone Investors, not our connected person and not an existing Shareholder or close associates of our Group.

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 or around Monday, July 6, 2015.

CORNERSTONE INVESTORS

CORNERSTONE INVESTORS

We set out below a brief description of our Cornerstone Investors:

CM International Capital

CM International Capital Limited (“CMIC”) has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$12 million at the Offer Price. Assuming the Offer Price of HK\$2.90, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that CMIC would subscribe for would be 32,276,000, representing approximately 3.2% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.27, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CMIC would subscribe for would be 28,624,000, representing approximately 2.9% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.64, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that CMIC would subscribe for would be 25,714,000, representing approximately 2.6% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

CMIC is an exempted company with limited liability incorporated under the laws of the Cayman Islands and a wholly owned subsidiary of China Minsheng Investment Corp., Ltd. (“CMI”). CMI is a large private investment company organized by the All-China Federation of Industry and Commerce and launched by 59 well-known private enterprises from throughout China. CMI was established and registered in Shanghai in May 2014, with a registered capital of RMB50 billion. CMI’s businesses encompass equity investment, equity investment management, business consulting, financial consulting, industrial investment, asset management, and investment consulting.

Farallon

Certain investment vehicles (collectively, the “Farallon Entities”) managed by Farallon Capital Management, L.L.C. (“Farallon”) have agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$2.90, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that the Farallon Entities would subscribe for would be 26,897,000, representing approximately 2.7% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.27, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that the Farallon Entities would subscribe for would be 23,853,000, representing approximately 2.4% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.64, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that the Farallon Entities would subscribe for would be 21,429,000, representing approximately 2.1% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

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The Farallon Entities are managed by Farallon. Farallon is a global institutional asset management firm founded in 1986 that manages equity capital for institutions, including college endowments, charitable foundations and pension plans, and for high net worth individuals. Farallon is headquartered in San Francisco and has offices in London, Singapore, Hong Kong, Tokyo and São Paulo. Farallon invests globally across asset classes, seeking to achieve superior risk-adjusted returns through a process of bottom-up fundamental analysis that emphasizes capital preservation. Farallon has been a registered investment adviser with the United States Securities and Exchange Commission since 1990.

Roche & Owen

Roche & Owen Associates (PTE) Limited (“ROA”) has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$2.90, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that ROA would subscribe for would be 26,897,000, representing approximately 2.7% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.27, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that ROA would subscribe for would be 23,853,000, representing approximately 2.4% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.64, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that ROA would subscribe for would be 21,429,000, representing approximately 2.1% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Established in April 1990, ROA is actively involved in the public listed stock market and global fixed income market. ROA focuses on investing in China and Hong Kong companies listed on the Stock Exchange. It also acted as anchor investors in certain initial public offerings. ROA has also partnered with certain financial institutions to manage ROA’s own RMB onshore bond and equity fund in China. Funding of ROA is supported by an Asian long history family office, which is primarily engaged in commodity trading business such as palm oil, and presently diversified into other lines of business, i.e. agriculture, building, property, distributor, and telecommunication. To the best knowledge of our Company, the Asian family office mentioned above is an Independent Third Party and independent of other Cornerstone Investors, not our connected person and not an existing Shareholder or close associates of our Group.

CITIC CAPITAL ASSET MANAGEMENT

CITIC CAPITAL (SHEN ZHEN) ASSET MANAGEMENT CO., LTD. (“CITIC CAPITAL ASSET MANAGEMENT”) has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$8 million at the Offer Price. Assuming the Offer Price of HK\$2.90, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that CITIC CAPITAL ASSET MANAGEMENT would subscribe for would be 21,517,000, representing approximately 2.2% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.27, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CITIC CAPITAL ASSET MANAGEMENT would subscribe for would be 19,083,000, representing approximately 1.9% of the Shares in issue immediately following the

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completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.64, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that CITIC CAPITAL ASSET MANAGEMENT would subscribe for would be 17,143,000, representing approximately 1.7% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

CITIC CAPITAL ASSET MANAGEMENT is a limited liability company established under the laws of the PRC and a subsidiary of CITIC Capital Holdings Limited (“CITIC Capital”). CITIC Capital was incorporated in Hong Kong in 2002. CITIC Capital is an alternative investment management and advisory company that manages over US\$4.6 billion of capital for a diverse base of international and Chinese investors and focuses on private equity, real estate funds, structured investment and finance, asset management and venture investments. CITIC Capital is owned by China Investment Corporation, CITIC Limited, Tencent Holdings Limited and Qatar Holding LLC.

CONDITIONS PRECEDENT

The subscription of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become unconditional by no later than the time and date as specified in those underwriting agreements (in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) and not having been terminated;
- (ii) the Listing Committee of the Hong Kong Stock Exchange having granted the approval for the listing of, and permission to deal in, the H Shares and that such approval or permission has not been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange; and
- (iii) the respective representations, warranties, undertakings and acknowledgements of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are and will be accurate and true in all material respects and there being no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the above Cornerstone Investors has agreed and undertaken that, without the prior written consent of our Company, Qilu International Capital and Haitong International Securities and the Joint Sponsors, it will not, whether directly or indirectly, at any time during the period of six (6) months from the Listing Date, dispose of (as defined in the respective cornerstone investment agreements) any of the Shares subscribed for by it pursuant to the relevant cornerstone investment agreements.

For illustrative purpose only, the calculation of the number of H Shares agreed to be purchased by the Cornerstone Investors under this section is based on the exchange rate of US\$1.0 to HK\$ 7.80.

SUBSTANTIAL SHAREHOLDERS

Immediately following the completion of the Global Offering (and assuming the Over-allotment Option is not exercised), our share capital will comprise 725,000,000 Domestic Shares and 275,000,000 H Shares, representing approximately 72.50% and 27.50% of our total share capital, respectively.

To the best knowledge of our Directors, the following table sets out the shareholdings of our substantial shareholders (as defined under Part XV of the SFO) immediately following the completion of the Global Offering (assuming Over-allotment Option is not exercised):

<u>Name of Shareholder</u>	<u>Class of Shares to be held after the Global Offering</u>	<u>Number of Shares to be held after the Global Offering</u>	<u>Nature of interest</u>	<u>Approximate percentage of shareholding in the relevant class of Shares after the Global Offering</u>	<u>Approximate percentage of shareholding in the total share capital of the Company after the Global Offering</u>
Qilu Securities .	Domestic Shares	632,356,370	Beneficial interest	87.22%	63.24%
Laiwu Steel . . .	Domestic Shares	632,356,370	Interest of controlled corporation (Note 1)	87.22%	63.24%
Shandong Steel .	Domestic Shares	632,356,370	Interest of controlled corporation (Note 2)	87.22%	63.24%

Notes:

1. Laiwu Steel directly holds approximately 45.71% of the equity interest in Qilu Securities and is the holding company of Qilu Securities. Therefore Laiwu Steel is deemed to be interested in the 632,356,370 Shares held by Qilu Securities for the purpose of Part XV of the SFO.
2. Laiwu Steel is wholly owned by Shandong Steel. Therefore Shandong Steel is deemed to be interested in the 632,356,370 Shares indirectly held by Laiwu Steel for the purpose of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

The following table sets out the shareholdings of our substantial shareholders (as defined under Part XV of the SFO) immediately following the completion of the Global Offering (assuming Over-allotment Option is exercised in full):

<u>Name of Shareholder</u>	<u>Class of Shares to be held after the Global Offering</u>	<u>Number of Shares to be held after the Global Offering</u>	<u>Nature of interest</u>	<u>Approximate percentage of shareholding in the relevant class of Shares after the Global Offering</u>	<u>Approximate percentage of shareholding in the total share capital of the Company after the Global Offering</u>
Qilu Securities . . .	Domestic Shares	628,797,975	Beneficial interest	87.18%	60.61%
Laiwu Steel	Domestic Shares	628,797,975	Interest of controlled corporation <i>(Note 1)</i>	87.18%	60.61%
Shandong Steel . .	Domestic Shares	628,797,975	Interest of controlled corporation <i>(Note 2)</i>	87.18%	60.61%

Notes:

1. Laiwu Steel directly holds approximately 45.71% of the equity interest in Qilu Securities and is the holding company of Qilu Securities. Therefore Laiwu Steel is deemed to be interested in the 628,797,975 Shares held by Qilu Securities for the purpose of Part XV of the SFO.
2. Laiwu Steel is wholly owned by Shandong Steel. Therefore Shandong Steel is deemed to be interested in the 628,797,975 Shares indirectly held by Laiwu Steel for the purpose of Part XV of the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares of our Company, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO. Other than that (i) Qilu Securities is owned as to approximately 45.71% and controlled by Laiwu Steel; and (ii) Laiwu Steel is wholly owned by Shandong Steel, to the best knowledge of the Company, we are not aware of any other relationship among our substantial shareholders as of the Latest Practicable Date. We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

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The following discussion and analysis should be read in conjunction with our consolidated financial statements included in “Appendix I – Accountant’s Report,” together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRSs.

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 the largest futures firm headquartered in Shandong with a diversified futures business and a strategic presence in China. In addition, we are one of seven futures firms in China that have been rated “Class A,” the highest class for futures firms, by the CSRC for the past six consecutive years.

Our principal business lines are:

- ***Futures Brokerage:*** We execute trading of commodity and financial futures on behalf of retail, professional and corporate clients for commission and fee income;
- ***Futures Asset Management:*** We manage clients’ assets by investing primarily in the futures and derivatives markets for management fees and performance fees; and
- ***Commodity Trading and Risk Management:*** In 2013, we commenced our commodity trading and risk management business, encompassing commodity trading and OTC derivatives trading. In commodity trading, we take principal positions in the physical trading and futures trading of commodities to meet the risk management needs of our clients while we take advantage of hedging and arbitrage opportunities to manage our risks and earn gains. We also trade other derivatives, primarily options on commodity futures, with our counterparty clients over the counter to provide them with customized commodity risk management solutions.

Our operating income increased from RMB307.8 million in 2012 to RMB322.0 million in 2014. Our profit for the year increased from RMB66.2 million in 2012 to RMB80.3 million in 2014, while our net margin increased from 21.5% in 2012 to 24.9% in 2014.

BASIS OF PRESENTATION

Our financial statements have been prepared in accordance with IFRSs and include applicable disclosure requirements of the Hong Kong Listing Rules and the predecessor Hong Kong Companies Ordinance. We prepared our financial statements on the historical cost basis except for certain financial

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instruments that are measured at their fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Our financial statements are presented in Renminbi, which is our functional currency.

The financial information incorporates our financial statements and financial statements of entities that we controlled (our subsidiaries). Control is achieved when we are exposed to, or have rights to, variable returns from its involvement with the entity and have the ability to affect those returns through its power over the entity. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by our other members. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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.

Market Conditions and Trading Volumes

Our business, particularly our futures brokerage business, is dependent on a combination of factors beyond our control, including the level of trading volumes, interest rates, credit spreads, and market liquidity. In addition, like other futures brokerage and financial services firms in China, our results of operations in the past have been, and in the future may continue to be, materially affected by many other factors, including one or a combination of the following:

- general economic and political conditions in China, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and futures industries;
- the effects of market conditions in China and overseas, particularly in the commodities, futures, fixed-income, equity and credit markets;
- changes in clients' hedging or speculative trading activities in the markets;
- introduction of new products or new market entrants;
- the level and volatility of commodity prices, interest rates, equity and fixed income;
- investor sentiment and confidence in the financial markets; and
- inflation, natural disasters, and acts of war or terrorism.

Brokerage and commission fee income accounted for a substantial portion of our operating income in the past. This operating income source is dependent on client trading volumes. The volume of futures transactions our clients execute with us is directly affected by a number of market factors described above. Factors affecting trading volume on the futures market are complex and are difficult to predict. For example, trading volume on PRC futures exchanges tends to increase during periods of uncertainty due to increased hedging activities and the need to manage the risks associated with, or to speculate on, volatility in the

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commodity markets. In addition, the introduction of new futures and derivatives products on the market may also increase trading volume. Since the launch of CSI300 Index futures in 2010 and treasury bond futures in 2013, the futures trading volume in China has generally increased. However, the slowdown in futures and derivatives trading activities due to reduced volatility of commodity prices or other factors could cause futures trading volume to decrease.

Regulatory Environment

Our results of operations, financial condition and prospects are affected by regulatory developments in the PRC and economic measures undertaken by the PRC government. 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 PRC futures industry, 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 futures industry has been evolving, and the CSRC and other regulatory authorities are committed to reforming the PRC futures industry in a view toward encouraging PRC enterprises to use futures and other derivatives as a key risk management goal and broadening the scope of new products and services that futures firms can offer. For example, in recent years, the CSRC launched stock index futures and treasury bond futures, and encouraged futures firms to conduct new businesses, such as commodity risk management.

Competition and Pricing

The futures industry is highly competitive and we expect competition to continue to intensify, especially in light of the relaxation of the PRC regulatory requirements.

We face intense competition in our business, particularly our futures brokerage business. We face competition from other futures firms, in terms of pricing, the geographic coverage of the branch network and the financial strengths and market position of their controlling shareholders who are securities and financial firms. As of December 31, 2014, there were 150 futures companies in the PRC. Intense price competition has led to an industry-wide trend of decreasing brokerage commission rates.

Brokerage commission and fee income has historically accounted for a majority of our operating income. Due to intensified price competition, our average brokerage commission rate decreased from 0.402 bps in 2012 to 0.259 bps in 2013 and further to 0.223 bps in 2014. We will continue to monitor the pricing of our products and services in relation to our competitors and adjust commission rates and other fee structures to enhance our competitive position while maintaining our profitability.

In addition, increased competition or an adverse change in our competitive position could lead to a reduction of market share and therefore a reduction of operating income and profit. Competition can also raise our costs of hiring and retaining the employees we need to effectively operate our business.

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Interest Rates

In addition to our cash and bank balances, we earn interest income on client settlement reserve funds and our own settlement reserve funds, which we deposit with futures exchanges and commercial banks in China. In 2012, 2013 and 2014, our net interest income was RMB84.5 million, RMB80.3 million and RMB96.2 million, respectively.

Interest rate changes will impact our interest income from our interest-earning assets, and therefore impact our business and results of operations.

Gains from Treasury Management Activities

Gains from our treasury management activities (comprising net investment gains shown in our consolidated statement of comprehensive income, excluding those attributable to derivative financial instruments related to commodities trading and risk management business) amounted to RMB4.0 million, RMB25.4 million and RMB52.2 million, representing approximately 1.3%, 8.0% and 16.2% of our operating income in 2012, 2013 and 2014, respectively.

Our gains from treasury management activities are subject to (i) market volatility, and (ii) our investment decisions and judgments based on our assessments of existing and future market conditions. If our decision-making process fails to minimize losses effectively while capturing gains, or our forecasts do not conform to actual changes in market conditions, or the market risks from holding particular types of products materialize, our investments may not achieve the returns we anticipate, and we could suffer material losses, any of which would materially and adversely affect our business, financial condition and results of operations.

Refunds of Trading Fees

For futures trading, futures firms are required to pay trading and clearing fees to the futures exchanges. Historically, the futures exchanges returned part of the trading fees to futures firms. We have received such refunds of trading fees from the futures exchanges every month during the Track Record Period. The futures exchanges usually refund part of the trading fees we paid in the previous month, without any prior notification. We recognize refunds of trading fees as our other income upon receipt of such from the futures exchanges. In 2012, 2013 and 2014, trading fees refunded by the futures exchanges to us amounted to RMB54.7 million, RMB41.8 million and RMB38.6 million, respectively, representing 20.3%, 16.1% and 17.4% of our operating income from futures brokerage business during those years, respectively.

In deciding on the amount of trading fees refunds, the futures exchanges, at their discretion, consider various factors beyond our control, such as trading volumes of various futures products and client mix. However, none of the futures exchanges in China has published any definitive guidance on the determination of the amount of trading fees refunds, and it is therefore difficult for us to predict or estimate the refund amount we may receive in the future. There is also no assurance that the futures exchanges will not cease to pay or reduce such refunds in the future.

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Business Lines and Product Mix

Our business lines and products and services have different operating margins and growth prospects. As a result, any material changes in our product or service mix, whether due to changes in our growth strategies, regulatory requirements or other reasons, may affect our financial condition and results of operations. Our historical financial results were significantly affected by the commission and fee income from our futures brokerage business. As part of our business strategy, we focus more on corporate clients and professional investors, who generally trade less frequently compared to retail clients, but maintain a higher account balance and have a greater demand for value-added services, such as risk management and asset management. This has partly resulted in a decrease in our commission and fee income while increasing our client balances and interest income from client settlement reserve funds as well as income from our other business lines.

As our products and services become more diverse, we seek to optimize our product and service mix by increasing our interest income and operating income contribution from our asset management and commodity risk management business. In 2012, 2013 and 2014, net commission and fee income from the futures brokerage business accounted for 53.5%, 52.2% and 36.1% of our operating income, respectively, while the aggregate of our net interest income and operating income from our futures asset management and commodity risk management businesses accounted for 27.5%, 26.5% and 36.7% of our operating income, respectively.

As we also seek to diversify our revenue sources by broadening our service offerings and optimizing our customer base, our future results of operations and financial condition could be significantly affected by our ability to design, develop and bring new products and services to market, to transact business with new clients and counterparties, to manage new asset classes and to engage in new markets.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our financial statements in accordance with IFRSs. The Accountant's Report in Appendix I to this prospectus sets forth these significant accounting policies in note 3, which are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 3 of the Accountant's Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. 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 critical to the preparation of our financial statements.

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Significant Accounting Policies

Revenue recognition

Our revenue mainly includes commission and fee income, interest income, dividend income, gain/(loss) on physical commodities trading, and refund by the futures exchange.

Commission and fee income

- (i) Revenue from futures brokerage services is recognized on the date of the transaction;
- (ii) Revenue from asset management services is recognized when services are rendered according to the provisions of the asset underlying contracts; and
- (iii) Consultancy and advisory fees are recognized when the relevant transactions have been arranged or the relevant services have been rendered.

Interest income is recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant 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 net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument but do not consider future credit losses.

Dividend income is recognized when the right to receive payment is established.

Trading gains from financial assets at fair value through profit or loss is recognized on a trade date basis whilst the unrealized profits or losses are recognized from valuation at the end of reporting period. Gain/(loss) on physical commodities trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.

Refund by the futures exchanges is recognized upon receipt.

Physical commodities

Our physical commodities mainly include tradable agricultural products and industrial products. These commodities are initially measured at cost. Cost is determined using the first-in, first-out (FIFO) method, including purchase cost and other variable purchase expenses.

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At the end of each reporting period, physical commodities are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Any excess of the cost over the net realizable value of each inventory is recognized as an impairment provision for diminution in the value of physical commodities in the statement of financial position and impairment charge within gain/(loss) on physical commodities trading.

If, in a subsequent period, the net realizable value of the impaired physical commodities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Financial instruments

Recognition and de-recognition of financial instruments

A financial asset or financial liability is recognized on trade-date, the date when we become a party to the contractual provisions of the instrument.

Financial assets are derecognized when one of the following conditions is met: (i) the contractual rights to receive cash flows from the investments have expired; (ii) when we have transferred substantially all risks and rewards of ownership; (iii) when we neither transfer nor retain substantially all risks or rewards of ownership of the financial asset but have not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognized in equity is recognized in profit or loss.

Financial liabilities are de-recognized when they are extinguished; that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

Classification and measurement

We classify our financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale. The classification of financial assets depends on our intention and ability to hold the financial assets. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: other financial liabilities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss.

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Equity securities, funds, debt securities purchased and collective assets management for the purpose of selling in the near term are classified as financial assets held for trading. Equity securities, funds, debt securities and collective assets management may be designated at fair value through profit or loss upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) 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
- (iii) 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 fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognized and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in the profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss through net trading income in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including accounts receivable, other receivables, refundable deposits, and deposits with exchange-clearing organizations. Loans and receivables are recognized initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized directly in other comprehensive income, and ultimately in the equity, until the financial assets are de-recognized or impaired, at which time the cumulative gains or losses previously recognized in equity should be reclassified from equity to profit or loss. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognized in profit or loss.

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Other financial liabilities

Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method. Transaction costs and fees of other financial liabilities are included in calculating amortized cost using the effective interest method.

Our other financial liabilities mainly comprise “Accounts payable to brokerage clients” and “Other current liabilities” in the statement of financial position. Other financial liabilities are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Determination of fair value

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. We utilize the latest market price for both financial assets and financial liabilities where the latest price falls within the bid-ask spread. In circumstances where the latest market price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish fair value. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and discounted cash flow analysis, among others. In applying valuation techniques to measure fair value, we maximize the use of observable market inputs and minimize the use of inputs that are specific to us.

If the quoted market price is not available and the fair value cannot be reliably measured, a financial asset is measured at cost.

Derivative financial instruments

Our derivatives are commodities futures contracts, stock index futures contracts, OTC commodities forwards and OTC options.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

When entering into physical commodities trading transactions, we have a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin and the non-financial item that is the subject of the contract is readily convertible to cash. The related OTC commodities forwards are recognized accordingly upon entering into such transactions.

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Impairment of financial assets

Except for financial assets at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

Financial assets carried at amortized cost

We assess at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a 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 occurred after the initial recognition of the asset (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:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) we granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in us.

We first assess whether objective evidence of impairment exists individually for financial assets that are individually significant and then collectively assess financial assets that are not individually significant. We perform a collective assessment for individually assessed financial assets with no objective evidence indicating impairment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the 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.

The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of loss is recognized in income statement.

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The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for acquiring and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by us to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed and the amount of loss is determined. Subsequent recoveries of amounts previously written off are recognized in income statement against impairment losses on assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the income statement.

Available-for-sale financial assets

Objective evidence that a debt instrument is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- we, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that we would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

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- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in us, including: adverse changes in the payment status of borrowers in us, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in us; and
- other objective evidence indicating there is an impairment of the financial asset.

A significant or prolonged decline in the fair value of an equity instrument or collective asset management schemes with equity instruments underlying classified as available-for-sale indicates there is objective evidence that the equity instrument is impaired. We assess the fair value of available-for-sale equity instruments individually at statement of financial position date and determine that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, the Company recognizes impairment losses in profit or losses if it concludes this decline is prolonged and expected to last for more than one year based on professional judgment of the Company's research department and business department.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified as profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through profit or loss. Impairment losses on equity instruments or collective asset management schemes with equity instruments are not reversed through profit or loss; increases in their fair value subsequent to impairment are recognized as other comprehensive income.

Offsetting financial instruments

Financial assets and financial liabilities are separately presented in the statement of financial position without any offsetting, except when:

- (i) we have a legally enforceable right to offset the recognized amounts; and

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- (ii) we have intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Significant accounting estimates and judgments

Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, we assess periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis models, etc. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Income taxes

We are mainly subject to income taxes in China. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss 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

Commission and fee income

Our commission and fee income mainly consists of income from the following activities:

- futures brokerage;
- futures asset management services; and
- settlement and clearing services.

We generate commission and fee income in our futures brokerage business by trading futures on behalf of our clients.

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We generate asset management fees, including performance fees, in our asset management business by managing our customers' futures assets and investment portfolios.

We generate commission and fee income from providing settlement and clearing services to other futures companies in our capacity as a general clearing member of the China Financial Futures Exchange.

Commission and fee expenses

Our fee and commission expenses primarily include expenses for the following:

- trading and clearing fees paid to the futures exchanges, primarily futures dealing expenses charged by the futures exchanges for using their trading and clearing systems, at a rate ranging from 0.2bps to 1.5bps of the trading volume or a fee ranging from RMB1.2 to RMB10 per contract per side, depending on the particular type of futures contract; and
- settlement and clearing fees paid to China Financial Futures Exchange on behalf of other futures companies in our capacity as a general clearing member of the China Financial Futures Exchange.

Net interest income

Our interest income mainly includes (i) interest income from bank deposits, including our own balance and a portion of client settlement reserve funds, and (ii) the remaining portion of client settlement reserve funds and our own client settlement reserve funds deposited with future exchanges.

Our interest expense on settlement and clearing services was interest paid to other futures firms which used our settlement and clearing services.

Gain/(loss) on physical commodities trading

Our sales of physical commodities primarily include the proceeds from our sales of physical commodities in relation to our commodity trading and risk management business. Our cost of sales of physical commodities primarily include the cost of sales of physical commodities in relation to our commodity trading and risk management business.

As we engaged in trading of both physical commodities and derivatives in carrying out our commodity trading and risk management business, the gain or loss on trading of physical commodities should be combined with those of derivatives in assessing the operating performance of our commodity trading and risk management business.

Net investment gains

Our net investment gains include (i) gains or losses from our financial assets at fair value through profit or loss, (ii) gains or losses from our available-for-sale financial assets; and (iii) gains or losses from derivatives.

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Our financial assets at fair value through profit or loss refer to our investment in stocks, bonds and funds. Our net investment gains from financial assets at fair value through profit or loss mainly consist of (i) net realized gains or losses from disposal of these financial assets; and (ii) dividends from these financial assets.

Our available-for-sale financial assets refer to our investments in wealth management products, including trust schemes and collective asset management schemes. Our net investment gains from available-for-sale financial assets mainly consist of (i) net realized gains or losses from disposal of these assets; and (ii) dividends and interest income from these financial assets.

Our net investment gains from derivatives, primarily commodity futures, consist primarily of net realized gains from disposal of these financial instruments as part of our commodity trading and risk management business.

Other income – refunds of trading fees

To promote the development of futures markets in the PRC, the futures exchanges implemented the trading fees refund practice. The policies for the refund are adjusted by the exchanges on a continuous basis at their discretion and the calculation of refunds are based on the type of futures products and investors. We have received such refunds of trading fees from the futures exchanges every month during the Track Record Period. The futures exchanges usually refund part of the trading fees we paid in the previous month, without any prior notification. We recognize refunds of trading fees as our other income upon receipt of such from the futures exchanges.

Operating expenses

Our operating expenses primarily include (i) staff costs, (ii) commission to brokerage agents, (iii) introducing broker commission, (iv) depreciation and amortization, (v) other operating expenses, and (vi) impairment losses.

Staff costs

Our staff costs primarily include salaries, bonuses and allowances, contributions to pension schemes and other welfare benefits paid to our employees including our management and directors.

Commission to brokerage agents

We pay commission to our futures brokerage agents, who are independent agents marketing and selling our futures products on our behalf.

Introducing broker commission

Introducing broker commission, which we pay to Qilu Securities for introducing futures clients to us, is based on a certain percentage of the futures brokerage commission income attributable to those clients.

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Depreciation and amortization

Our depreciation and amortization relates primarily to depreciation of our property and equipment, amortization of long-term prepaid assets and amortization of intangible assets.

Other operating expenses

Our other operating expenses refer to administrative and miscellaneous expenses that include, among others, office expenses, rental fees, marketing and distribution expenses, business tax and surcharges, and information systems and maintenance fees.

Other gains, net

Our other gains primarily include government grants and subsidies received from the futures exchanges.

Income tax expenses

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. Our effective income tax rate was 22.6%, 23.1% and 24.0% for 2012, 2013 and 2014, respectively. As our appropriation of futures risk reserve is tax deductible but cannot be classified as expenses under the IFRS, our effective tax rate was below the statutory EIT rate of 25.0% 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.

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RESULTS OF OPERATIONS

The following table summarizes our results of operations for the years indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Commission and fee income	488.8	530.6	396.5
Commission and fee expenses	<u>(324.2)</u>	<u>(365.5)</u>	<u>(272.1)</u>
Net commission and fee income	<u>164.6</u>	<u>165.1</u>	<u>124.4</u>
Interest income	88.0	83.4	98.1
Interest expenses on settlement and clearing service	<u>(3.5)</u>	<u>(3.1)</u>	<u>(1.9)</u>
Net interest income	<u>84.5</u>	<u>80.3</u>	<u>96.2</u>
Gain/(loss) on physical commodities trading	–	2.8	(15.3)
Net investment gains			
– From derivative financial instruments related to commodities trading and risk management business	–	0.3	25.9
– From treasury management activities	4.0	25.4	52.2
Other income – refunds of trading fees	<u>54.7</u>	<u>41.8</u>	<u>38.6</u>
Operating income	<u>307.8</u>	<u>315.7</u>	<u>322.0</u>
Staff costs	(66.6)	(72.6)	(88.5)
Commission to brokerage agents	(56.8)	(47.7)	(28.3)
Introducing broker commission	(7.0)	(9.2)	(11.6)
Depreciation and amortization	(8.9)	(9.2)	(8.5)
Impairment losses	(12.3)	(5.1)	(0.2)
Other operating expenses	<u>(72.9)</u>	<u>(76.2)</u>	<u>(82.7)</u>
Operating expenses	<u>(224.5)</u>	<u>(220.0)</u>	<u>(219.8)</u>
Operating profit	<u>83.3</u>	<u>95.7</u>	<u>102.2</u>
Share of losses in an associate	–	–	(1.1)
Other gains, net	<u>2.2</u>	<u>6.7</u>	<u>4.5</u>
Profit before income tax	<u>85.5</u>	<u>102.4</u>	<u>105.6</u>
Income tax expenses	<u>(19.3)</u>	<u>(23.7)</u>	<u>(25.3)</u>
Profit for the year	<u><u>66.2</u></u>	<u><u>78.7</u></u>	<u><u>80.3</u></u>

The following discussion compares the major components of our operating results in 2012, 2013 and 2014.

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Net commission and fee income

The following table summarizes our net commission and fee income for the years indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Commission and fee income	488.8	530.6	396.5
Commission and fee expense	<u>(324.2)</u>	<u>(365.5)</u>	<u>(272.1)</u>
Net commission and fee income	<u>164.6</u>	<u>165.1</u>	<u>124.4</u>

Commission and fee income

The following table summarizes our net commission and fee income for the years indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Futures brokerage services	419.2	430.0	357.5
Settlement and clearing services income	69.6	100.4	30.4
Asset management services	-	0.2	8.5
Investment consultancy	-	-	0.1
Commission and fee income	<u>488.8</u>	<u>530.6</u>	<u>396.5</u>

Comparisons between 2014 and 2013

Our commission and fee income decreased by 25.3% to RMB396.5 million in 2014 from RMB530.6 million in 2013. This was primarily due to (i) a significant decrease in settlement and clearing services income and (ii) a decrease in our commission and fee income from futures brokerage, partially offset by an increase in our commission and fee income from asset management services.

Our commission and fee income from futures brokerage decreased by 16.9% to RMB357.5 million in 2014 from RMB430.0 million in 2013, due primarily to the decreases in both our futures brokerage trading volume and average brokerage commission rate. Our futures brokerage trading volume decreased by 10.9% to RMB6,941.6 billion in 2014 from RMB7,965.8 billion in 2013, reflecting our efforts to optimize our client base by focusing primarily on institutional clients, who generally trade less frequently but maintain higher account balances than retail clients. As a result of intensified market competition, our average brokerage commission rate decreased from 0.258bps in 2013 to 0.223bps in 2014.

Our settlement and clearing services income decreased by 69.7% from RMB100.4 million in 2013 to RMB30.4 million in 2014, due to a decrease in use of our settlement and clearing services by other futures firms in 2014 compared to 2013.

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Our commission and fee income from asset management increased significantly to RMB8.5 million in 2014 from RMB0.2 million in 2013, due primarily to our AUM growing to RMB182.0 million as of December 31, 2014 from RMB61.0 million as of December 31, 2013.

Comparisons between 2013 and 2012

Our commission and fee income increased to RMB530.6 million in 2013 from RMB488.8 million in 2012. This was due primarily to increases in our settlement and clearing service income as well as our commission and fee income from futures brokerage services.

Our settlement and clearing services income increased by 44.3% from RMB69.6 million in 2012 to RMB100.4 million in 2013, due to an increase in the use of our settlement and clearing services by other futures firms in 2013 compared to 2012.

Our commission and fee income from futures brokerage services increased by 2.6% to RMB430.0 million in 2013 from RMB419.2 million in 2012, due primarily to our increased brokerage trading volume resulting from more active trading activities in the PRC futures market, partially offset by a decrease in our brokerage commission rate. Our brokerage trading volume of futures increased by 46.5% to RMB7,965.8 billion in 2013 from RMB5,436.0 billion in 2012. As a result of intensified market competition, and the greater proportion of trading volume of financial futures, which command lower commission rates, in our overall futures brokerage business, our average brokerage commission rate decreased from 0.402bps in 2012 to 0.258bps in 2013.

Commission and fee expenses

The following table summarizes our commission and fee expenses for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Trading and clearing fees payable to the futures exchanges	(255.3)	(266.0)	(241.9)
Settlement and clearing services expenses	<u>(68.9)</u>	<u>(99.5)</u>	<u>(30.2)</u>
Total	<u>(324.2)</u>	<u>(365.5)</u>	<u>(272.1)</u>

Comparisons between 2014 and 2013

Our commission and fee expenses decreased by 25.6% to RMB272.1 million in 2014 from RMB365.5 million in 2013. This was due to (i) a significant decrease in our settlement and clearing services expenses, corresponding to the decrease in our settlement and clearing services income and (ii) a decrease in our trading and clearing fees payable to the futures exchanges in line with the decrease in our futures brokerage trading volume in 2014.

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Comparisons between 2013 and 2012

Our commission and fee expenses increased by 12.7% to RMB365.5 million in 2013 from RMB324.2 million in 2012. This was due to (i) an increase in our settlement and clearing services expenses, corresponding to the increase in our settlement and clearing services income and (ii) an increase in our trading and clearing fees payable to the futures exchanges, due primarily to an increase in our futures brokerage trading volume, partially offset by decreases in the trading and clearing fee rates charged by the futures exchanges during the same period.

As a result of the foregoing, our net commission and fee income increased slightly from RMB164.6 million in 2012 to RMB165.1 million in 2013 but decreased to RMB124.4 million in 2014.

Net interest income

The following table summarizes our net interest income for the years indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Interest income from deposits with banks	77.4	69.1	84.4
Interest income from deposits with exchange-clearing organizations	10.6	14.3	13.7
Interest expense on settlement and clearing services	<u>(3.5)</u>	<u>(3.1)</u>	<u>(1.9)</u>
Net interest income	<u>84.5</u>	<u>80.3</u>	<u>96.2</u>

Comparisons between 2014 and 2013

Our net interest income increased by 19.8% to RMB96.2 million in 2014 from RMB80.3 million in 2013. This was primarily due to the increased client balances we deposited with banks as we developed more corporate clients and professional investors in 2014.

Comparisons between 2013 and 2012

Our net interest income decreased by 5.0% to RMB80.3 million in 2013 from RMB84.5 million in 2012. This was primarily due to a decrease in our interest income as we used a portion of our own cash and bank balances for investment in wealth management products, which was partially offset by an increase in interest income on deposits with the futures exchanges.

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The following table sets forth the average daily balances and interest rates with respect to our deposits with banks and exchange-clearing organizations during the Track Record Period:

	Year ended December 31,					
	2012		2013		2014	
	<i>Average daily balances</i>	<i>Average interest rate</i>	<i>Average daily balances</i>	<i>Average interest rate</i>	<i>Average daily balances</i>	<i>Average interest rate</i>
	<i>(RMB in millions, except for %)</i>					
Deposits with banks	1,779.3	4.35%	1,919.4	3.60%	2,136.7	3.95%
Deposits with exchange-clearing organizations ⁽¹⁾	1,548.4	0.68%	2,014.1	0.71%	2,027.4	0.68%

⁽¹⁾ Our deposits with exchange-clearing organizations consist of client margin deposits (restricted cash balances) and settlement reserve funds (unrestricted and unutilized cash balances), and we only earn interest on the settlement reserve funds. The average interest rate for our deposits with exchange-clearing organizations equals the interest income from our deposits with futures exchanges divided by the average daily balances of our deposits with futures exchanges.

Gain/(loss) on commodities trading

The following table summarizes our gain/(loss) on commodities trading for the years indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Sales proceeds	–	181.5	306.8
Costs of purchases	–	(178.7)	(322.1)
Gain/(loss) on physical commodities trading	–	2.8	(15.3)
Net gain from derivative financial instruments	–	0.3	25.9
Total gain from commodities trading	–	3.1	10.6

While we have incurred loss on physical commodities trading on a stand-alone basis, after taking into account the net realized gain from derivative financial instruments, our commodities trading and risk management business has been profitable since its commencement in 2013. Net realized gains from as well as unrealized fair value change of derivative financial instruments are classified as “net investment gains” in our consolidated income statements.

Gain from our commodities trading and risk management business increased in 2014 compared to 2013 as (i) the scale of our commodities trading increased in 2014 with more funds deployed and (ii) the commodity market in 2014 was in general volatile, which we believe was favorable to our commodity trading business.

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Net investment gains

The following table summarizes our net investment gains for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Net realized gains from disposal of available-for-sale financial assets	0.8	1.3	3.2
Dividends and interest income from available-for-sale financial assets	2.9	23.8	30.6
Net realized (losses)/gains from disposal of financial assets at fair value through profit or loss	–	(0.2)	18.0
Dividends from financial assets at fair value through profit or loss	–	0.8	–
Net realized gains from derivative financial instruments	–	0.3	26.3
Unrealized fair value change of financial instruments at fair value through profit or loss			
– Financial assets at fair value through profit or loss	0.3	(0.3)	0.4
– Derivative financial instruments	–	–	(0.4)
Total	<u>4.0</u>	<u>25.7</u>	<u>78.1</u>

Comparisons between 2014 and 2013

Our net investment gains increased significantly by 203.9% to RMB78.1 million in 2014 from RMB25.7 million in 2013. This was principally due to the combination of the following:

- Our net realized gains from derivative financial instruments increased from RMB0.3 million in 2013 to RMB26.3 million in 2014 due primarily to an increase in our gains from our futures commodity trading as a result of our increased scale of arbitrage activities and our investment decisions.
- Our dividends and interest income from available-for-sale financial assets increased from RMB23.8 million in 2013 to RMB30.6 million in 2014 due to our increased investments in wealth management products.
- Compared to net realized losses from disposal of financial assets at fair value through profit and loss of RMB0.2 million in 2013, we had net realized gains from disposal of financial assets at fair value through profit and loss of RMB18.0 million in 2014, primarily due to an increase in the return on our equity investments in line with the favorable market conditions on the PRC stock market in 2014.

Comparisons between 2013 and 2012

Our net investment gains increased significantly to RMB25.7 million in 2013 from RMB4.0 million in 2012. This was principally because our dividends and interest income from available-for-sale financial assets increased significantly from RMB2.9 million in 2012 to RMB23.8 million in 2013 due primarily to our increased investments in wealth management products in 2013.

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Other income – refunds of trading fees

The following table summarizes our other income for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Refunds of trading fees	<u>54.7</u>	<u>41.8</u>	<u>38.6</u>

In determining the trading fees refund, the futures exchanges in China may, at their discretion, consider various factors, such as trading volume of futures products and client mix. We have received such refund of trading fees from the futures exchanges every month during the Track Record Period. The futures exchanges usually refund part of the trading fees we paid in the previous month, without any prior notification. We recognize refund of trading fees as our other income upon receipt of such from the futures exchanges. The decrease in trading fees refunded from 2012 to 2013 was primarily attributable to the change in futures exchanges' refunding policies while the decrease in 2014 from 2013 was primarily attributable to our reduced brokerage trading volume.

See “Risk Factors – Risks Relating to Our Business – We face uncertainties associated with the refunds of trading fees by futures exchanges.”

Operating expenses

The following table summarizes our operating expenses for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Staff cost	(66.6)	(72.6)	(88.5)
Commission to brokerage agents	(56.8)	(47.7)	(28.3)
Introducing broker commission	(7.0)	(9.2)	(11.6)
Depreciation and amortization	(8.9)	(9.2)	(8.5)
Impairment loss	(12.3)	(5.1)	(0.2)
Other operating expenses	<u>(72.9)</u>	<u>(76.2)</u>	<u>(82.7)</u>
Operating expenses	<u>(224.5)</u>	<u>(220.0)</u>	<u>(219.8)</u>

Comparisons between 2014 and 2013

Our total expenses remained relatively stable at RMB219.8 million in 2014 compared to RMB220.0 million in 2013.

Comparisons between 2013 and 2012

Our total expenses decreased slightly by 2.0% to RMB220.0 million in 2013 compared to RMB224.5 million in 2012.

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Staff cost

Comparisons between 2014 and 2013

Our staff cost in 2014 was RMB88.5 million, an increase of RMB15.9 million, or 21.9%, from RMB72.6 million in 2013. This was principally due to our hiring of employees with expertise in futures asset management and OTC derivatives, and the general increase in salaries and bonuses in line with the growth of our business.

Comparisons between 2013 and 2012

Our staff cost increased by 9.0% to RMB72.6 million in 2013 from RMB66.6 million in 2012. This was principally due to our hiring of employees with expertise in asset management and an increase in our headcount.

Commission to brokerage agents

Comparisons between 2014 and 2013

Our commission to brokerage agents decreased by 40.7% to RMB28.3 million in 2014 from RMB47.7 million in 2013. This was principally due to a decrease in the trading volume attributable to clients sourced by our brokerage agents.

Comparisons between 2013 and 2012

Our commission to brokerage agents decreased by 16.0% to RMB47.7 million in 2013 from RMB56.8 million in 2012. This was principally due to a decrease in the number of our brokerage agents from 2,831 as of December 31, 2012 to 1,965 as of December 31, 2013 as a result of our initiatives to reduce reliance on brokerage agents with a view to enhancing the quality of our services.

Introducing broker commission

Comparisons between 2014 and 2013

Introducing broker commission increased by 26.1% to RMB11.6 million in 2014 from RMB9.2 million in 2013, due primarily to an increase in the share of commission payable to Qilu Securities from 40% to 60% since July 2014, and the greater amount of business referred by them as a result of an increase in the number of securities branches of Qilu Securities that conducted futures IB business.

Comparisons between 2013 and 2012

Introducing broker commission increased by 31.4% to RMB9.2 million in 2013 from RMB7.0 million in 2012, due primarily to an increase in the brokerage income attributable to the clients referred by Qilu Securities in 2013.

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Depreciation and amortization

Comparisons between 2014 and 2013

Our depreciation and amortization expenses decreased by 7.6% to RMB8.5 million in 2014 from RMB9.2 million in 2013, due primarily to an decrease in depreciation of equipment as certain equipment and software were extended beyond their intended useful lives.

Comparisons between 2013 and 2012

Our depreciation and amortization expenses increased slightly by 3.4% to RMB9.2 million in 2013 from RMB8.9 million in 2012.

Impairment losses

Comparisons between 2014 and 2013

Our impairment losses decreased by 96.1% to RMB0.2 million in 2014 from RMB5.1 million in 2013, due primarily to a decreased amount of impairment losses made on our investments in collective asset management schemes, reflecting the substantial improvement in PRC stock markets in 2014.

Comparisons between 2013 and 2012

Our impairment losses decreased by 58.5% to RMB5.1 million in 2013 from RMB12.3 million in 2012, due primarily to a decreased amount of impairment losses made on our investments in collective asset management schemes, reflecting the gradual improvement in the PRC stock markets in 2013.

Other operating expenses

Comparisons between 2014 and 2013

Our other operating expenses increased by 8.5% to RMB82.7 million in 2014 from RMB76.2 million in 2013, due primarily to the increases in our information system maintenance fees, offices expenses and rental expenses in line with our growth.

Comparisons between 2013 and 2012

Our other operating expenses increased by 4.5% to RMB76.2 million in 2013 from RMB72.9 million in 2012, due primarily to the establishment of Luzheng Trading and an additional futures branch in Chengdu in 2013.

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Operating profit

Comparisons between 2014 and 2013

As a result of the foregoing, our operating profit increased by 6.8% to RMB102.2 million in 2014 from RMB95.7 million in 2013.

Comparisons between 2013 and 2012

As a result of the foregoing, our operating profit increased by 14.9% to RMB95.7 million in 2013 compared to RMB83.3 million in 2012.

Share of losses in an associate accounted for using the equity method

Our share of losses in an associate accounted for using the equity method increased to RMB1.1 million in 2014 compared to nil in 2013, due primarily to our share of losses in the newly-established Rizhao Physical Commodity Trading Board, in which we invested RMB9.8 million in 2014.

Other gains, net

Comparisons between 2014 and 2013

Our other gains decreased by 32.8% to RMB4.5 million in 2014 from RMB6.7 million in 2013, due primarily to the decreases in our government grants. In 2013, we received RMB2.0 million from the Shenzhen government for incorporating Luzheng Trading in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and received RMB1.3 million in relation to the completion of our incorporation as a joint stock company in Shandong from the local government.

Comparisons between 2013 and 2012

Our other gains increased significantly by 204.5% to RMB6.7 million in 2013 from RMB2.2 million in 2012, due primarily to the substantial increases in our government grants discussed above.

Profit before income tax

Comparisons between 2014 and 2013

As a result of the foregoing, our profit before income tax increased by 3.1% to RMB105.6 million in 2014 from RMB102.4 million in 2013.

Comparisons between 2013 and 2012

As a result of the foregoing, our profit before income tax increased by 19.8% to RMB102.4 million in 2013 from RMB85.5 million in 2012.

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Income tax expenses

Comparisons between 2014 and 2013

Our income tax expenses increased by 6.8% to RMB25.3 million in 2014 from RMB23.7 million in 2013, due primarily to an increase in our taxable income in 2014. Our effective income tax rate increased from 23.1% in 2013 to 24.0% in 2014.

Comparisons between 2013 and 2012

Our income tax expense increased by 22.8% to RMB23.7 million in 2013 from RMB19.3 million in 2012, due primarily to an increase in our taxable income in 2013. Our effective income tax rate increased from 22.6% in 2012 to 23.1% in 2013.

Profit for the year and net margin

The following table sets forth the key measurements of our profitability for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions except %)</i>		
Operating profit	83.3	95.7	102.2
Operating margin ⁽¹⁾	27.1%	30.3%	31.7%
Profit for the year	66.2	78.7	80.3
Net margin ⁽²⁾	21.5%	24.9%	24.9%

⁽¹⁾ Operating profit as divided by operating income.

⁽²⁾ Profit for the year as divided by operating income.

Comparisons between 2014 and 2013

Our profit for the year increased slightly to RMB80.3 million in 2014 from RMB78.7 million in 2013.

Our operating margin and net margin increased in 2014 from 2013, due primarily to our increased investment gains from our treasury management activities as well as net gains from our commodity trading and risk management business.

Comparisons between 2013 and 2012

Our profit for the year increased by 18.9% to RMB78.7 million in 2013 from RMB66.2 million in 2012.

Our operating margin and net margin increased in 2013 from 2012, due primarily to our increased investment gains from our treasury management activities.

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SUMMARY SEGMENT RESULTS

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

We have four principal financial segments: (i) futures brokerage, (ii) futures asset management, (iii) commodity trading and risk management, and (v) headquarters and others. The following discussions of our segment operating income, segment operating expenses and segment results take into account our inter-segment operating income and inter-segment operating expenses.

The following table sets forth our segment operating income (including inter-segment operating income) for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Futures brokerage	269.9	259.3	221.6
Futures asset management	–	0.2	8.5
Commodity trading and risk management	–	3.3	13.7
Headquarters and others	37.9	52.9	78.5
Inter-segment eliminations	–	–	(0.3)
Total	<u>307.8</u>	<u>315.7</u>	<u>322.0</u>

The following table sets forth our segment operating expenses (including inter-segment operating expenses) for the years indicated:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Futures brokerage	151.8	150.1	125.9
Futures asset management	–	0.3	6.5
Commodity trading and risk management	–	5.2	13.1
Headquarters and others	72.7	64.4	74.3
Inter-segment eliminations	–	–	–
Total	<u>224.5</u>	<u>220.0</u>	<u>219.8</u>

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The following table sets forth our segment operating profits or losses for the years indicated, which is calculated as segment operating income (including inter-segment operating income) minus segment operating expenses (including inter-segment operating expenses):

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Futures brokerage	118.1	109.2	95.7
Futures asset management	–	(0.1)	2.0
Commodity trading and risk management	–	(1.9)	0.6
Headquarters and others	(34.8)	(11.5)	4.2
Inter-segment eliminations	–	–	(0.3)
Total	<u>83.3</u>	<u>95.7</u>	<u>102.2</u>

The following table sets forth our segment margins for the years indicated, which is calculated as the segment operating profit or losses divided by the segment operating income (including inter-segment operating income):

	Year ended December 31,		
	2012	2013	2014
	<i>(%)</i>		
Futures brokerage	43.8	42.1	43.2
Futures asset management	–	(50.0)	23.5
Commodity trading and risk management	–	(57.6)	4.4
Headquarters and others	(91.8)	(21.7)	5.4
Total	<u>27.1</u>	<u>30.3</u>	<u>31.7</u>

Futures brokerage

Segment operating income from our futures brokerage business consists of net commission and fees on futures brokerage as well as interest income from settlement reserve funds deposited with banks and futures exchanges. Segment operating expenses primarily consist of staff costs, commission to brokerage agents, introducing broker commission, rental expenses, depreciation and amortization and other general and administrative expenses as well as business tax and surcharges.

Comparisons between 2014 and 2013

The segment operating profit of our futures brokerage business decreased by 12.4% to RMB95.7 million in 2014 from RMB109.2 million in 2013, due primarily to a 14.5% decrease in our segment operating income from RMB259.3 million in 2013 to RMB221.6 million in 2014, as a result of a decrease in our net commission and fee income from our futures brokerage business:

- The decrease in our net commission and fee income from our futures brokerage business was principally due to our decreased brokerage trading volume and a decrease in our average brokerage commission rate; and

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- These decreases were partially offset by an increase in our interest income from deposits with banks.

Segment operating expenses decreased by 16.1% to RMB125.9 million in 2014 from RMB150.1 million in 2013, due primarily to the decreases in trading and clearing fees payable to futures exchanges, introducing brokerage commission, intermediary commission, and interest expenses on settlement and clearing services.

As a result, the segment margin of our futures brokerage business increased to 43.2% in 2014 from 42.1% in 2013.

Comparisons between 2013 and 2012

The segment operating profit of our futures brokerage business decreased by 7.5% to RMB109.2 million in 2013 from RMB118.1 million in 2012, due primarily to a 3.9% decrease in our segment operating income from RMB269.9 million in 2012 to RMB259.3 million in 2013 as a result of a decrease in refunds of trading fees and a decrease in our average brokerage commission rate. Segment operating expenses decreased by 1.1% to RMB150.1 million in 2013 compared to RMB151.8 million in 2012 due primarily to a decrease in our commission paid to brokerage agents.

As a result, the segment margin of our futures brokerage business decreased to 42.1% in 2013 from 43.8% in 2012.

Futures asset management

Segment operation income from our futures asset management business consists primarily of management fees and performance fees, and the segment operating expenses in this business consist primarily of staff costs, sales commission and other operating expenses.

Comparisons between 2014 and 2013

The segment profit of our futures asset management business was RMB2.0 million in 2014 compared to a segment loss of RMB0.1 million in 2013. This was principally due to the significant growth of our segment operating income, partially offset by a substantial increase in our segment operating expenses to RMB6.5 million in 2014 compared to RMB0.3 million in 2013:

- The increase in our segment operating income was due primarily to the significant growth of our AUM in 2014 and the resulting increase in our fee income from the asset management business; and
- The increase in our segment expense was due primarily to an increase in our staff cost as a result of the increased headcount in our asset management business.

As a result, the segment margin of our futures asset management business was 23.5% in 2014 while this segment had an operating loss in 2013.

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Comparisons between 2013 and 2012

We commenced our futures asset management business in 2013 and recognized a segment loss of RMB0.1 million in the same year as our segment operating income was insufficient to cover our start-up cost and operating expenses for this new business.

Commodity trading and risk management

Segment operating income from our commodity trading and risk management business consists primarily of net realized gains from derivative financial instruments and net gains from physical commodity trading. The segment operating expenses consist primarily of staff costs, rental expenses and other operating expenses.

Comparisons between 2014 and 2013

The segment profit of our commodity trading and risk management business was RMB0.6 million in 2014 compared to a loss of RMB1.9 million in 2013. This was primarily as a result of the following:

- An increase in our segment income to RMB13.7 million in 2014 from RMB3.3 million in 2013, due primarily to the increase in our net realized gains from derivative financial instruments as part of our hedging and arbitrage trading; and
- An increase in our segment operating expenses to RMB13.1 million in 2014 from RMB5.2 million in 2013, due primarily to an increase in our staff costs and rental expenses to support our emerging business in 2014.

As a result, the segment margin of our commodity trading and risk management business was 4.4% in 2014 while this segment had an operating loss in 2013.

Comparisons between 2013 and 2012

We commenced our commodity trading and risk management business in 2013 and had a segment operating loss in the same year.

Headquarters and others

Segment operating income from our other businesses consists primarily of interest income from our bank deposits, net investment gains from wealth management products, as well as other income and gains. Segment operating expenses mainly include administrative expenses related to the management and operations of our headquarters which cannot be allocated to other business segments, including certain staff costs and administrative expenses as well as impairment losses of our investments in wealth management products.

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Comparisons between 2014 and 2013

The segment profit of our headquarters and others was RMB4.2 million in 2014 compared to a loss of RMB11.5 million in 2013. This was primarily due to the following:

- An increase in our segment operating income to RMB78.5 million in 2014 from RMB52.9 million in 2013 as a result of our increased dividend and interest income from our investments in wealth management products; and
- Partially offset by an increase in segment operating expenses to RMB74.3 million in 2014 from RMB64.4 million in 2013 due primarily to an increase in our staff costs.

As a result, the segment margin of our headquarters and others was 5.4% in 2014 while this segment had an operating loss in 2013.

Comparisons between 2013 and 2012

Our segment loss for our headquarters and others was RMB11.5 million in 2013, compared to RMB34.8 million in 2012. This was primarily as a result of the following:

- An increase in our segment operating income to RMB52.9 million in 2013 from RMB37.9 million in 2012 as a result of our increased dividend and interest income from our investments in wealth management products; and
- Partially offset by a decrease in segment operating expenses to RMB64.4 million in 2013 compared to RMB72.7 million in 2012 due primarily to a decrease in the impairment losses on our investments in collective asset management schemes.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our working capital and other capital requirements primarily from cash generated from our business operations. We generally do not rely on bank loans and other external financing to expand our business. As of December 31, 2014, we had aggregate cash and cash equivalents of RMB367.4 million.

After the Global Offering, we intend to finance our future capital requirements through our operating cash flow, together with the net proceeds we received 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 cash and bank balances and cash flows from operating activities, 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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The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows, assets and liabilities, and indebtedness.

Cash Flows

The following table sets forth selected cash flow statement information for the periods indicated:

	<u>Year ended December 31</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Net cash inflow from operating activities	38.0	52.9	31.8
Net cash outflow from investing activities	(144.2)	(20.7)	(5.2)
Net cash inflow from financing activities	<u>327.9</u>	<u>—</u>	<u>—</u>
Net increase in cash and cash equivalents	221.7	32.2	26.6
Cash and cash equivalents at the beginning of the year	<u>86.9</u>	<u>308.6</u>	<u>340.8</u>
Cash and cash equivalents at the end of the year	<u>308.6</u>	<u>340.8</u>	<u>367.4</u>

Operating activities

Our cash from operating activities consists primarily of cash generated or paid in relation to our commission-based business, such as futures brokerage and asset management, and gains or losses from our commodity trading and risk management business. Cash flow from operating activities reflects (i) profit before tax adjusted for non-cash and non-operating items, such as depreciation and amortization and impairment allowance; (ii) the effects of movements in working capital, such as increase or decrease in bank balances held on behalf of brokerage clients, deposits with exchange-clearing organizations, and financial assets at fair value through profit or loss; and (iii) other cash items such as income tax paid.

In 2014, we had net cash generated from operating activities of RMB31.8 million because our profit excluding non-cash and non-operating items, in the amount of RMB57.3 million exceeded the cash outflows from movements in working capital. Apart from fluctuations in client balances and the income tax paid of RMB20.2 million, the cash outflows from movements in our working capital were due to a net increase in physical commodities of RMB7.0 million.

In 2013, we had net cash generated from operating activities of RMB52.9 million because our profit excluding non-cash and non-operating items, in the amount of RMB68.9 million exceeded the cash outflows from movements in working capital. Apart from fluctuations in client balances and the income tax paid of RMB17.2 million, the cash inflows from movements in our working capital were due to a decrease in financial assets at fair value through profit and loss of RMB20.0 million as a result of our disposal of wealth management products which partially offset by a net increase in physical commodities of RMB8.7 million.

In 2012, we had net cash generated from operating activities of RMB38.0 million because our profit excluding non-cash and non-operating items, in the amount of RMB73.9 million exceeded the cash outflows from movements in working capital. Apart from fluctuations in client balances and the income tax paid of

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RMB27.9 million, the cash inflows from movements in our working capital were due to an increase in financial assets at fair value through profit and loss of RMB20.0 million as a result of our purchase of wealth management products.

Investing activities

Our cash outflows from investing activities consist primarily of our purchase of available-for-sale financial assets, principally wealth management products and term deposits. Our cash inflows from investing activities consist primarily of the proceeds from the disposal of available-for-sale financial assets and term deposits.

In 2014, our net cash used in investing activities was RMB5.2 million, due primarily to purchases of available-for-sale financial assets and term deposits of RMB805.0 million. These cash outflows were partially offset by (i) proceeds from disposal of available-for-sale financial assets and term deposits of RMB756.8 million, and (ii) dividends and interest income received from available-for-sale financial assets and term deposits of RMB55.0 million.

In 2013, our net cash used in investing activities was RMB20.7 million, due primarily to purchases of available-for-sale financial assets and term deposits of RMB1,026.0 million. These cash outflows were partially offset by (i) proceeds from disposal of available-for-sale financial assets and term deposits of RMB964.2 million, and (ii) dividends and interest income received from available-for-sale financial assets and term deposits of RMB46.9 million.

In 2012, our net cash used in investing activities was RMB144.2 million, due primarily to purchases of available-for-sale financial assets and term deposits of RMB805.0 million. These cash outflows were partially offset by proceeds from disposal of available-for-sale financial assets and term deposits of RMB638.2 million.

Financing activities

In 2014 and 2013, we did not have any cash flow generated from or used in financing activities.

In 2012, our net cash generated from financing activities was RMB327.9 million, due primarily to proceeds from issuance of ordinary shares of RMB354.1 million, partially offset by dividends paid to our shareholders of RMB26.2 million.

Assets and Liabilities

In order to ensure appropriate treasury management and capital allocation, we dynamically monitor the size and composition of our balance sheet and seek to maintain a liquid balance sheet. The major portion of our balance sheet consists of current assets and liabilities, due to the highly liquid nature of our business.

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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:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>April 30,</u>
				<u>2015</u>
				(unaudited)
	<i>(RMB in millions)</i>			
Current assets				
Physical commodities	–	8.7	15.7	11.6
Other current assets	14.8	24.1	19.6	41.1
Available-for-sale financial assets	5.2	267.0	322.3	321.6
Derivative financial instruments	–	–	–	–
Financial assets at fair value through profit or loss	20.3	–	1.6	1.6
Deposits with exchange-clearing organizations	1,677.6	1,544.0	2,331.2	3,270.1
Bank balances held for brokerage clients	843.8	1,105.0	1,986.5	2,618.4
Cash and bank balances	965.3	763.2	748.8	716.2
Total current assets	<u>3,527.0</u>	<u>3,712.0</u>	<u>5,425.7</u>	<u>6,980.6</u>
Current liabilities				
Other current liabilities	37.8	34.6	35.6	29.7
Current income tax liabilities	(0.1)	9.5	13.1	3.8
Derivative financial liabilities	–	–	–	–
Accounts payable to brokerage clients	2,490.2	2,582.3	4,205.2	5,747.5
Total current liabilities	<u>2,527.9</u>	<u>2,626.4</u>	<u>4,253.9</u>	<u>5,781.0</u>
Net current assets	<u>999.1</u>	<u>1,085.6</u>	<u>1,171.8</u>	<u>1,199.6</u>

Our current assets consist primarily of deposits with exchange-clearing organizations, cash held on behalf of brokerage clients and cash and bank balances. Our current liabilities consist primarily of accounts payable to brokerage clients. Our Directors confirm that we did not have any material default in payment of trade and non-trade payables during the Track Record Period.

Deposits from clients in our futures brokerage business represent major components of our current assets and current liabilities. We include various client deposits as current assets, including deposits with exchange-clearing organizations and with banks. We include accounts payable to brokerage clients as current liabilities. Client deposits fluctuate based on our customers' trading activities, market conditions and other external factors beyond our control. As a result, client deposits in our brokerage business are not a meaningful indicator of our financial condition or results of operations. See "Adjusted assets and liabilities" below for information on our assets and liabilities excluding client deposits in our brokerage business.

Our net current assets, the difference between total current assets and total current liabilities, have remained positive and have increased during the Track Record Period.

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Our net current assets remained relatively stable at RMB1,171.8 million and RMB1,199.6 million as of December 31, 2014 and April 30, 2015, respectively.

Our net current assets increased by 7.9% to RMB1,171.8 million as of December 31, 2014 compared to RMB1,085.6 million as of December 31, 2013, primarily because of a 17.2% increase in our available-for-sale financial assets from RMB267.0 million as of December 31, 2013 to RMB322.3 million as of December 31, 2014, principally due to the increase in our investments in wealth management products using our existing cash and bank balances and cash generated from our business.

Our net current assets increased by 8.7% to RMB1,085.6 million as of December 31, 2013 compared to RMB999.1 million as of December 31, 2012, primarily because of a significant increase in our available-for-sale financial assets from RMB5.2 million as of December 31, 2012 to RMB267.0 million as of December 31, 2013, principally due to the increase in our investments in wealth management products using our existing cash and bank balances and cash generated from our business.

Adjusted assets and liabilities

Client deposits fluctuate based on our clients' trading activity, financial market conditions and other factors extrinsic to our business; consequently, although we earn interest income from these deposits, client deposits tend not to be meaningful indicators of our assets and liabilities. We have therefore adjusted our assets and liabilities in the following table to exclude the effect of client deposits:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>April 30,</u>
				<u>2015</u>
				(unaudited)
				<i>(RMB in millions except %)</i>
Adjusted current assets ⁽¹⁾	1,036.8	1,129.7	1,220.5	1,233.1
Adjusted current liabilities ⁽²⁾	37.7	44.1	48.7	33.5
Adjusted net current assets ⁽³⁾	999.1	1,085.6	1,171.8	1,199.6
Current Ratio ⁽⁴⁾	2,750.1%	2,561.7%	2,506.2%	3,681%

⁽¹⁾ Adjusted current assets equal total current assets less accounts payable to brokerage clients, the latter representing the amount of deposits held by us on behalf of our brokerage clients.

⁽²⁾ Adjusted current liabilities equal total current liabilities less accounts payable to brokerage clients.

⁽³⁾ Adjusted current assets less adjusted current liabilities.

⁽⁴⁾ Current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.

We believe adjusted net current assets is a more meaningful indicator of our financial condition because it does not include the impact of deposits from brokerage clients, which as discussed above, is largely unrelated to our financial condition but reflected in our balance sheet.

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Non-current assets and liabilities

The following table sets forth the components of non-current assets and non-current liabilities as of the dates indicated:

	<u>As of December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Non-current assets			
Property and equipment	46.9	44.8	41.9
Intangible assets	6.3	7.0	6.1
Investments in associate	–	–	8.7
Other non-current assets	2.9	3.4	3.7
Available-for-sale financial assets	33.9	24.3	17.2
Deferred income tax assets	2.2	5.1	3.8
Refundable deposits	<u>20.2</u>	<u>20.2</u>	<u>20.2</u>
Total non-current assets	<u>112.4</u>	<u>104.8</u>	<u>101.6</u>
Non-current liabilities			
Deferred income tax liabilities	–	–	–
Other non-current liabilities	<u>0.9</u>	<u>0.9</u>	<u>1.0</u>
Total non-current liabilities	<u>0.9</u>	<u>0.9</u>	<u>1.0</u>

Our non-current assets consist primarily of property and equipment, refundable deposits and available-for-sale financial assets. Our property and equipment consist primarily of commercial real property and operating facilities used by our headquarters and branches. Our refundable deposits include deposits we made to futures exchanges in China for conducting futures brokerage activities. Our available-for-sale financial assets primarily include our investment in trust schemes and collective asset management schemes.

Our non-current assets decreased slightly during the Track Record Period as some of our long-term available-for-sale financial assets (wealth management products) have gradually become short-term assets.

INDEBTEDNESS

We do not rely on bank borrowings in the ordinary course of our business and did not incur any borrowing as of December 31, 2012, 2013 and 2014 as well as the Latest Practicable Date.

Our Directors have confirmed that there has not been any material change in our indebtedness since December 31, 2014 to the date of this prospectus.

Apart from the foregoing, we did not have, as of April 30, 2015, 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, equipment, intangibles assets and long-term prepaid expenses. The following table sets forth our capital expenditures for the periods presented:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Purchase of property, equipment, intangible assets and long-term prepaid expenses . .	<u>13.0</u>	<u>8.5</u>	<u>5.3</u>

Our capital expenditures in 2012, 2013 and 2014 were primarily used for purchasing and upgrading our IT systems. We funded these expenditures primarily with cash generated from our operations.

As of December 31, 2014, we estimated that our capital expenditures for 2015 will be approximately RMB23.7 million, which we will use primarily for upgrading IT systems. We expect to fund these capital expenditures with cash generated from our operations and proceeds from the Global Offering.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital Commitments

The following table below sets forth our capital commitments as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>April 30,</u>
				<u>2015</u>
	<i>(unaudited)</i>			
	<i>(RMB in millions)</i>			
Contracted but not provided for:	<u>-</u>	<u>-</u>	<u>24.9</u>	<u>24.9</u>

We have funded a substantial portion of our capital commitments by cash generated from our operations. As of December 31, 2014 and April 30, 2015, our capital commitments were mainly attributable to the committed capital contributions to our associate, Rizhao Physical Commodity Trading Board.

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Operating Lease Commitments

We lease some of our office properties from third parties under non-cancellable operating leases. The following table sets forth our minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u> <u>April 30,</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
				(unaudited)
				<i>(RMB in millions)</i>
Within one year	3.7	4.9	9.3	8.9
One to three years	4.2	5.9	13.4	13.5
Over three years	<u>0.9</u>	<u>1.0</u>	<u>14.2</u>	<u>13.7</u>
Total	<u>8.8</u>	<u>11.8</u>	<u>36.9</u>	<u>36.1</u>

Contingent Liabilities

As of April 30, 2015, we were not involved in any material legal, arbitration or administrative proceedings that if adversely determined, we expect would materially adversely affect our financial position or results of operations, although there can be no assurance that this will be the case in the future.

Our Directors confirm that there has been no material change in our contingent liabilities since December 31, 2014 to the date of this prospectus.

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 39 to the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. 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.

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.

CAPITAL ADEQUACY AND RISK CONTROL INDEX REQUIREMENTS

According to the Administrative Measures for the Risk Control Indicators of Futures Firms in the PRC, we have established a dynamic Net Capital monitoring mechanism to comply with statutory Net Capital requirements and other regulatory standards to maintain capital adequacy. In addition, our Company

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also needs to maintain a minimum amount of Net Capital necessary to engage in futures brokerage, asset management and commodity trading and risk management businesses. As of December 31, 2012, 2013 and 2014, we were in compliance with all of our capital adequacy and risk control index requirements.

As of December 31, 2014, our Company had Net Capital of RMB796.1 million. The following table sets forth our Net Capital and key regulatory risk control index that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

	<u>As of December 31,</u>			<u>Warning ratios⁽¹⁾</u>	<u>Minimum/ Maximum level</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>		
Net Capital ⁽²⁾ (RMB in millions)	1,022.4	794.6	796.1	18.0	≥15.0
Net Capital/total risk capital reserves (%)	692.4%	502.1%	368.6%	120.0%	≥100.0%
Net Capital/net assets (%)	96.4%	70.2%	66.2%	48.0%	≥40.0%
Current assets/current liabilities ⁽³⁾ (%)	1,155.6%	849.5%	733.9%	120.0%	≥100.0%
Total liabilities/net assets ⁽⁴⁾ (%)	8.6%	8.5%	9.4%	120.0%	≤150.0%
Proprietary settlement reserve funds (RMB in millions) ⁽⁵⁾	31.3	54.8	103.6	9.6	≥8.0

⁽¹⁾ Warning ratios are set by the CSRC as follows, according to the Risk Control Index Measures: If the risk control index is required to stay above a certain level, then the warning ratio is 120% of the stipulated minimum requirement, and if the risk control index is required to stay below a certain level, then the warning ratio is 80% of the stipulated maximum requirement.

⁽²⁾ Net Capital equals net assets minus asset adjustment value plus liability adjustment value minus the deposits which the clients fail to fully replenish minus/plus other adjustment items recognized or approved by the CSRC.

⁽³⁾ For purposes of calculating the regulatory risk control index, current assets do not include client deposits with exchange-clearing organizations and bank balances held for brokerage clients, and current liabilities do not include accounts payable to brokerage clients.

⁽⁴⁾ For purposes of calculating the regulatory risk control index, total liabilities do not include accounts payable to brokerage clients.

⁽⁵⁾ As a member of four PRC futures exchanges, we are required to deposit a minimum of RMB2 million in settlement reserve funds at each of the four futures exchanges.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. See “Business – Risk Management” and note 41 of the Accountant’s Report in Appendix I to this prospectus for an overview of our risk management processes. The main financial risks faced by us in the ordinary course of business are credit risk, market risk and liquidity risk. As we expand our business by offering new products and services, doing business with individuals and entities that are not within our traditional client and counterparty base, and entering new geographical markets, we are exposed to new regulatory and business challenges and risks, and the complexity of the risks we face has increased. The following discussion of our main financial risks and the estimated amounts of our risk exposure generated by our risk measurement models are forward-looking statements. These analyses and the results of our risk measurement models are not, however, predictions of future events, and our actual results may be significantly different from the analyses and results due to events in the global economy or the markets where we operate, as well as other factors described below.

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Credit Risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to a declining credit rating.

Our credit risks mainly come from financial assets, which include bank balances, bank balances held for brokerage clients, deposits with exchange-clearing organizations, available-for-sale financial assets, refundable deposits and other current assets.

In terms of the default risk from our commodity trading and risk management business, we have established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine our credit exposure to each counterparty. We also review the credit status of individual customers at least once a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

In terms of our investment in debt instruments and certain trust schemes which are debt in nature, we assess the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and review investor reporting prepared by the trustee on a timely basis.

Our bank balances, bank balances held for brokerage clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

Our credit risk also arises from our futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore, a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, we have to fulfil the obligation on daily settlements by using our own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of trading day. Credit risks are mainly associated with customer's inability to meet the daily settlement obligation.

To mitigate the credit risk from futures brokerage service, we usually require the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. We also monitor each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, our exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by us to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). We may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

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To mitigate risks, we also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by us with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As of December 31, 2012, 2013 and 2014, the fair values of such collateral were RMB77.7 million, RMB72.3 million and RMB69.9 million, respectively.

Maximum credit risk exposure

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	As of December 31,		
	2012	2013	2014
	<i>(RMB in millions)</i>		
Refundable deposits	20.2	20.2	20.2
Other current assets	8.9	16.2	5.2
Available-for-sale financial assets	–	184.9	212.0
Deposits with exchange-clearing organizations	1,677.6	1,544.0	2,331.2
Bank balances held for brokerage clients	843.8	1,105.0	1,986.5
Bank balances	965.3	763.1	748.8
Total maximum credit risk exposure	<u>3,515.8</u>	<u>3,633.4</u>	<u>5,303.9</u>

Credit risk from brokerage service

	As of December 31,					
	2012		2013		2014	
	<i>(RMB in millions)</i>					
Client Risk Ratio	Minimum margin required	Total client interests	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	852.3	2,192.2	900.1	2,404.2	1,338.8	3,862.2
80% – 100%	284.8	298.0	169.8	178.7	313.9	333.6
Above 100%	–	–	11.2	10.2	18.3	17.4
Total	<u>1,137.1</u>	<u>2,490.2</u>	<u>1,081.1</u>	<u>2,593.1</u>	<u>1,671.0</u>	<u>4,213.2</u>
Coverage ratio		<u>219%</u>		<u>239%</u>		<u>252%</u>

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Quantity analysis of other current assets

	<u>As of December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Overdue but not impaired	0.1	0.1	0.2
Neither overdue nor impaired	<u>8.9</u>	<u>16.1</u>	<u>5.1</u>
Total	<u>9.0</u>	<u>16.2</u>	<u>5.3</u>

Market risk

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Our price risk exposure mainly relates to investments in equity securities, funds, derivatives and collective asset management schemes. The market prices of those financial instruments could lead to the fluctuation of investment value. All these investments are in the domestic capital markets. We are faced with high market risk due to the volatility of the domestic stock markets.

Our price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to control the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different types of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

Our portfolio was mainly comprised of collective asset management schemes, futures and equity securities ended at December 31, of 2012, 2013 and 2014.

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Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, derivatives, trust schemes and collective asset management schemes in nature of equity by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Profit before income tax			
Increase by 5%	1.0	2.2	2.5
Decrease by 5%	(1.0)	(2.2)	(2.5)

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Other comprehensive income before income tax			
Increase by 5%	1.9	5.2	6.3
Decrease by 5%	(1.9)	(5.2)	(6.3)

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our main interest bearing assets are bank deposit, bank balances held for brokerage clients, deposits with exchange-clearing organizations and available-for-sale debt instruments. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

Our finance departments monitor the interest rate risk continually, and make decisions through adjusting current position based on latest market situation.

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As of December 31, 2012

	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Non-interested bearing</u>	<u>Total</u>
	<i>(RMB in millions)</i>				
Refundable deposits	20.2	-	-	-	20.2
Other current assets	-	-	-	9.0	9.0
Deposits with exchange-clearing organizations	540.5	-	-	1,137.1	1,677.6
Bank balances held for brokerage clients . . .	843.8	-	-	-	843.8
Cash and bank balances	<u>285.3</u>	<u>260.0</u>	<u>420.0</u>	<u>-</u>	<u>965.3</u>
Sub-total	<u>1,689.8</u>	<u>260.0</u>	<u>420.0</u>	<u>1,146.1</u>	<u>3,515.9</u>
Other current liabilities	-	-	-	(14.1)	(14.1)
Accounts payable to brokerage clients	<u>(267.2)</u>	<u>-</u>	<u>-</u>	<u>(2,223.0)</u>	<u>(2,490.2)</u>
Sub-total	<u>(267.2)</u>	<u>-</u>	<u>-</u>	<u>(2,237.1)</u>	<u>(2,504.3)</u>
Interest rate sensitivity gap	<u>1,422.6</u>	<u>260.0</u>	<u>420.0</u>	<u>(1,091.0)</u>	<u>1,011.6</u>

As of December 31, 2013

	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Non-interested bearing</u>	<u>Total</u>
	<i>(RMB in millions)</i>				
Refundable deposits	20.2	-	-	-	20.2
Available-for-sale financial assets	-	-	185.0	-	185.0
Other current assets	-	-	-	16.2	16.2
Deposits with exchange-clearing organizations	463.0	-	-	1,081.1	1,544.1
Bank balances held for brokerage clients . . .	1,105.0	-	-	-	1,105.0
Cash and bank balances	<u>283.2</u>	<u>80.0</u>	<u>400.0</u>	<u>-</u>	<u>763.2</u>
Sub-total	<u>1,871.4</u>	<u>80.0</u>	<u>585.0</u>	<u>1,097.3</u>	<u>3,633.7</u>
Other current liabilities	-	-	-	(12.6)	(12.6)
Accounts payable to brokerage clients	<u>(322.1)</u>	<u>-</u>	<u>-</u>	<u>(2,260.2)</u>	<u>(2,582.3)</u>
Sub-total	<u>(322.1)</u>	<u>-</u>	<u>-</u>	<u>(2,272.8)</u>	<u>(2,594.9)</u>
Interest rate sensitivity gap	<u>1,549.3</u>	<u>80.0</u>	<u>585.0</u>	<u>(1,175.5)</u>	<u>1,038.8</u>

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As of December 31, 2014

	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Non-interested bearing</u>	<u>Total</u>
	<i>(RMB in millions)</i>				
Refundable deposits	20.2	–	–	–	20.2
Available-for-sale financial assets	–	–	212.0	–	212.0
Other current assets	–	–	–	5.2	5.2
Deposits with exchange-clearing organizations	660.3	–	–	1,670.9	2,331.2
Bank balances held for brokerage clients . . .	1,986.5	–	–	–	1,986.5
Cash and bank balances	263.8	–	485.0	–	748.8
Sub-total	<u>2,930.8</u>	<u>–</u>	<u>697.0</u>	<u>1,676.1</u>	<u>5,303.9</u>
Other current liabilities	–	–	–	(5.4)	(5.4)
Accounts payable to brokerage clients	(125.8)	–	–	(4,079.4)	(4,205.2)
Sub-total	<u>(125.8)</u>	<u>–</u>	<u>–</u>	<u>(4,084.8)</u>	<u>(4,210.6)</u>
Interest rate sensitivity gap	<u>2,805.0</u>	<u>–</u>	<u>697.0</u>	<u>(2,408.7)</u>	<u>1,093.3</u>

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 50 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis as a possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

<u>Change in basis points</u>	<u>Sensitivity of profit</u>		
	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>(RMB in millions)</i>		
Net interest income			
Increases by 50 bps	<u>8.7</u>	<u>8.9</u>	<u>14.8</u>
Decreases by 50 bps	<u>(8.7)</u>	<u>(8.9)</u>	<u>(14.8)</u>

When conducting interest rate sensitivity analysis, we make the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;

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- impact of interest rate changes on customer behaviors not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by us in response to interest rate changes not considered.

Currency risk

No material currency risk for us as all the business activities are within mainland China and settled in Renminbi.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, we may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading positions, or an excessively high ratio of long-term investments. If we fail to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, we could be faced with penalties by the regulatory authorities in the form of restrictions on our business operations, which would cause bad effects on our operations and reputation.

We manage and control our funds in a centralized manner. Our liquidity risk management principles are comprehensiveness, prudence and foreseeability and our overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity can be met in a timely manner with an appropriate cost.

Our finance department organizes the cash budget annually and sets up the fund plan based on it. Under our approval, the funds will be scheduled and arranged uniformly in order to ensure the consistency of funds demand and cost of the capital control.

After approval by the board of directors, the finance department decides the scale and the structure of a high quality liquid assets, by prudently analyzing the condition of our business scale, total liability, financing ability, and duration of the asset and liability, so as to improve the liquidity and the risk resistance.

We invest surplus cash above the balance required for working-capital management in time deposit, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. As of December 31, 2012, 2013 and 2014, we held cash and cash equivalents of approximately RMB309 million, RMB341 million and RMB367 million respectively, which are expected to readily generate cash inflows for managing liquidity risk.

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The tables below present the cash flows payable by us for non-derivative financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for brokerage clients.

As of December 31, 2012

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
	<i>(RMB in millions)</i>				
Non-derivative cash flow					
Accounts payable to brokerage clients	2,490.2	–	–	–	2,490.2
Other current liabilities	0.1	5.2	–	8.7	14.1
Total	<u>2,490.3</u>	<u>5.2</u>	<u>–</u>	<u>8.7</u>	<u>2,504.3</u>

As of December 31, 2013

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
	<i>(RMB in millions)</i>				
Non-derivative cash flow					
Accounts payable to brokerage clients	2,582.3	–	–	–	2,582.3
Other current liabilities	0.1	3.1	8.7	0.9	12.8
Total	<u>2,582.4</u>	<u>3.1</u>	<u>8.7</u>	<u>0.9</u>	<u>2,595.1</u>

As of December 31, 2014

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
	<i>(RMB in millions)</i>				
Non-derivative cash flow					
Accounts payable to brokerage clients	4,205.2	–	–	–	4,205.2
Other current liabilities	0.1	3.3	–	2.0	5.4
Total	<u>4,205.3</u>	<u>3.3</u>	<u>–</u>	<u>2.0</u>	<u>4,210.6</u>
Derivative cash flow					
Derivative financial instruments settled on a gross basis					
(a) total inflow	–	–	1.0	–	1.0
(b) total outflow	–	–	(15.2)	–	(15.2)

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DIVIDEND POLICY

After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board 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, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

According to the applicable PRC laws and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allowances:

- making up cumulative losses from prior years, if any;
- 10% of our Company's profit is appropriated to the non-distributable statutory surplus reserve;
- 10% of our Company's profit is appropriated to the non-distributable general risk reserve;
- appropriations to the non-distributable futures risk reserve according to the relevant regulations; and
- appropriations to the discretionary reserve fund approved by our Shareholders in a Shareholders' meeting.

After completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, 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.

In 2012, we distributed cash dividends of RMB26.0 million to our shareholders. We did not declare any cash dividends in 2013 and 2014. At our shareholders' meeting on March 16, 2015, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing Shareholders and new Shareholders.

DISTRIBUTABLE RESERVES

As of December 31, 2014, we had RMB109.6 million in retained profits, as determined under IFRSs, available for distribution to our Shareholders.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Global Offering. Listing expenses to be borne by us are estimated to be approximately RMB55.2 million, of which approximately RMB51.1 million is directly attributable to the

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issue of H Shares and will be capitalized, and approximately RMB4.1 million is expected to be reflected in our consolidated statements of comprehensive income subsequent to the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations in 2015.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2014, based on our audited consolidated net assets attributable to the owners of our company as of December 31, 2014 as shown in the Accountant's Report, the text of which is set forth in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets attributable to owners of our company as of December 31, 2014⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB)⁽³⁾</i>	<i>(HK\$)⁽⁵⁾</i>
Based on Offer Price of					
HK\$2.90 per Share	1,266.2	519.0	1,785.2	1.79	2.27
Based on Offer Price of					
HK\$3.64 per Share	1,266.2	660.7	1,926.9	1.93	2.45

- (1) The audited consolidated net tangible assets attributable to owners of the Company as of December 31, 2014 are extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets attributable to the owners of the Company as of December 31, 2014 of RMB1,272.4 million with an adjustment for the intangible assets as of December 31, 2014 of RMB6.2 million.
- (2) The estimated net proceeds from the Global Offering are based on the offer price of HK\$2.90 per Share and HK\$3.64 per Share after deduction of the underwriting fees and other related expenses payable by the Company, and do not take into account any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted at the PBOC Rate from Hong Kong dollars into RMB at an exchange rate of HK\$1.00 to RMB0.78895 prevailing on the Latest Practicable Date.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 1,000,000,000 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option) are in issue assuming that the Global Offering had been completed on December 31, 2014. If the Over-allotment Option is exercised in full, the adjusted net tangible assets per Share will increase.
- (4) No adjustments have been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of the Company entered into subsequent to December 31, 2014.
- (5) The translation of RMB into Hong Kong dollars has been made at the rate of RMB0.78895 to HK\$1.00, the PBOC Rate prevailing on the Latest Practicable Date. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.

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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 December 31, 2014, and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business – Business Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$3.27 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$2.90 and HK\$3.64 per H Share), we estimate that we will receive net proceeds of approximately HK\$747.7 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 35%, or HK\$261.7 million, will be used to increase our Net Capital, establish “light branches” and recruit experienced asset managers and research personnel for strengthening our futures brokerage business and developing our futures asset management business. A “light branch” generally occupies less space and requires lower operating costs and fewer employees compared to traditional branches. Our “light branches” are intended to focus more on client coverage and lower our operating costs;
- Approximately 40%, or HK\$299.1 million, will be used to contribute additional capital to Luzheng Trading for expanding our commodity trading and risk management business so as to achieve economies of scale and improve profitability of such business;
- Approximately 15%, or HK\$112.1 million, will be used to purchase IT infrastructure and software for upgrading and improving our existing IT systems and to contribute additional capital to Luzheng Information for developing our IT development capabilities; and
- Approximately 10%, or HK\$74.8 million, will be used for working capital and general corporate purposes.

We intend to use all the additional net proceeds proportionately as earmarked above. The allocation of the proceeds used for the above will be adjusted in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range.

If the Offer Price is fixed at HK\$3.64 per H Share, being the high-end of the stated Offer Share range and assuming that the Over-allotment Option is not exercised, the net proceeds will be increased by approximately HK\$89.8 million. If the Offer Price is fixed at HK\$2.90 per H Share, being the low-end of the stated Offer Share range and assuming that the Over-allotment Option is not exercised, the net proceeds will be reduced by approximately HK\$89.8 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly on a pro rata basis.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$132.5 million (assuming an Offer Price of HK\$3.64 per H Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$119.1 million (assuming an Offer Price of HK\$3.27 per

FUTURE PLANS AND USE OF PROCEEDS

H Share, being the mid-point of the Offer Price range stated in this prospectus) and (iii) HK\$105.6 million (assuming an Offer Price of HK\$2.90 per H Share, being the low-end of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

If any part of our business strategy does not proceed as planned for reasons such as changes in government policies that would render the development of any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments, such as liquid fixed-income securities, bank deposits or money market instruments with licensed banks or financial institutions in Hong Kong or the PRC.

The net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering (assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$88.4 million, assuming an Offer Price of HK\$3.64 per H Share (being the high end of the estimated price range), or approximately HK\$70.4 million, assuming an Offer Price of HK\$2.90 per H Share (being the low end of the estimated price range). If the Over-allotment Option is exercised in full, such net proceeds are estimated to be approximately HK\$13.3 million, assuming an Offer Price of HK\$3.64 per H Share (being the high end of the estimated price range), or approximately HK\$10.6 million, assuming an Offer Price of HK\$2.90 per H Share (being the low end of the estimated price range). The Company will not be entitled to retain any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. In accordance with the instructions from the NSSF, the Company is required to remit the net proceeds from the sale of the Sale Shares under the Global Offering to the NSSF.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

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HONG KONG UNDERWRITER(S)

Joint Lead Managers

Qilu International Securities Limited
Haitong International Securities Company Limited
CCB International Capital Limited

Co-Lead Managers

Industrial Securities (Hong Kong) Capital Limited
Orient Securities (Hong Kong) Limited
Convoy Investment Services Limited
RHB OSK Securities Hong Kong Limited

THE HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 27,500,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting 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 or sold pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter(s) have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are 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.

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 Hong Kong Stock Exchange:

- (a) there develops, occurs, exists or comes into force:
 - (i) 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

UNDERWRITING

competent authority 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

- (ii) any change or development involving a prospective change or development, 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 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 a change of the Hong Kong dollars or a change of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or
- (iii) any 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, calamity, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or
- (iv) 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
- (v) any moratorium, suspension or limitation 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
- (vi) any general moratorium on commercial banking activities in any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (vii) 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 (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- (viii) the issue or requirement to issue by our Company of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the Global Offering of the H Shares pursuant to the Companies Ordinance or Companies (Winding up and Miscellaneous Provisions)

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Ordinance or the Hong Kong Listing Rules in circumstances where the matter to be disclosed would, in the opinion of Qilu International Capital and Haitong International Securities, adversely affect the marketing or implementation of the Global Offering; or

- (ix) any litigation or claim being threatened or instigated against any members of our Group, any Director or any Supervisor; or
- (x) any Governmental Authority (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any members of our Group, any Director or any Supervisor; or
- (xi) the chairman vacating his office, any Director or any Supervisor being charged with an indictable offence or prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company or the commencement by any Governmental Authority of any action against any Director or Supervisor in his or her capacity as such or an announcement by any Governmental Authority that it intends to take any such action; or
- (xii) any demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any members of our Group or any members of our Group 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 any members of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any members of our Group or anything analogous thereto occurs in respect of any members of our Group; or
- (xiii) a governmental or regulatory prohibition on our Company for whatever reason from allotting, issuing, or selling the H Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Relevant Jurisdictions;

and which, in any such case individually or in the aggregate, in the sole opinion of Qilu International Capital and Haitong International Securities (on behalf of the Hong Kong Underwriters): (A) is or will be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholders' equity, profit, losses, results of operations, financial or trading position, or prospects of our Company or our Group as a whole; or (B) has or will have a 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 it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice, the preliminary offering circular or

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the offering circular; or (D) has or would have the effect of making a material 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

- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:
- (i) that any statement contained in this prospectus, the Application Forms and the formal notice (the “**Hong Kong Public Offering Documents**”) and/or any notices, announcements, advertisements, communications issued or approved 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 or misleading or deceptive in any material respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents and/or any notices, announcements, advertisements, communications so issued or approved are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - (ii) any contravention by any member of our Group or any Director or any Supervisor of any Law which is or will or could materially adversely affect the Global Offering; or
 - (iii) non-compliance of this prospectus (or any other documents issued or approved by the Company in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable Law; or
 - (iv) 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
 - (v) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of the Hong Kong Underwriting Agreement by our Company or (ii) any of the representations, warranties and undertakings given by our Company in the Hong Kong Underwriting Agreement is (or would when repeated be) untrue, incorrect, incomplete or misleading, which is or will or could materially adversely affect the Global Offering; or
 - (vi) any of the reporting accountants or PRC legal advisers of our Company has withdrawn its 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

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- (vii) 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 will have a material adverse effect on the earnings, results of operations, business, financial or trading position, or prospects of the Group as a whole; or
- (viii) any material adverse change or any development involving a prospective material adverse change in the assets, business, general affairs, management, shareholders' equity, profits, losses, properties, results of operations, financial or trading position or prospects of the Company and its subsidiaries, as a whole; or
- (ix) the approval by the Listing Committee of the listing of, and permission to deal in, the H Shares (including any additional H Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (x) the approval by the CSRC of the Global Offering and the making of the application to list the H Shares on the Stock Exchange is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xi) the Company has withdrawn this prospectus or the Global Offering;

then Qilu International Capital and Haitong International Securities may (on behalf of the Hong Kong Underwriters), in their sole and absolute discretion (after consultation with the Company where practicable) 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 Rule 10.07 Lock-Up

(A) Undertaking by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the Global Offering.

(B) Undertaking by the Controlling Shareholders

As required under Note 3 to Rule 10.07(2) of the Hong Kong Listing Rules, each of our Controlling Shareholders has issued an undertaking that until the date which is 12 months from the Listing Date: (i) when it, if and in circumstances permitted by relevant laws and rules including the Hong Kong Listing

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Rules, pledges or charges any Shares beneficially owned by it, it will immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of those Shares will be disposed of, it will immediately inform us of such indications.

(C) Rule 10.07 Lock-Up

Under Rule 10.07 of the Hong Kong Listing Rules, except as otherwise permitted under that rule, any of our Controlling Shareholders shall not: (a) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, 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 Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (b) in the period of six months commencing on the date on which the period referred to under (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriter(s) that, except pursuant to the Global Offering (including the Shares to be offered by the Selling Shareholders as required by the relevant PRC law, regulations and rules regarding the reduction of state-owned shares and the Shares to be issued and/or sold pursuant to the exercise of the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months after the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange (the “First Six-Month Period”), we will not, and will procure that our subsidiaries will not (except pursuant to any transaction contemplated in this prospectus, or any issuance or allotment of shares by our subsidiaries or any change in the shareholdings of our subsidiaries which does not result in a change of control, or any pledge or charge over shares in our subsidiaries created in the ordinary course of our Group’s business), without the prior written consent of the Joint Sponsors and Qilu International Capital and Haitong International Securities (on behalf of the Hong Kong Underwriter(s)):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally or repurchase, any of its share capital or any equity securities or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or equity securities or any interest therein);
- (b) enter into any swap, derivative, lending, repurchase and mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or equity securities;

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- (c) enter into any transaction with the same economic effect as any transaction specified above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction specified above,

in each case, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other equity securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not such issue of H Shares or securities will be completed within such period).

Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriter(s) will receive an underwriting commission of 2.9% of the aggregate Offer Price in respect of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commissions.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriter(s) (but not the Hong Kong Underwriter(s)). In addition, we may, in our sole and absolute discretion, pay to any or all Hong Kong Underwriter(s) for its or their respective accounts an incentive fee of up to 0.5% of the aggregate Offer Price of all the Hong Kong Offer Shares underwritten by the Hong Kong Underwriter(s).

The aggregate commissions and the maximum incentive fee, together with the listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee and other expenses of us relating to the Global Offering are estimated to amount to approximately HK\$69.8 million (assuming an Offer Price of HK\$3.27 per Offer Share, which is the mid-point of our indicative price range for the Global Offering, and the Over-allotment Option is not exercised) in total.

We have agreed to indemnify the Hong Kong Underwriter(s) for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriter(s)' Interests in Our Company

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriter(s) has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in us.

Qilu International Securities Limited is an indirect wholly owned subsidiary of Qilu Securities, one of the Controlling Shareholders of our Company.

UNDERWRITING

Following the completion of the Global Offering, the Hong Kong Underwriter(s) and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

THE INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that we and the Selling Shareholders will enter into the International Underwriting Agreement with, among others, the International Underwriter(s). Under the International Underwriting Agreement, the International Underwriter(s) would, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers 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

We and the Selling Shareholders will grant to the International Underwriter(s) the Over-allotment Option, exercisable by Qilu International Capital and Haitong International Securities on behalf of the International Underwriter(s) during the 30-day period from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to issue and allot and the Selling Shareholders to sell up to an aggregate of 41,250,000 additional H Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Activities by Syndicate Members

The underwriters of the Hong Kong Public Offering and the International Offering (together, 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 relation to the H Shares, those activities 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, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and 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. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling 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.

UNDERWRITING

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 Hong Kong Stock Exchange or on any other stock exchange, the rules of the 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. All such activities may occur both during and after the end of the stabilizing period described in “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 must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares 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, derivative and other services to us, our affiliates or our shareholders including cornerstone investors 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:

- (i) the Hong Kong Public Offering of 27,500,000 Hong Kong Offer Shares (subject to adjustment 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 247,500,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) of which 222,500,000 H Shares are to be issued by our Company and 25,000,000 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.

Qilu International Capital, Haitong International Securities and CCB International Capital Limited are the Joint Global Coordinators and Joint Bookrunners for the Global Offering.

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. The Offer Shares will represent 27.5% of the enlarged registered 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 27.7% of the enlarged registered share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph entitled “The International Offering – 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 paragraph entitled “The Hong Kong Public Offering – Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 27,500,000 Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 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 2.75% of our Company’s registered 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 “– Conditions of the Hong Kong Public Offering.”

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and 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. Although 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.

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: 13,750,000 Offer Shares for pool A and 13,750,000 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 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong 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 1% brokerage, 0.0027% SFC transaction levy and 0.005% Hong Kong 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).

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 13,750,000 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.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. 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 Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer 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 27,500,000 Hong Kong Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;

STRUCTURE OF THE GLOBAL OFFERING

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer 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 82,500,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 110,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 137,500,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

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 Qilu International Capital and Haitong International Securities deem appropriate. In addition, Qilu International Capital and Haitong International Securities 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, Qilu International Capital and Haitong International Securities have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as Qilu International Capital and Haitong International Securities 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.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.64 per H Share in addition to applicable brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section entitled “Pricing of the Global Offering” below, is less than the maximum price of HK\$3.64 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for the Hong Kong Offer Shares.”

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 247,500,000 Offer Shares to be offered by us and the Selling Shareholders.

Pursuant to a letter issued by NSSF (Shebaojijinf [2015] No. 65) on April 27, 2015, 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” below 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 Hong Kong 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 its Shareholders as a whole.

Qilu International Capital and Haitong International Securities (on behalf of the Underwriter(s)) 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 Qilu International Capital and Haitong International Securities 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.

STRUCTURE OF THE GLOBAL OFFERING

Possible Placing of H Shares to a QDII Fund

GF Fund Management Co., Ltd. (“**GF Fund Management**”) as a Qualified Domestic Institutional Investor will set up a Fund (“**QDII Fund**”) which will be offered by GF Fund Management to investors in the PRC in accordance with applicable PRC laws, regulations and regulatory documents. The investors of the QDII Fund may include employees of the Group, and these investors will be the ultimate beneficiaries of the economic interest and voting rights of the H Shares allocated to the QDII Fund (if any). The QDII Fund will primarily invest in shares listed on the Hong Kong Stock Exchange and has a maturity of 2 years. Its initial net asset value should be not less than RMB30 million and not more than RMB5 billion. The QDII Fund is expected to participate in the International Offering as an independent placee in accordance with the Listing Rules.

To ensure that (i) any H Shares which will be allocated to the QDII Fund pursuant to the International Offering will not be held on behalf of any persons who are Connected Persons of the Company (including but not limited to any Directors) or existing Shareholders or any of their respective close associates, whether in their own name or through nominees; and (ii) in accordance with Rule 10.01 of the Listing Rules and paragraph 7 of Appendix 6 to the Listing Rules entitled “Placing Guidelines for Equity Securities”, the total number of H Shares to be allocated to the QDII Fund which are attributable to such employees will not exceed 10% of the H Shares offered in the International Offering, the following measures are in place:

- GF Fund Management will check the names of the investors participating in the QDII Fund against an updated list of the Group’s employees;
- GF Fund Management will require each of the employees participating in the QDII Fund to declare that he or she is not a Connected Person of the Company, or an existing Shareholder of the Company, or their respective close associate, and
- the placing of H Shares under the International Offering shall be conducted on a fair and impartial basis by the Joint Global Coordinators. There is no guarantee that any H Shares will be placed to the QDII Fund.

Our PRC Legal Advisers, Jia Yuan Law Offices, have advised us that the QDII Fund has been established in compliance with the relevant PRC laws and regulations. GF Fund Management is an Independent Third Party of our Company and is not a connected client of the lead broker or of any distributors (as defined in paragraph 5) of the Placing Guidelines.

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 Underwriter(s) exercisable by Qilu International Capital and Haitong International Securities on behalf of the International Underwriter(s). Pursuant to the Over-allotment Option, Qilu International Capital and Haitong International Securities have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot and the Selling Shareholders to sell up to 41,250,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-

STRUCTURE OF THE GLOBAL OFFERING

allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 4.0% of our Company's enlarged share capital immediately following the 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.

Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriter(s), may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriter(s) 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 other things, 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 may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be sold under the Over-allotment Option, namely, 41,250,000 H Shares, which is 15% of the number of Offer Shares initially available under the Global Offering.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) 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;

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- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on the 30th day after the date of closing of the application lists under the Hong Kong Public Offering. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

Pricing of the Global Offering

The International Underwriter(s) will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective investors under the International Offering 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.

STRUCTURE OF THE GLOBAL 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, June 26 2015, and in any event on or before Friday, July 3, 2015, by agreement between Qilu International Capital and Haitong International Securities (on behalf of the Underwriter(s)) 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\$3.64 per H Share and is expected to be not less than HK\$2.90 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.**

Qilu International Capital and Haitong International Securities, on behalf of the Underwriter(s), may, where considered appropriate, based on the level of interest expressed by prospective investors under the International Offering 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 offered in 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 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, cause notices to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of our Company at www.luzhengqh.com of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by Qilu International Capital and Haitong International Securities, on behalf of the Underwriter(s), 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 a 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 working capital statement and 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. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the Offer Price range is so reduced. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company (for ourselves and on behalf of the Selling Shareholders) and Qilu International Capital and Haitong International Securities (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, Qilu International Capital and Haitong International Securities 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 Qilu International Capital and Haitong International Securities.

STRUCTURE OF THE GLOBAL OFFERING

The net proceeds of the Global Offering (after deduction of underwriting fees and other estimated expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$837.5 million, assuming an Offer Price per H Share of HK\$3.64, or approximately HK\$657.8 million, assuming an Offer Price per H Share of HK\$2.90 (or if the Over-allotment Option is exercised in full, approximately HK\$970.0 million, assuming an Offer Price per H Share of HK\$3.64, or approximately HK\$763.4 million, assuming an Offer Price per H Share of HK\$2.90).

The Offer Price for H Shares under the Global Offering is expected to be announced on Monday, July 6, 2015. 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 Monday, July 6, 2015, in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of our Company at www.luzhengqh.com.

Hong Kong Underwriting Agreement

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter(s) under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for ourselves and on behalf of the Selling Shareholders) and Qilu International Capital and Haitong International Securities (on behalf of the Underwriters) agreeing on the Offer Price, is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

We expect to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in “Underwriting.”

H Shares will be Eligible for CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong 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 Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong 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 Tuesday, July 7, 2015, it is expected that dealings in the Offer Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, July 7, 2015. Our H Shares will be traded in board lots of 1,000 H Shares each.

STRUCTURE OF THE GLOBAL OFFERING

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional, among others on:

- (i) the Listing Committee granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option);
- (ii) the Offer Price having been fixed between our Company (for ourselves and on behalf of the Selling Shareholders) and Qilu International Capital and Haitong International Securities (on behalf of the Underwriters) 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 Underwriter(s) 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, 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).

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 Qilu International Capital and Haitong International Securities (on behalf of the Underwriter(s)), 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 Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in The Standard (in English) and the 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 “How to Apply for the Hong Kong Offer Shares.” In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bankers 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 Monday, July 6, 2015 but will only become valid certificates of title at 8:00 a.m. on Tuesday, July 7, 2015 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting – Hong Kong Public Offering – Grounds for Termination” has not been exercised.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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** service 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, except where you are a nominee and provide the required information in your application.

Our Company, Qilu International Capital and Haitong International Securities, the **White Form eIPO** service and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

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.

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.

If an application is made by a person under a power of attorney, Qilu International Capital and Haitong International Securities may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong 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 of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Hong Kong Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Hong Kong 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.

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.

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, June 23, 2015 till 12:00 noon on Friday, June 26, 2015 from:

- (i) any of the following offices of the Hong Kong Underwriter(s):

Qilu International Securities Limited

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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Haitong International Securities Company Limited

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

- (ii) any of the branch and sub-branches of the following receiving bank:

Bank of Communications Co., Ltd. Hong Kong Branch

<u>District</u>	<u>Branch/Sub-Branch Name</u>	<u>Address</u>
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
Hong Kong Island	Quarry Bay Sub-Branch	G/F., 981C King's Road, Quarry Bay
Kowloon	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
Kowloon	Ngau Tau Kok Sub-Branch	Shop G1 & G2, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories	Yuen Long Sub-Branch	Shop 2B, G/F., Man Yu Building, 2-14 Tai Fung Street, Yuen Long
New Territories	Shatin Sub-Branch	Shop No.193, Level 3, Lucky Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 23, 2015 till 12:00 noon on Friday, June 26, 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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 "Bank of Communications (Nominee) Co. Ltd. – Luzheng Futures 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, June 23, 2015 – 9:00 a.m. to 5:00 p.m.
- Wednesday, June 24, 2015 – 9:00 a.m. to 5:00 p.m.
- Thursday, June 25, 2015 – 9:00 a.m. to 5:00 p.m.
- Friday, June 26, 2015 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, June 26, 2015, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 Global Coordinators (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 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 Global Coordinators, the Joint Sponsors, the Underwriter(s), their respective directors, officers, employees, partners, agents, advisers 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);
- (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 Global Coordinators, the Joint Sponsors, the Underwriter(s) and/or their respective advisers 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 Global Coordinators, the Joint Sponsors, and the Underwriter(s) nor any of their respective officers or advisers will

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 have chosen to collect the H Share certificate(s) and/or refund cheque(s) in person;
- (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 Global Coordinators 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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

ADDITIONAL INSTRUCTIONS FOR YELLOW APPLICATION FORM

You may refer to the **YELLOW** Application Form for details.

APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, 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. 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, you authorise the **White Form eIPO** Service Provider 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.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, June 23, 2015 until 11:30 a.m. on Friday, June 26, 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, June 26, 2015 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, 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** 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).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers 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 “LUZHENG FUTURES Company Limited.” **White Form eIPO** application submitted via the www.eipo.com.hk to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

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 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 the above 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 authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our H Share Registrar.

HOW TO APPLY FOR THE 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 Global Coordinators 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;
 - 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;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that none of our Company, the Joint Global Coordinators, the Underwriter(s), their respective directors, officers, employees, partners, agents, advisers 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 Global Coordinators, the Underwriter(s) and/or its respective advisers 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;
- 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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the 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 the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):
 - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (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;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders;
- authorise the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association of the Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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 Hong Kong 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 Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 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.

TIME FOR INPUTTING ELECTRONIC APPLICATION INSTRUCTIONS

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, June 23, 2015 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, June 24, 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, June 25, 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, June 26, 2015 – 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. on Tuesday, June 23, 2015 until 12:00 noon on Friday, June 26, 2015 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, June 26, 2015, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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).

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 bankers, the Joint Global Coordinators, the Underwriter(s) and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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 Bookrunners, the Joint Global Coordinators and the Underwriter(s) 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/CASS 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 on Friday, June 26, 2015.

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 THE HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **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 Hong Kong 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).

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 Hong Kong 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.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering – Pricing of the Global Offering.”

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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, June 26 2015. 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, June 26, 2015 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.

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 Monday, July 6, 2015 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on our Company’s website at www.luzhengqh.com and the website of the Hong Kong 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.luzhengqh.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Monday, July 6, 2015;
- 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 Monday, July 6, 2015 to 12:00 midnight on Sunday, July 12, 2015;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, July 6, 2015 to Thursday, July 9, 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, July 6, 2015 to Wednesday, July 8, 2015 at all the designated receiving bank branches and sub-branches.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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. Further details are contained in “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.

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 to **White Form eIPO** Service Provider, 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.

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 press 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, Qilu International Capital and Haitong International Securities, 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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(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 Hong Kong 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;
- 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 dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators 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 50.0% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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\$3.64 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong 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" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong 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 Monday, July 6, 2015.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

DESPATCH/COLLECTION OF H 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:

- 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 favour 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 Hong Kong 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 H Share certificates are expected to be posted on or before Monday, July 6, 2015. The right is reserved to retain any H 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. on Tuesday, July 7, 2015 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 Monday, July 6, 2015 or such other date as notified by us in the newspapers.

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 H 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 Monday, July 6, 2015, 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 Monday, July 6, 2015, 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 Monday, July 6 2015, 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 THE 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 "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 6 2015 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 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 Monday, July 6, 2015, or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H 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 H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, July 6, 2015 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.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If 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 the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, July 6 2015, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 Monday, July 6 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 6 2015 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 Monday, July 6 2015. 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.
- 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 Hong Kong 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 Monday, July 6 2015.

ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong 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 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 Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

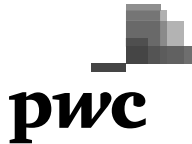
All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Investors should seek the advice of their stockbroker or other professional adviser 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 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 Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

23 June 2015

The Directors
LUZHENG FUTURES Company Limited

Qilu International Capital Limited
Haitong International Capital Limited

Dear Sirs:

We report on the Financial Information of LUZHENG FUTURES Company Limited (the "Company") and its subsidiary (together, the "Group"), which comprises the consolidated statements of financial position as at 31 December 2012, 2013 and 2014, the statements of financial position of the Company as at 31 December 2012, 2013 and 2014 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 years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the Directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 23 June 2015 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Approved by the China Securities Regulatory Commission (the "CSRC"), the Company was established in Shandong Province, the People's Republic of China (the "PRC") on 10 December 2012 as a joint stock company with limited liability under the Company Law of the PRC.

As at the date of this report, the Company has direct and indirect interests in the subsidiary as set out in Note 21.1 of Section II below.

The financial statements as at and for the year ended 31 December 2012 and the consolidated financial statements as at and for the year ended 31 December 2013 of the Company prepared in accordance with Accounting Standards for Business Enterprises of the PRC (the "CAS") issued by the China Ministry of Finance (the "MOF") were audited by ShineWing Certified Public Accountants LLP (信永中和會計師事務所(特殊普通合夥)) in accordance with China Standards on Auditing (the "CSA") issued by the Chinese Institute of Certified Public Accountants (the "CICPA") pursuant to separate terms of engagement with the

Company. The consolidated financial statements of the Company prepared in accordance with CAS issued by the MOF as at and for the year ended 31 December 2014 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 CSA issued by the CICPA pursuant to separate terms of engagement with the Company. The audited financial statements of the other company now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC.

For the purpose of this report, the Directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with International Financial Reporting Standards (the “IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The Directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. The Underlying Financial Statements have been 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 (the “ISAs”) issued by the International Auditing and Assurance Standards Board (the “IAASB”) pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The Directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2012, 2013 and 2014 and of the Group's results and cash flows for the Relevant Periods then ended.

I FINANCIAL INFORMATION OF THE GROUP

The following financial information of the Group (the "Financial Information") was prepared by Directors of the Company as at 31 December 2012, 2013 and 2014, and for each of the years ended 31 December 2012, 2013 and 2014:

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December		
		2012	2013	2014
Commission and fee income	5	488,878	530,646	396,493
Commission and fee expense	5	(324,239)	(365,561)	(272,074)
Net commission and fee income		164,639	165,085	124,419
Interest income	6	87,991	83,378	98,146
Interest expense on settlement and clearing services	6	(3,530)	(3,127)	(1,930)
Net interest income		84,461	80,251	96,216
Gain/(loss) on physical commodities trading	7	–	2,816	(15,275)
Net investment gains	8	3,989	25,709	78,103
Other income – refunds of trading fees	9	54,733	41,800	38,590
Operating income		307,822	315,661	322,053
Staff costs	10	(66,590)	(72,537)	(88,556)
Commission to brokerage agents		(56,768)	(47,657)	(28,263)
Introducing broker commission		(7,008)	(9,166)	(11,608)
Depreciation and amortization	11	(8,916)	(9,229)	(8,527)
Impairment losses	12	(12,280)	(5,094)	(232)
Other operating expenses	13	(72,912)	(76,230)	(82,652)
Operating expenses		(224,474)	(219,913)	(219,838)
Operating profit		83,348	95,748	102,215
Share of losses of investment in an associate	20	–	–	(1,115)
Other gains, net	14	2,149	6,674	4,512
Profit before income tax		85,497	102,422	105,612
Income tax expense	15	(19,264)	(23,748)	(25,321)
Profit for the year		66,233	78,674	80,291

	<i>Notes</i>	Year ended 31 December		
		2012	2013	2014
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale financial assets				
– Changes in fair value	34	(4,175)	(4,345)	3,221
– Income tax effect on changes in fair value	34	1,044	1,087	(805)
– Amounts reclassified to profit or loss upon disposal or impairment	34	10,814	3,465	133
Other comprehensive income for the year, net of tax		7,683	207	2,549
Total comprehensive income		73,916	78,881	82,840
Profit attributable to:				
– Shareholders of the Company		66,233	78,674	80,291
– Non-controlling interests		–	–	–
		66,233	78,674	80,291
Total comprehensive income attributable to:				
– Shareholders of the Company		73,916	78,881	82,840
– Non-controlling interests		–	–	–
		73,916	78,881	82,840
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)				
Basic/Diluted	16	0.10	0.10	0.11
Dividends	17	26,000	–	–

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(All amounts in RMB'000 unless otherwise stated)

	<i>Notes</i>	31 December 2012	31 December 2013	31 December 2014
Assets				
Non-current assets				
Property and equipment	18	46,938	44,814	41,920
Intangible assets	19	6,349	7,046	6,137
Investment in an associate	20	–	–	8,685
Other non-current assets	22	2,794	3,409	3,795
Available-for-sale financial assets	23	33,919	24,252	17,173
Deferred income tax assets	24	2,213	5,089	3,767
Refundable deposits	25	20,166	20,157	20,157
Total non-current assets		112,379	104,767	101,634
Current assets				
Physical commodities	26	–	8,691	15,689
Other current assets	27	14,821	24,143	19,566
Available-for-sale financial assets	23	5,150	266,968	322,318
Derivative financial assets	28	–	–	–
Financial assets at fair value through profit or loss	29	20,318	–	1,596
Deposits with exchange-clearing organizations	30	1,677,619	1,543,968	2,331,191
Bank balances held for brokerage clients	31	843,837	1,105,021	1,986,475
Cash and bank balances	32	965,324	763,212	748,831
Total current assets		3,527,069	3,712,003	5,425,666
Total assets		3,639,448	3,816,770	5,527,300

	<i>Notes</i>	31 December 2012	31 December 2013	31 December 2014
Equity and liabilities				
Share capital	33	750,000	750,000	750,000
Share premium	34	290,292	290,292	290,292
Other reserves	34	74,947	98,720	122,525
Retained earnings/(Accumulated losses)		<u>(4,581)</u>	<u>50,527</u>	<u>109,562</u>
Total equity attributable to shareholders of the				
Company		1,110,658	1,189,539	1,272,379
Non-controlling interests		<u>—</u>	<u>—</u>	<u>—</u>
Total equity		<u>1,110,658</u>	<u>1,189,539</u>	<u>1,272,379</u>
Liabilities				
Non-current liabilities				
Deferred income tax liabilities	24	—	—	—
Other non-current liabilities		<u>892</u>	<u>894</u>	<u>959</u>
Total non-current liabilities		<u>892</u>	<u>894</u>	<u>959</u>
Current liabilities				
Other current liabilities	35	37,857	34,569	35,661
Current income tax liabilities		(114)	9,462	13,108
Derivative financial liabilities	28	—	—	—
Accounts payable to brokerage clients	36	<u>2,490,155</u>	<u>2,582,306</u>	<u>4,205,193</u>
Total current liabilities		<u>2,527,898</u>	<u>2,626,337</u>	<u>4,253,962</u>
Total liabilities		<u>2,528,790</u>	<u>2,627,231</u>	<u>4,254,921</u>
Total equity and liabilities		<u>3,639,448</u>	<u>3,816,770</u>	<u>5,527,300</u>
Net current assets		<u>999,171</u>	<u>1,085,666</u>	<u>1,171,704</u>
Total assets less current liabilities		<u>1,111,550</u>	<u>1,190,433</u>	<u>1,273,338</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(All amounts in RMB'000 unless otherwise stated)

	<i>Notes</i>	31 December 2012	31 December 2013	31 December 2014
Assets				
Non-current assets				
Property and equipment	18	46,938	44,542	41,655
Intangible assets	19	6,349	7,023	6,116
Investment in a subsidiary	21	–	60,000	120,000
Other non-current assets	22	2,794	2,857	3,207
Available-for-sale financial assets	23	33,919	17,777	17,173
Deferred income tax assets	24	2,213	5,021	3,081
Refundable deposits	25	20,166	20,157	20,157
Total non-current assets		112,379	157,377	211,389
Current assets				
Other current assets	27	14,821	11,788	11,258
Available-for-sale financial assets	23	5,150	266,968	290,702
Financial assets at fair value through profit or loss	29	20,318	–	–
Deposits with exchange-clearing organizations	30	1,677,619	1,543,968	2,331,191
Bank balances held for brokerage clients	31	843,837	1,105,021	1,986,475
Cash and bank balances	32	965,324	733,203	696,792
Total current assets		3,527,069	3,660,948	5,316,418
Total assets		3,639,448	3,818,325	5,527,807

	<i>Notes</i>	31 December 2012	31 December 2013	31 December 2014
Equity and liabilities				
Share capital	33	750,000	750,000	750,000
Share premium	34	290,292	290,292	290,292
Reserves	34	74,947	98,914	118,669
Retained earnings/(Accumulated losses)		(4,581)	50,448	109,021
Total equity		<u>1,110,658</u>	<u>1,189,654</u>	<u>1,267,982</u>
Liabilities				
Non-current liabilities				
Deferred income tax liabilities	24	-	-	-
Other non-current liabilities		892	894	959
Total non-current liabilities		<u>892</u>	<u>894</u>	<u>959</u>
Current liabilities				
Other current liabilities	35	37,857	25,335	34,796
Current income tax liabilities		(114)	9,388	10,866
Accounts payable to brokerage clients	36	2,490,155	2,593,054	4,213,204
Total current liabilities		<u>2,527,898</u>	<u>2,627,777</u>	<u>4,258,866</u>
Total liabilities		<u>2,528,790</u>	<u>2,628,671</u>	<u>4,259,825</u>
Total equity and liabilities		<u>3,639,448</u>	<u>3,818,325</u>	<u>5,527,807</u>
Net current assets		<u>999,171</u>	<u>1,033,171</u>	<u>1,057,552</u>
Total assets less current liabilities		<u>1,111,550</u>	<u>1,190,548</u>	<u>1,268,941</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in RMB'000 unless otherwise stated)

	<u>Attributable to shareholders of the Company</u>				<u>Total equity</u>
	<u>Share capital</u>	<u>Share premium</u>	<u>Reserves</u>	<u>Retained earnings/ (Accumulated losses)</u>	
	<i>(Note 33)</i>	<i>(Note 34)</i>	<i>(Note 34)</i>		
Balance at 1 January 2012	520,000	–	70,237	117,890	708,127
Profit for the year	–	–	–	66,233	66,233
Other comprehensive income for the year	–	–	7,683	–	7,683
Total comprehensive income for the year	–	–	7,683	66,233	73,916
Share contribution received	120,000	234,615	–	–	354,615
Conversion into a joint stock company by capitalization of reserves and retained earnings	110,000	55,677	(19,911)	(145,766)	–
Net appropriation to reserves	–	–	16,938	(16,938)	–
Dividends recognized as distribution	–	–	–	(26,000)	(26,000)
Balance at 31 December 2012	750,000	290,292	74,947	(4,581)	1,110,658
Balance at 1 January 2013	750,000	290,292	74,947	(4,581)	1,110,658
Profit for the year	–	–	–	78,674	78,674
Other comprehensive income for the year	–	–	207	–	207
Total comprehensive income for the year	–	–	207	78,674	78,881
Net appropriation to reserves	–	–	23,566	(23,566)	–
Balance at 31 December 2013	750,000	290,292	98,720	50,527	1,189,539
Balance at 1 January 2014	750,000	290,292	98,720	50,527	1,189,539
Profit for the year	–	–	–	80,291	80,291
Other comprehensive income for the year	–	–	2,549	–	2,549
Total comprehensive income	–	–	2,549	80,291	82,840
Net appropriation to reserves	–	–	21,256	(21,256)	–
Balance at 31 December 2014	750,000	290,292	122,525	109,562	1,272,379

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December		
	2012	2013	2014
Cash flows from operating activities			
Profit before income tax	85,497	102,422	105,612
Adjustments for:			
Depreciation and amortization	8,916	9,229	8,527
Impairment losses	12,280	5,094	232
Net losses on disposal of property and equipment and intangible assets	16	15	14
Realized (losses)/gains from disposal of available-for-sale financial assets . . .	(784)	(1,297)	(3,128)
Dividends and interest income from available-for-sale financial assets and term deposits	(31,731)	(46,894)	(55,041)
Changes in fair value of financial assets at fair value through profit or loss and derivative financial instruments	(318)	318	(31)
Share of losses of investment in an associate	—	—	1,115
	73,876	68,887	57,300
Net decrease/(increase) in operating assets:			
Net decrease/(increase) in bank balances held for brokerage clients	89,188	(261,184)	(881,453)
Net (increase)/decrease in deposits with exchange-clearing organizations	(504,030)	167,942	(741,217)
Net (increase)/decrease in financial assets at fair value through profit and loss	(20,000)	20,000	(1,565)
Net decrease/(increase) in other assets	4,022	(6,050)	(1,141)
Net increase in physical commodities	—	(8,691)	(6,998)
	(430,820)	(87,983)	(1,632,374)
Net increase/(decrease) in operating liabilities:			
Net increase in accounts payable to brokerage clients	414,836	92,151	1,622,887
Net increase/(decrease) in other liabilities	7,969	(2,951)	4,221
	422,805	89,200	1,627,108
Income tax paid	(27,855)	(17,172)	(20,229)
Net cash inflow from operating activities	38,006	52,932	31,805

	Year ended 31 December		
	2012	2013	2014
Cash flows from investing activities			
Payment for investment in an associate	–	–	(9,800)
Dividends and interest received from available-for-sale financial assets and term deposits	31,731	46,894	55,041
Purchases of property and equipment, intangible assets and other long-term assets	(9,443)	(5,800)	(2,227)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	273	17	5
Payment for purchases of available-for-sale financial assets and term deposits	(805,000)	(1,025,964)	(805,000)
Proceeds on maturity and disposal of available-for-sale financial assets and term deposits	<u>638,223</u>	<u>964,100</u>	<u>756,801</u>
Net cash outflow from investing activities	<u>(144,216)</u>	<u>(20,753)</u>	<u>(5,180)</u>
Cash flows from financing activities			
Proceeds from share capital contributions	354,116	–	–
Dividends paid	<u>(26,219)</u>	–	–
Net cash inflow from financing activities	<u>327,897</u>	<u>–</u>	<u>–</u>
Net increase in cash and cash equivalents	221,687	32,179	26,625
Cash and cash equivalents at beginning of year	<u>86,938</u>	<u>308,625</u>	<u>340,804</u>
Cash and cash equivalents at end of year			
(Note 37)	<u><u>308,625</u></u>	<u><u>340,804</u></u>	<u><u>367,429</u></u>

II NOTES TO THE FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

1 GENERAL INFORMATION

LUZHENG FUTURES Company Limited (魯証期貨股份有限公司) (the “Company”) is incorporated in Shandong Province, the People’s Republic of China (the “PRC”) as a joint stock financial institution.

The Company, originally named as Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), was set up upon approval from the China Securities Regulatory Commission (the “CSRC”) in April 1995 as a limited liability company with an initial registered capital of RMB10.2 million. The Company increased its registered capital to RMB50 million after three additional capital contributions and was renamed as Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司) in February 2007. The Company subsequently increased its registered capital to RMB200 million and further changed its name to Luzheng Futures Co., Ltd. (魯証期貨有限公司) in December 2007. After a series of share transfers and capital increases, the Company increased its registered capital to RMB640 million by September 2012. Upon approval by relevant government authorities, the Company was converted from a limited liability company into a joint-stock company in December 2012. After the conversion, the registered share capital of the Company was RMB750 million and the Company’s Chinese name was changed accordingly (魯証期貨股份有限公司).

As at 31 December 2014, the registered share capital of the Company is RMB750 million. The Company holds the futures business licence No. 31190000 and business licence No. 370000018085761. The registered address of the Company is Floor 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province.

The Company and its subsidiary (the “Group”) are principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, futures asset management, commodity trading and other business activities as permitted by the CSRC.

2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards (the “IFRS”), disclosure requirements of the predecessor Hong Kong Companies Ordinance for the relevant period and the Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited.

The Financial Information have 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 (including derivative instruments), which are carried at fair value.

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.2.

Standards, amendments and interpretations that are effective during the relevant periods have been adopted and applied by the Group consistently throughout the relevant periods.

2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

Standards, amendments and interpretations that have been issued and are relevant to the Group, but are not effective and have not been early adopted by the Group for the year ended 31 December 2014 are as follows:

<u>Standards</u>	<u>Key requirements</u>	<u>Effective from financial years starting on or after</u>
Annual improvements 2012	<p>These amendments include changes from the 2010-2012 cycle of the annual improvements project, that affect the below standards:</p> <ul style="list-style-type: none"> • IFRS 8, 'Operating segments' • IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' • IAS 24, 'Related Party Disclosures' 	1 July 2014
Annual improvements 2013	<p>The amendments include changes from the 2011-2013 cycle of the annual improvements project that affect the below standards:</p> <ul style="list-style-type: none"> • IFRS 3, 'Business combinations' • IFRS 13, 'Fair value measurement' • IAS 40, 'Investment property' 	1 July 2014
IFRS 14	<p>IFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.</p> <p>IFRS 14 permits eligible first-time adopters of IFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes. IFRS 14 requires separate presentation of regulatory deferral account balances in the balance sheet and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.</p>	1 January 2016

<u>Standards</u>	<u>Key requirements</u>	<u>Effective from financial years starting on or after</u>
IFRS 11 (Amendment)	<p>The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in IFRS 3, Business combinations. Specifically, an investor will need to:</p> <ul style="list-style-type: none"> • measure identifiable assets and liabilities at fair value; • expense acquisition-related costs; • recognize deferred tax; and • recognize the residual as goodwill. <p>All other principles of business combination accounting apply unless they conflict with IFRS 11.</p> <p>The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.</p>	1 January 2016
IAS 16 and IAS 38 (Amendment)	<p>The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.</p> <p>The amendment to IAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:</p> <p>where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.</p>	1 January 2016
IFRS 10 and IAS 28 (Amendment)	<p>The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.</p> <p>A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.</p>	1 January 2016

<u>Standards</u>	<u>Key requirements</u>	<u>Effective from financial years starting on or after</u>
Annual improvements 2014	<p>The amendments include changes from the 2012-2014 cycle of the annual improvements project that affect 4 standards:</p> <ul style="list-style-type: none"> • IFRS 5, 'Non-current assets held for sale and discontinued operations' • IFRS 7, 'Financial instruments: Disclosures' • IAS 19, 'Employee benefits' • IAS 34, 'Interim financial reporting' 	1 January 2016
IFRS 15	<p>IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize 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.</p> <p>IFRS 15 provides specific guidance on capitalization of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.</p> <p>IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition:</p> <p>IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.</p>	1 January 2017

Standards	Key requirements	Effective from financial years starting on or after
IFRS 9	IFRS 9 (2014), "Financial instruments" replaces the whole of IAS 39.	1 January 2018
	<p>IFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.</p>	
	<p>IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortized cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.</p>	
	<p>IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.</p>	

The Group is in the process of assessing the impact of these new standards and amendments on the Financial Information.

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 Periods unless otherwise stated.

2.2 Standards, amendments and interpretations that are not yet effective but have been early adopted by the Group.

The following standards have been early adopted by the group for the first time for year ended 31 December 2014:

Amendments to IAS 27, "Separate financial statements – Equity method in separate financial statements". This amendment clarifies that an entity preparing separate financial statements to account for those investments in subsidiaries, joint ventures and associates either at cost, or in accordance with IFRS 9 Financial Instruments, or using the equity method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

3.1 Summary of significant accounting policies

3.1.1 Accounting year

The Group's accounting year starts on 1 January and ends on 31 December.

3.1.2 Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary.

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 to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary is consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual 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 (tranches).

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities ("SEs") in which the Group acts as an asset manager or an investor. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiary, the financial statements of subsidiary are adjusted in accordance with the accounting policies and accounting period of the Group.

Inter-company transactions, balances and unrealized profits on transactions between group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognized as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

In the Subsidiary company's statement of financial position, investments in associates are accounted for using equity method (Note 3.1.4).

3.1.3 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.4 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. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the profit and loss, and its share of post-acquisition movements in other comprehensive income is recognized 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 recognize 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 recognizes the amount adjacent to 'share of profit/losses of investments in associates' in the profit and loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the profit and loss.

3.1.5 *Separate financial statements*

In the Company's statement of financial position, investments in subsidiary are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiary are accounted for by the Company on the basis of dividend received and receivable.

The Company assesses at each financial reporting date whether there is objective evidence that investment in subsidiary is impaired. An impairment loss is recognized for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiary's fair value less costs to sell and value in use.

3.1.6 *Foreign currency translation*

(1) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information are presented in Renminbi (RMB), which is the Company's functional and the Group's presentation currency.

(2) *Transactions and balances*

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

3.1.7 *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 which are subject to an insignificant risk of changes in value.

3.1.8 *Financial instruments*

(1) *Recognition and de-recognition of financial instruments*

A financial asset or financial liability is recognized on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when one of the following conditions is met: (1) the contractual rights to receive cash flows from the investments have expired; (2) when the Group has transferred substantially all risks and rewards of ownership; (3) when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognized in equity is recognized in profit or loss.

Financial liabilities are de-recognized when they are extinguished that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

(2) *Classification and measurement*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale. The classification of financial assets depends on the Group's intention and ability to hold the financial assets. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: other financial liabilities.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include Financial assets held for trading and financial assets designated as at fair value through profit or loss.

Equity securities, funds, debt securities purchased and collective assets management for the purpose of selling in the near term are classified as financial assets held for trading. Equity securities, funds, debt securities and collective assets management may be designated at fair value through profit or loss upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) 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
- (iii) 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 fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognized and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in the profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss through net investment income in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including accounts receivable, other receivables, refundable deposits, and deposits with exchange-clearing organizations. Loans and receivables are recognized initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortized cost using effective interest rate method.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized directly in other comprehensive income, and ultimately in the equity, until the financial assets are de-recognized or impaired at which time the cumulative gains or losses previously recognized in equity should be reclassified from equity to profit or loss. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognized in profit or loss.

(d) Other financial liabilities

Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method. Transaction costs and fees of other financial liabilities are included in calculating amortized cost using the effective interest method.

The Group's other financial liabilities mainly comprise "Accounts payable to brokerage clients" and "Other current liabilities" in the statement of financial position. Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(3) *Determination of fair value*

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The Group utilizes the latest market price for both financial assets and financial liabilities where the latest price falls within the bid-ask spread. In circumstances where the latest market price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that substantially the same, and discounted cash flow analysis, among others. In applying valuation techniques to measure fair value, the Group maximizes the use of observable market inputs and minimizes the use of inputs that are specific to the Group.

If the quoted market price is not available and the fair value cannot be reliably measured, a financial asset is measured at cost.

(4) *Derivative financial instruments*

The Group's derivatives are commodities futures contracts, stock index futures contracts, OTC commodities forwards and OTC options.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

When entering into physical commodity trading transactions, the Group has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin and the non-financial item that is the subject of the contract is readily convertible to cash. The related OTC commodities forwards are recognized accordingly upon entering into such transactions.

(5) *Impairment of financial assets*

Except for financial assets at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

(a) Financial assets carried at amortized cost

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a 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 occurred after the initial recognition of the asset (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:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then collectively assesses financial assets that are not individually significant. The Group performs a collective assessment for individually assessed financial assets with no objective evidence indicating impairment by including the asset in a group of financial assets with similar credit risk characteristics and

collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the 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.

The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of loss is recognized in income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for acquiring and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed and the amount of loss is determined. Subsequent recoveries of amounts previously written off are recognized in income statement against impairment losses on assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the income statement.

(b) Available-for-sale financial assets

Objective evidence that a debt instrument is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group; and
- other objective evidence indicating there is an impairment of the financial asset.

A significant or prolonged decline in the fair value of an equity instrument or collective asset management schemes with equity instruments underlying classified as available-for-sale indicates there is objective evidence that the equity instrument is impaired. The Group assesses the fair value of available-for-sale equity instruments individually at statement of financial position date and determines that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, the Company recognize impairment losses in profit or losses if it concludes this decline is prolonged and expected to last for more than one year based on professional judgement of the Company's research department and business department.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss. Impairment losses on equity instruments or collective asset management schemes with equity instruments are not reversed through profit or loss; increases in their fair value subsequent to impairment are recognized as other comprehensive income.

(6) *Offsetting financial instruments*

Financial assets and financial liabilities are separately presented in the statement of financial position without any offsetting, except when:

- (a) the Group has a legally enforceable right to offset the recognized amounts; and
- (b) the Group has intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.1.9 Physical commodities

The Group’s physical commodities mainly includes tradable agricultural products and industrial products. These commodities are in initially measured at cost. Cost is determined using the first-in, first-out (FIFO) method, including purchase cost and other variable purchase expenses.

At the end of each reporting period, physical commodities are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Any excess of the cost over the net realizable value of each inventories is recognized as an impairment provision for diminution in the value of physically commodities in the statement of financial position and impairment charge within gain/(loss) on physical commodities trading.

If, in a subsequent period, the net realizable value of the impaired physical commodities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

3.1.10 Property and equipment

The Group’s property and equipment includes buildings, motor vehicles, electronic and other equipment that are used for operation purpose and have useful lives of more than one year.

Property and equipment shall be recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Subsequent costs are included in an asset’s carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. All other subsequent expenditures are recognized in profit or loss during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of property and equipment are as follows:

	<u>Estimated useful lives</u>	<u>Estimated residual rates</u>	<u>Annual depreciation rates</u>
Buildings	30-35 years	3%-5%	2.71%-3.23%
Motor vehicles	6 years	3%-5%	15.83%-16.17%
Electronics and other equipment	3-5 years	3%-5%	19.00%-32.33%

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Group at the end of each reporting period.

Property and equipment are de-recognized on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of Property and equipment net of their carrying amounts and related taxes and expenses is recognized in the profit or loss. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.13).

3.1.11 Intangible assets

Intangible assets comprise of computer software which are initially recognized at cost. The cost less estimated residual values (if any) of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3.1.13.

3.1.12 Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvements and expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortization.

3.1.13 Impairment of long-term non-financial assets

Fixed asset, intangible assets with definite useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognized in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets that have an indefinite useful life for example, intangible assets with indefinite useful life that are not subject to amortization are tested at least annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

3.1.14 Employee benefits

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

A defined contribution scheme is a pension or social security plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee

service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. During the relevant period, the Group's post-employment schemes mainly include basic pension insurance.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social insurance schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labour and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. Contributions are recognized in the profit or loss for the current period.

3.1.15 Revenue recognition

The Group's revenue mainly includes commission and fee income, interest income, dividend income, gain/(loss) on physical commodities trading, and refund by the futures exchange.

- (1) Commission and fee income
 - (a) Revenue from futures brokerage services is recognized on the date of the transaction;
 - (b) Revenue from asset management services is recognized when services are rendered according to the provisions of the underlying contracts;
 - (c) Consultancy and advisory fees are recognized when the relevant transactions have been arranged or the relevant services have been rendered.
- (2) Interest income is recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant 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 net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

- (3) Dividend income is recognized when the right to receive payment is established.
- (4) Trading gains from financial assets at fair value through profit or loss is recognized on a trade date basis whilst the unrealized profits or losses are recognized from valuation at the end of reporting period. Gain/(loss) on physical commodities trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.
- (5) Refund by the futures exchanges is recognized upon receipt.

3.1.16 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to Property and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

3.1.17 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. As at the statement of financial position date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred income tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred income tax related to fair value re-measurement of available-for-sale financial assets is charged or credited directly to equity and is subsequently transferred to profit or loss when the financial assets are de-recognized.

Deferred income tax assets and liabilities are offset when:

- (a) the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority;
- (b) there is a legally enforceable right to offset current tax assets against current tax liabilities.

3.1.18 Leases

Leases of assets where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

3.1.19 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 recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3.1.20 Provisions

Provisions for matters such as legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.1.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.1.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

3.1.23 Assets segregated for brokerage clients

Pursuant to requirements of the CSRC, funds deposited by brokerage clients relating to exchange-traded futures contracts must be deposited in designated bank accounts or with exchange-clearing organizations, which are segregated and accounted for separately from the proprietary funds of the Company.

Deposits with exchange-clearing organizations pertain primarily to deposits made to satisfy margin requirements on brokerage clients and to satisfy the requirements set by the futures exchanges for clearing membership.

Deposits with exchange-clearing organizations do not include client-owned securities that are pledged to exchange-clearing organizations. Such client-owned securities are not presented on the Group's statement of financial position.

3.1.24 Accounts payable to brokerage clients

Accounts payable to brokerage clients represent the total of brokerage client accounts with credit or positive balances. Brokerage client accounts are used primarily in connection with exchange-traded commodity and financial futures transactions and include gains and losses on open futures contracts as well as other deposits made as required by the Group or the exchange-clearing organizations. Brokerage client accounts with credit or positive balances are reported gross of client accounts that contain debit or net deficit balances, except where a right of offset exists.

3.2 Summary of significant accounting estimates and judgments

The Group continually evaluates the significant accounting estimates and judgments 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. It is possible that actual results may be materially different from the estimates and judgments referred to below.

3.2.1 Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

3.2.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3.2.3 Income taxes

The Group is mainly subject to income taxes in China. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss 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.

3.2.4 Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

4 TAXATION

The principal taxes to which the Group is subject are listed below:

	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Value added tax ("VAT")	Taxable value added (VAT payable is calculated by VAT-output less deductible VAT-input)	13% or 17%
Business tax	Taxable operating income	5%
City construction and maintenance tax . .	Business tax and VAT paid	7%
Educational surcharges	Business tax and VAT paid	3%

5 NET COMMISSION AND FEE INCOME

	Year ended 31 December		
	2012	2013	2014
Commission and fee income			
Futures brokerage service	419,178	430,008	357,507
Settlement and clearing service income from other futures firms	69,700	100,457	30,383
Asset management service	–	181	8,483
Investment consultancy ⁽¹⁾	–	–	120
	<u>488,878</u>	<u>530,646</u>	<u>396,493</u>
Commission and fee expense			
Trading and clearing fees to exchange-clearing organizations	255,327	265,965	241,887
Settlement and clearing service expense to exchange-clearing organizations	68,912	99,596	30,187
	<u>324,239</u>	<u>365,561</u>	<u>272,074</u>

(1) The Group started to provide futures trading strategy consultancy service to Qilu Investment Management Consulting (Shenzhen) Co., Ltd. (齊魯投資管理諮詢深圳有限公司) in the year ended 31 December 2014 (2012 and 2013: nil).

6 NET INTEREST INCOME

	Year ended 31 December		
	2012	2013	2014
Interest income from deposits with banks	77,361	69,076	84,467
Interest income from deposits with exchange-clearing organizations	10,630	14,302	13,679
Interest expense on settlement and clearing services to other futures firms	(3,530)	(3,127)	(1,930)
	<u>84,461</u>	<u>80,251</u>	<u>96,216</u>

7 GAIN/(LOSS) ON PHYSICAL COMMODITIES TRADING

	Year ended 31 December		
	2012	2013	2014
Sales proceeds	–	181,467	306,839
Costs of purchases	–	(178,651)	(322,114)
	<u>–</u>	<u>2,816</u>	<u>(15,275)</u>

The Company's subsidiary involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized upon the transfer of risks and rewards of the ownership.

As a result of declining market prices for some commodities towards the end of the financial year, as at 31 December 2014, the net realizable value of the physical commodities is lower than the cost. The Group has written the carrying amount of the physical commodities down to the net realizable value with the amount of RMB6,757 thousand (2012 and 2013: nil). The impairment charge was included in costs of purchases of physical commodities.

8 NET INVESTMENT GAINS

	Year ended 31 December		
	2012	2013	2014
Net realized gains from disposal of available-for sale financial assets	784	1,297	3,128
Dividends and interest income from available-for-sale financial assets	2,887	23,833	30,575
Net realized (losses)/gains from disposal of financial assets at fair value through profit and loss ⁽¹⁾	–	(165)	18,044
Dividends from financial assets at fair value through profit and loss	–	785	–
Net realized gains from derivative financial instruments ⁽²⁾	–	292	26,325
Unrealized fair value change of financial instruments at fair value through profit or loss			
– Financial assets at fair value through profit or loss	318	(318)	386
– Derivative financial instruments	–	(15)	(355)
	<u>3,989</u>	<u>25,709</u>	<u>78,103</u>

- (1) This item consists of gains from investment in exchange traded stocks, funds and other financial instruments at fair value through profit and loss.
- (2) This item represents gains from futures and OTC derivatives transactions related to commodity trading activities of the subsidiary.
- (3) Net investment gains from listed non-derivative financial instruments amount to RMB9,711 thousand for the year ended 31 December 2014 (2012 and 2013: nil).

Net investment gains from listed derivative financial instruments amount to RMB277 thousand and RMB20,274 thousand for the years ended 31 December 2013 and 2014, respectively (2012: nil).

9 OTHER INCOME – REFUNDS OF TRADING FEES

To promote the development of futures market, the futures exchanges implement a practice to partially refund trading fees to their clearing members. The policies on the timing and calculation method of refund, are made and adjusted periodically at the discretion of the futures exchanges.

10 STAFF COSTS

	Year ended 31 December		
	2012	2013	2014
Salaries and bonus	51,361	55,609	68,120
Pension	5,036	6,765	7,508
Other social security	3,153	4,034	4,615
Labour union funds and employee education funds	2,310	2,503	3,052
Other welfare	4,730	3,626	5,261
	<u>66,590</u>	<u>72,537</u>	<u>88,556</u>

10.1 The emoluments of the directors and supervisors

The emoluments of the directors and supervisors of the Company paid by the Group for the years ended 31 December 2012, 2013 and 2014 are set out below.

Name	Year ended 31 December 2012				
	Remuneration	Salaries allowance, and other welfares	Pension	Annual Bonus	Total
Executive Directors					
Chen Fang ⁽¹⁾	–	–	–	–	–
Liang Zhongwei ⁽³⁾	190	34	28	19	271
Non-executive Directors					
Lu Xiangyou ⁽²⁾	–	–	–	–	–
Zhang Yunwei ⁽²⁾	–	–	–	–	–
Li Chuanyong ^{(2) (4)}	–	–	–	–	–
Cui Pengpeng ^{(2) (5)}	–	–	–	–	–
Yu Xuehui	–	59	–	–	59
Wang Chuanshun ^{(2) (6)}	–	–	–	–	–
Gao Zhu ^{(2) (7)}	–	–	–	–	–
Supervisors					
An Tie ⁽²⁾	–	–	–	–	–
Zhang Shouhe ⁽²⁾	–	–	–	–	–
Meng Tao	164	13	20	25	222
	<u>354</u>	<u>106</u>	<u>48</u>	<u>44</u>	<u>552</u>

Year ended 31 December 2013

Name	Salaries allowance, and other welfares				Total
	Remuneration		Pension	Annual Bonus	
Executive Directors					
Chen Fang ⁽¹⁾	-	-	-	-	-
Liang Zhongwei ⁽³⁾	231	29	32	49	341
Non-executive Directors					
Lu Xiangyou ⁽²⁾	-	-	-	-	-
Zhang Yunwei ⁽²⁾	-	-	-	-	-
Li Chuanyong ^{(2) (4)}	-	-	-	-	-
Cui Pengpeng ^{(2) (5)}	-	-	-	-	-
Yu Xuehui	-	117	-	-	117
Wang Chuanshun ⁽⁶⁾	-	100	-	-	100
Gao Zhu ⁽⁷⁾	-	100	-	-	100
Supervisors					
An Tie ⁽²⁾	-	-	-	-	-
Zhang Shouhe ⁽²⁾	-	-	-	-	-
Meng Tao	184	12	23	62	281
	<u>415</u>	<u>358</u>	<u>55</u>	<u>111</u>	<u>939</u>

Year ended 31 December 2014

Name	Salaries allowance, and other welfares				Total
	Remuneration		Pension	Annual Bonus	
Executive Directors					
Chen Fang ⁽¹⁾	-	-	-	-	-
Liang Zhongwei ⁽³⁾	168	32	32	54	286
Non-executive Directors					
Lu Xiangyou ⁽²⁾	-	-	-	-	-
Zhang Yunwei ⁽²⁾	-	-	-	-	-
Li Chuanyong ^{(2) (4)}	-	-	-	-	-
Cui Pengpeng ^{(2) (5)}	-	-	-	-	-
Yu Xuehui	-	100	-	-	100
Wang Chuanshun ⁽⁶⁾	-	100	-	-	100
Gao Zhu ⁽⁷⁾	-	100	-	-	100
Supervisors					
An Tie ⁽²⁾	-	-	-	-	-
Zhang Shouhe ⁽²⁾	-	-	-	-	-
Meng Tao	130	28	23	167	348
	<u>298</u>	<u>360</u>	<u>55</u>	<u>221</u>	<u>934</u>

- (1) Chen Fang was appointed by Qilu Securities and his emolument was paid by Qilu Securities, and no allocation of the emoluments between the shareholder and the Group has been made during the relevant periods.
- (2) Those non-executive directors and supervisors were appointed by shareholders and their emoluments were paid by shareholders for the years ended 31 December 2012, 2013 and 2014.
- (3) Liang Zhongwei was elected to be executive director effective from June 2012.
- (4) Li Chuanyong was elected to be non-executive director effective from December 2012.
- (5) Cui Pengpeng was elected to be non-executive director effective from December 2012.
- (6) Wang Chuanshun was elected to be non-executive director effective from December 2012.
- (7) Gao Zhu was elected to be non-executive director effective from December 2012.

10.2 The five highest paid individuals

For the years ended 31 December 2012, 2013 and 2014, the five highest paid individuals do not include any of the directors or the supervisors. Details of the emoluments for the five highest paid individuals for the relevant years are as follows:

	Year ended 31 December		
	2012	2013	2014
Salaries, allowances and other welfares	1,317	1,327	1,448
Bonus	1,870	2,150	2,278
	<u>3,187</u>	<u>3,477</u>	<u>3,726</u>

The emoluments of the senior management and individuals fell within the following bands:

	Year ended 31 December		
	2012	2013	2014
RMB400,001 to RMB600,000	2	2	1
RMB600,001 to RMB800,000	3	1	2
RMB800,001 to RMB1,000,000	–	2	2
	<u>5</u>	<u>5</u>	<u>5</u>

The Group has not provided any compensation to any of these directors, supervisors or the five highest paid individuals as incentive for them to join the Group, reward for joining the Group or for leaving the Group.

11 DEPRECIATION AND AMORTIZATION

	Year ended 31 December		
	2012	2013	2014
Depreciation of property and equipment	6,455	6,347	5,012
Amortization of other non-current assets	1,954	2,050	2,515
Amortization of intangible assets	507	832	1,000
	<u>8,916</u>	<u>9,229</u>	<u>8,527</u>

12 IMPAIRMENT LOSSES

	Year ended 31 December		
	2012	2013	2014
Available-for-sale financial assets	12,416	4,771	604
Other receivables	(136)	323	(372)
	<u>12,280</u>	<u>5,094</u>	<u>232</u>

13 OTHER OPERATING EXPENSES

	Year ended 31 December		
	2012	2013	2014
Office expenses	18,300	16,979	18,385
Rentals	10,409	12,822	14,088
Marketing and distribution expenses	11,803	11,318	11,578
Business tax and surcharges	12,207	12,303	10,121
Information system maintenance fees	4,121	4,860	7,495
Consulting expenses	4,775	6,525	7,483
Futures Investors Protection Fund	3,261	4,778	4,049
Property maintenance fee	3,630	3,580	3,661
Professional service expenses	2,274	297	449
Auditors' remuneration – Audit services	400	170	180
Other expenses	1,732	2,598	5,163
	<u>72,912</u>	<u>76,230</u>	<u>82,652</u>

14 OTHER GAINS, NET

	Year ended 31 December		
	2012	2013	2014
Government grants ⁽¹⁾	1,137	4,187	3,161
Subsidies received from futures exchanges ⁽²⁾	397	2,080	1,175
Loss from disposal of long-term non-financial assets . . .	(16)	(15)	(14)
Others	631	422	190
	<u>2,149</u>	<u>6,674</u>	<u>4,512</u>

(1) This item mainly consists of other grants from local governments.

(2) This item mainly consists of subsidies from futures exchanges for investors education, conference and research, etc.

15 INCOME TAX EXPENSE

	Year ended 31 December		
	2012	2013	2014
Current			
– Mainland China	22,540	26,693	24,849
Deferred			
– Mainland China (Note 24)	(3,276)	(2,945)	472
Income tax			
– Mainland China	19,264	23,748	25,321

The mainland China income tax provision is 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.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	Year ended 31 December		
	2012	2013	2014
Profit before income tax	85,497	102,422	105,612
Tax calculated at applicable statutory tax rate of 25% . .	21,374	25,605	26,403
Items deducted for tax purposes but not subtracted to arrive at taxable income	(2,742)	(2,359)	(1,746)
Items not deductible for tax purposes	632	502	664

16 EARNINGS PER SHARE

16.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares, the 110,000,000 shares issued upon conversion into a joint stock company were treated as if they had been in issue since 1 January 2012.

	Year ended 31 December		
	2012	2013	2014
Profit attributable to shareholders of the Company (in RMB thousands)	66,233	78,674	80,291
Weighted average number of ordinary shares in issue (in thousands)	660,000	750,000	750,000
Basic earnings per share (in RMB)	0.10	0.10	0.11

16.2 Diluted earnings per share

For the years ended 31 December 2012, 2013 and 2014, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

17 DIVIDENDS

The Group and the Company

	Year ended 31 December		
	2012	2013	2014
Dividends paid	26,000	–	–

Under the “Company Law” of the PRC and the Group’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:

- (I) Making up cumulative losses from prior years, if any;
- (II) 10% of the Company’s profit is appropriated to the non-distributable statutory surplus reserve;
- (III) 10% of the Company’s profit is appropriated to the non-distributable general risk reserve;
- (IV) Appropriations to the non-distributable futures risk reserve according to the relevant regulation;
- (V) Appropriations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders’ equity.

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC CAS and (ii) the retained profit determined in accordance with IFRS.

18 PROPERTY AND EQUIPMENT

The Group and the Company

	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2012	34,980	7,487	17,662	60,129
Additions	3,500	381	3,521	7,402
Disposals	–	–	(623)	(623)
31 December 2012	38,480	7,868	20,560	66,908
Accumulated depreciation				
1 January 2012	(1,228)	(2,754)	(9,999)	(13,981)
Additions	(1,230)	(1,169)	(4,056)	(6,455)
Disposals	–	–	466	466
31 December 2012	(2,458)	(3,923)	(13,589)	(19,970)
Carrying amount				
31 December 2012	36,022	3,945	6,971	46,938

The Group

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electronics and other equipment</u>	<u>Total</u>
Cost				
1 January 2013	38,480	7,868	20,560	66,908
Additions	1,593	677	2,002	4,272
Disposals	–	–	(525)	(525)
31 December 2013	<u>40,073</u>	<u>8,545</u>	<u>22,037</u>	<u>70,655</u>
Accumulated depreciation				
1 January 2013	(2,458)	(3,923)	(13,589)	(19,970)
Additions	(1,289)	(1,220)	(3,838)	(6,347)
Disposals	–	–	476	476
31 December 2013	<u>(3,747)</u>	<u>(5,143)</u>	<u>(16,951)</u>	<u>(25,841)</u>
Carrying amount				
31 December 2013	<u><u>36,326</u></u>	<u><u>3,402</u></u>	<u><u>5,086</u></u>	<u><u>44,814</u></u>

The Group

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electronics and other equipment</u>	<u>Total</u>
Cost				
1 January 2014	40,073	8,545	22,037	70,655
Additions	–	438	1,699	2,137
Disposals	–	–	(322)	(322)
31 December 2014	<u>40,073</u>	<u>8,983</u>	<u>23,414</u>	<u>72,470</u>
Accumulated depreciation				
1 January 2014	(3,747)	(5,143)	(16,951)	(25,841)
Additions	(1,298)	(1,173)	(2,541)	(5,012)
Disposals	–	–	303	303
31 December 2014	<u>(5,045)</u>	<u>(6,316)</u>	<u>(19,189)</u>	<u>(30,550)</u>
Carrying amount				
31 December 2014	<u><u>35,028</u></u>	<u><u>2,667</u></u>	<u><u>4,225</u></u>	<u><u>41,920</u></u>

The Company

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electronics and other equipment</u>	<u>Total</u>
Cost				
1 January 2013	38,480	7,868	20,560	66,908
Additions	1,593	676	1,701	3,970
Disposals	–	–	(525)	(525)
31 December 2013	<u>40,073</u>	<u>8,544</u>	<u>21,736</u>	<u>70,353</u>
Accumulated depreciation				
1 January 2013	(2,458)	(3,923)	(13,589)	(19,970)
Additions	(1,290)	(1,219)	(3,825)	(6,334)
Disposals	–	–	493	493
31 December 2013	<u>(3,748)</u>	<u>(5,142)</u>	<u>(16,921)</u>	<u>(25,811)</u>
Carrying amount				
31 December 2013	<u>36,325</u>	<u>3,402</u>	<u>4,815</u>	<u>44,542</u>

The Company

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electronics and other equipment</u>	<u>Total</u>
Cost				
1 January 2014	40,073	8,544	21,736	70,353
Additions	–	439	1,629	2,068
Disposals	–	–	(322)	(322)
31 December 2014	<u>40,073</u>	<u>8,983</u>	<u>23,043</u>	<u>72,099</u>
Accumulated depreciation				
1 January 2014	(3,748)	(5,142)	(16,921)	(25,811)
Additions	(1,298)	(1,173)	(2,464)	(4,935)
Disposals	–	–	302	302
31 December 2014	<u>(5,046)</u>	<u>(6,315)</u>	<u>(19,083)</u>	<u>(30,444)</u>
Carrying amount				
31 December 2014	<u>35,027</u>	<u>2,668</u>	<u>3,960</u>	<u>41,655</u>

For the years ended 31 December 2012, 2013 and 2014, net loss from disposal of property and equipment amounted to RMB16 thousand, RMB15 thousand and RMB14 thousand, respectively.

All buildings of the Group are located outside Hong Kong.

19 INTANGIBLE ASSETS

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Net Book Value			
Computer software	<u>6,349</u>	<u>7,046</u>	<u>6,137</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Net Book Value			
Computer software	6,349	7,023	6,116

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Cost			
At 1 January	4,849	8,317	9,846
Additions	3,468	1,529	91
At 31 December	8,317	9,846	9,937
Accumulated amortization			
At 1 January	(1,461)	(1,968)	(2,800)
Charges	(507)	(832)	(1,000)
At 31 December	(1,968)	(2,800)	(3,800)
Carrying amount			
At 31 December	6,349	7,046	6,137

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Cost			
At 1 January	4,849	8,317	9,822
Additions	3,468	1,505	89
At 31 December	8,317	9,822	9,911
Accumulated amortization			
At 1 January	(1,461)	(1,968)	(2,799)
Charges	(507)	(831)	(996)
At 31 December	(1,968)	(2,799)	(3,795)
Carrying amount			
At 31 December	6,349	7,023	6,116

20 INVESTMENT IN AN ASSOCIATE

The Group invested RMB9.8 million in a newly established associate named Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心) ("Rizhao BOT") during the year ended 31 December 2014. The registered capital of Rizhao BOT is RMB100 million. The Group holds 49% of its equity and accounts for the associate using equity method. Rizhao BOT is located in Rizhao City, Shandong Province and still in an early period of its business operations.

The carrying amount of the associate and a reconciliation of the associate's summarized financial information to the carrying amount of the Group's interest in the associate are as follows:

The Group

	Year ended 31 December 2014
At 1 January	–
Capital injection	9,800
Share of losses for the period	(1,115)
At 31 December	<u>8,685</u>

Summarized Financial Information

	Year ended 31 December 2014
Opening net assets 1 January	–
Capital contributions	20,000
Losses for the period	(2,275)
Other comprehensive income	–
Closing net assets	<u>17,725</u>
Interest in the associate (49%) and carrying value	<u>8,685</u>

On 17 December 2014, Rizhao BOT entered into an acquisition agreement with an expected completion date in 2015. Acquisition consideration is funded by additional capital injection from its shareholders. The Group has committed an additional capital injection of RMB24,878 thousand. Upon completion of the disproportionate capital increase, the Group's equity holding in Rizhao BOT will be diluted from 49% to 29.5%.

21 INVESTMENT IN A SUBSIDIARY

The Company

	31 December 2012	31 December 2013	31 December 2014
Unlisted investment, at cost	<u>–</u>	<u>60,000</u>	<u>120,000</u>

21.1 General information of major subsidiaries

The following is a major subsidiary of the Group. Unless specially stated, the Group's interests in this subsidiary were all ordinary shares and directly held by the Group, and the percentage of ownership held by the Group represented the voting rights of the Group.

<u>Name of subsidiary</u>	<u>Country/place of incorporation and operation</u>	<u>Date of incorporation</u>	<u>Type of legal entity</u>	<u>Nominal value of Issued and fully paid share capital/registered capital</u>	<u>Interest directly held</u>	<u>Interest indirectly held</u>	<u>Principal activities</u>
Luzheng Economic and Trade Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB120,000,000/ RMB150,000,000	100%	-	Commodity trading, OTC derivative trading

Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Tai Hui Rong") was incorporated in Hong Kong as a wholly owned subsidiary of Luzheng Trading on 21 November 2013, with a registered capital of HK\$10,000. As at 31 December 2014, the Group has not injected any capital into Zhongtai Hui Rong which has yet to carry out any business activities.

22 OTHER NON-CURRENT ASSETS

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Leasehold improvement	2,384	3,166	3,545
Long-term prepaid expenses	410	243	250
	<u>2,794</u>	<u>3,409</u>	<u>3,795</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Leasehold improvement	2,384	2,613	2,958
Long-term prepaid expenses	410	244	249
	<u>2,794</u>	<u>2,857</u>	<u>3,207</u>

Leasehold improvements of the Group and the Company are amortized over the expected beneficial periods.

Changes in leasehold improvement are analyzed as follows:

The Group

	<u>31 December</u> <u>2012</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2014</u>
At 1 January	2,326	2,384	3,166
Additions	1,739	2,478	2,707
Amortization	(1,681)	(1,696)	(2,328)
At 31 December	<u>2,384</u>	<u>3,166</u>	<u>3,545</u>

The Company

	<u>31 December</u> <u>2012</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2014</u>
At 1 January	2,326	2,384	2,613
Additions	1,739	1,846	2,428
Amortization	(1,681)	(1,617)	(2,083)
At 31 December	<u>2,384</u>	<u>2,613</u>	<u>2,958</u>

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	<u>31 December</u> <u>2012</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2014</u>
Non-current – Unlisted			
At fair value			
Collective asset management schemes ^{(Note 42.2(1))}	32,519	22,852	15,773
At cost			
Investments in exchange memberships ⁽¹⁾	1,400	1,400	1,400
	<u>33,919</u>	<u>24,252</u>	<u>17,173</u>
Current – Unlisted			
At fair value			
Trust schemes ^{(Note 42.2(2))}	–	114,663	161,768
Debt instruments ^{(Note 42.2(3))}	–	100,250	100,250
Collective asset management schemes	5,150	52,055	60,300
	<u>5,150</u>	<u>266,968</u>	<u>322,318</u>
	<u>39,069</u>	<u>291,220</u>	<u>339,491</u>

(1) The Company is required to hold certain exchange membership seats. Exchange memberships include seats on the Shanghai Futures Exchange (the “SHFE”), Zhengzhou Commodity Exchange (the “ZCE”) and Dalian Commodity Exchange (the “DCE”). Exchange memberships are only transferrable after approved by the respective futures exchanges.

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Non-current – Unlisted			
At fair value			
Collective asset management schemes	32,519	16,377	15,773
At cost			
Investments in exchange memberships	1,400	1,400	1,400
	<u>33,919</u>	<u>17,777</u>	<u>17,173</u>
Current – Unlisted			
At fair value			
Trust schemes	–	114,663	161,768
Debt instruments	–	100,250	100,250
Collective asset management schemes	5,150	52,055	28,684
	<u>5,150</u>	<u>266,968</u>	<u>290,702</u>
	<u>39,069</u>	<u>284,745</u>	<u>307,875</u>

As at 31 December 2012, 2013 and 2014, no securities of the Group and the Company were placed as collateral.

24 DEFERRED INCOME TAX ASSETS AND LIABILITIES

- (1) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The net movements on the deferred income tax account are as follows:

The Group

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance at beginning of year	1,498	2,213	5,089
Income statement charge (<i>Note 15</i>)	3,276	2,945	(472)
Tax charge relating to components of other comprehensive income (<i>Note 34</i>)	(2,561)	(69)	(850)
Balance at end of year	<u>2,213</u>	<u>5,089</u>	<u>3,767</u>

The Company

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance at beginning of year	1,498	2,213	5,021
Income statement charge	3,276	2,942	(2,440)
Tax charge relating to components of other comprehensive income (<i>Note 34</i>)	(2,561)	(134)	500
Balance at end of year	<u>2,213</u>	<u>5,021</u>	<u>3,081</u>

- (2) Gross movements in deferred income tax assets and liabilities

The gross movements in deferred income tax assets during the year are as follows:

The Group

	Impairment losses from available-for- sale financial asset	Changes in fair value of available-for- sale financial assets	Impairment losses from Inventories	Others	Total
As at 1 January 2012	1,266	2,524	-	194	3,984
Income statement charge	3,104	-	-	(20)	3,084
Tax charge relating to components of other comprehensive income	-	(2,561)	-	-	(2,561)
As at 31 December 2012	4,370	(37)	-	174	4,507
Income statement charge	1,193	-	-	560	1,753
Tax charge relating to components of other comprehensive income	-	(69)	-	-	(69)
As at 31 December 2013	5,563	(106)	-	734	6,191
Income statement charge	(2,006)	-	1,689	(227)	(544)
Tax charge relating to components of other comprehensive income	-	435	-	-	435
As at 31 December 2014	<u>3,557</u>	<u>329</u>	<u>1,689</u>	<u>507</u>	<u>6,082</u>

The Company

	Impairment losses from available-for- sale financial asset	Changes in fair value of available-for- sale financial assets	Others	Total
As at 1 January 2012	1,266	2,524	194	3,984
Income statement charge	3,104	-	(20)	3,084
Tax charge relating to components of other comprehensive income	-	(2,561)	-	(2,561)
As at 31 December 2012	4,370	(37)	174	4,507
Income statement charge	1,193	-	557	1,750
Tax charge relating to components of other comprehensive income	-	(134)	-	(134)
As at 31 December 2013	5,563	(171)	731	6,123
Income statement charge	(2,006)	-	(602)	(2,608)
Tax charge relating to components of other comprehensive income	-	500	-	500
As at 31 December 2014	<u>3,557</u>	<u>329</u>	<u>129</u>	<u>4,015</u>

The gross movements in deferred income tax liabilities during the year are as follows:

The Group

	Changes in fair value of financial assets at fair value through profit or loss	Interest receivable from deposits	Changes in fair value of available-for- sale financial assets	Total
Cost				
As at 1 January 2012	–	2,486	–	2,486
Income statement charge	80	(272)	–	(192)
As at 31 December 2012	80	2,214	–	2,294
Income statement charge	(80)	(1,112)	–	(1,192)
As at 31 December 2013	–	1,102	–	1,102
Income statement charge	96	(168)	–	(72)
Tax charge relating to components of other comprehensive income	–	–	1,285	1,285
As at 31 December 2014	<u>96</u>	<u>934</u>	<u>1,285</u>	<u>2,315</u>

The Company

	Changes in fair value of financial assets at fair value through profit or loss	Interest receivable	Changes in fair value of available-for- sale financial assets	Total
Cost				
As at 1 January 2012	–	2,486	–	2,486
Income statement charge	80	(272)	–	(192)
As at 31 December 2012	80	2,214	–	2,294
Income statement charge	(80)	(1,112)	–	(1,192)
As at 31 December 2013	–	1,102	–	1,102
Income statement charge	–	(168)	–	(168)
As at 31 December 2014	<u>–</u>	<u>934</u>	<u>–</u>	<u>934</u>

No deferred income tax liability has been recognized in respect of the unremitted earnings of the subsidiary considering there is no difference in the income tax rate applicable to the Company and its subsidiary, and moreover, profit distribution paid by the subsidiary to the Company is not taxable for corporate income tax purposes at the level of the parent company.

(3) Offsetting of deferred income tax assets and liabilities:

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Deferred income tax assets	(2,294)	(1,102)	(2,315)
Deferred income tax liabilities	<u>(2,294)</u>	<u>(1,102)</u>	<u>(2,315)</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Deferred income tax assets	(2,294)	(1,102)	(934)
Deferred income tax liabilities	<u>(2,294)</u>	<u>(1,102)</u>	<u>(934)</u>

Net amount of deferred income tax assets and liabilities after offsetting:

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Deferred income tax assets	2,213	5,089	3,767
Deferred income tax liabilities	<u>–</u>	<u>–</u>	<u>–</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Deferred income tax assets	2,213	5,021	3,081
Deferred income tax liabilities	<u>–</u>	<u>–</u>	<u>–</u>

25 REFUNDABLE DEPOSITS

The Group and the Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Security deposit placed with the China Financial Futures Exchange (the “CFFE”)	<u>20,166</u>	<u>20,157</u>	<u>20,157</u>

26 PHYSICAL COMMODITIES

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Trading commodities	–	8,691	22,446
Impairment (<i>Note 7</i>)	–	–	(6,757)
	<u>–</u>	<u>8,691</u>	<u>15,689</u>

27 OTHER CURRENT ASSETS

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Deposit for physical commodity trading	–	61	6,658
Prepayments	4,024	6,626	5,465
Interest receivable from deposits	8,855	4,406	3,734
Accounts receivable ⁽¹⁾	–	11,512	1,324
Other receivables	1,942	1,538	2,385
	<u>14,821</u>	<u>24,143</u>	<u>19,566</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Prepayments	4,024	6,065	5,159
Interest receivable from deposits	8,855	4,406	3,734
Accounts receivable ⁽¹⁾	–	–	310
Other receivables	1,942	1,317	2,055
	<u>14,821</u>	<u>11,788</u>	<u>11,258</u>

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

The Group

	<u>31 December 2012</u>		<u>31 December 2013</u>		<u>31 December 2014</u>	
	Amount	Impairment allowance	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year . . .	<u>–</u>	<u>–</u>	<u>11,512</u>	<u>–</u>	<u>1,324</u>	<u>–</u>

The Company

	31 December 2012		31 December 2013		31 December 2014	
	Amount	Impairment allowance	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	-	-	-	-	310	-

28 DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments of the Group mainly represent futures contracts. The Group settles its gains or losses from the open futures position on a daily basis, with the corresponding receipts and payments included in “deposits with exchange-clearing organizations” as at 31 December 2012, 2013 and 2014.

The Group

	31 December 2012		31 December 2013		31 December 2014	
	Contractual value	Fair value	Contractual value	Fair value	Contractual value	Fair value
Commodities futures	-	-	44,201	(15)	46,346	(369)
Stock index futures	-	-	-	-	1,073	(1)
Less: Cash paid as settlement	-	-	-	15	-	370
Net position	-	-	-	-	-	-

The Group also held certain OTC options and OTC commodity forwards. The intrinsic value of OTC options amounted to RMB145 thousand as at 31 December 2014 (2012 and 2013: nil). The notional amount of OTC commodity forwards amounted to RMB270 thousand and RMB23,918 thousand as at 31 December 2013 and 2014 respectively (2012: nil). The fair value change of OTC options and OTC commodity forwards is considered not significant.

29 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**The Group**

	31 December 2012	31 December 2013	31 December 2014
Investment designed as financial assets at fair value through profit or loss			
Collective asset management schemes ^{(Note 42.2(1))}	20,318	-	-
Investment held for trading			
Equity securities	-	-	1,596
	<u>20,318</u>	<u>-</u>	<u>1,596</u>
Analyzed as			
Listed outside Hong Kong	-	-	1,596
Unlisted	20,318	-	-
	<u>20,318</u>	<u>-</u>	<u>1,596</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Investment designed as financial assets at fair value through profit or loss			
Collective asset management schemes	20,318	-	-
	<u>20,318</u>	<u>-</u>	<u>-</u>
Analyzed as			
Unlisted	20,318	-	-
	<u>20,318</u>	<u>-</u>	<u>-</u>

As at 31 December 2012, 2013 and 2014, no securities of the Group were placed as collateral.

30 DEPOSITS WITH EXCHANGE-CLEARING ORGANIZATIONS**The Group**

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Clients' margin deposits	1,137,147	1,081,062	1,670,891
Clients' unrestricted deposits	509,171	397,314	548,702
Proprietary clearing settlement funds	31,301	65,592	111,598
	<u>1,677,619</u>	<u>1,543,968</u>	<u>2,331,191</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Clients' margin deposits	1,137,147	1,081,062	1,670,891
Clients' unrestricted deposits	509,171	408,063	556,714
Proprietary clearing settlement funds	31,301	54,843	103,586
	<u>1,677,619</u>	<u>1,543,968</u>	<u>2,331,191</u>
Represented by			
Deposits with DCE	453,878	285,138	389,279
Deposits with SHFE	456,014	415,671	431,694
Deposits with ZCE	187,696	154,694	249,131
Deposits with CFFE	580,031	688,465	1,261,087
	<u>1,677,619</u>	<u>1,543,968</u>	<u>2,331,191</u>

31 BANK BALANCES HELD FOR BROKERAGE CLIENTS

The Company maintains separate accounts with banks and authorized institutions for clients' monies arising from the normal course of business. The monies mainly consist of individuals, asset management customers and other non-fully licenced futures firms. The Company records these monies as bank balances held for brokerage clients or deposits with exchange-clearing organizations under current assets, and recognizes them as due to clients given that the Company is held liable for any loss or misappropriation of these monies. Bank balances held for brokerage clients for transaction and settlement purposes are subject to regulatory oversight by authorized depository institutions, primarily large state-owned commercial banks and joint stock commercial banks in the PRC, pursuant to the CSRC regulations.

32 CASH AND BANK BALANCES

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Cash	97	67	61
Term deposit with banks	680,000	480,000	485,000
Demand deposit with banks	284,437	282,931	263,765
Demand deposit with securities companies	790	214	5
	<u>965,324</u>	<u>763,212</u>	<u>748,831</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Cash	97	67	61
Term deposit with banks	680,000	480,000	485,000
Demand deposit with banks	284,437	252,922	211,726
Demand deposit with securities companies	790	214	5
	<u>965,324</u>	<u>733,203</u>	<u>696,792</u>

The Group and the Company's term deposits and demand deposits are mainly deposited with joint-stock commercial banks and major city commercial banks in China.

33 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1.00 per share. The number of shares and nominal value of the Company's share capital are as follows:

The Group and the Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Registered, issued and fully paid share capital	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>

The Company was converted into a joint-stock company on 10 December 2012. The entire balances of surplus reserve and retained earnings as at 30 September 2012 of the predecessor company were converted to share capital and share premium of the newly set-up joint-stock company. Upon completion of the conversion, the Company's share capital increased to RMB750,000 thousand.

34 SHARE PREMIUM AND RESERVES

The Group and the Company

	Share premium	Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for- sale financial assets revaluation reserve ⁽³⁾	Total
As at 1 January 2012	–	19,531	58,276	(7,570)	70,237
Amounts recognized in other					
comprehensive income	–	–	–	7,683	7,683
Appropriation to surplus reserve	–	443	–	–	443
Appropriation to general risk reserve	–	–	5,526	–	5,526
Appropriation to futures risk reserve	–	–	10,969	–	10,969
Conversion into a joint stock company by capitalization of reserves and retained earnings ^(a)	55,677	(19,911)	–	–	35,766
Capital contributions received	234,615	–	–	–	234,615
As at 31 December 2012	<u>290,292</u>	<u>63</u>	<u>74,771</u>	<u>113</u>	<u>365,239</u>

(a) The Company was converted into a joint-stock company on 10 December 2012. The entire balances of surplus reserve, other reserve and retained earnings as of 30 September 2012 of the predecessor company were converted to share capital and share premium of the newly set-up joint-stock company.

The Group

	Share premium	Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for- sale financial assets revaluation reserve ⁽³⁾	Total
As at 31 December 2012	290,292	63	74,771	113	365,239
Amounts recognized in other					
comprehensive income	–	–	–	207	207
Appropriation to surplus reserve	–	7,065	–	–	7,065
Appropriation to general risk reserve	–	–	7,065	–	7,065
Appropriation to futures risk reserve	–	–	10,336	–	10,336
Utilization of futures risk reserve	–	–	(900)	–	(900)
As at 31 December 2013	<u>290,292</u>	<u>7,128</u>	<u>91,272</u>	<u>320</u>	<u>389,012</u>
Amounts recognized in other					
comprehensive income	–	–	–	2,549	2,549
Appropriation to surplus reserve	–	7,135	–	–	7,135
Appropriation to general risk reserve	–	–	7,135	–	7,135
Appropriation to futures risk reserve	–	–	7,736	–	7,736
Utilization of futures risk reserve	–	–	(750)	–	(750)
As at 31 December 2014	<u>290,292</u>	<u>14,263</u>	<u>105,393</u>	<u>2,869</u>	<u>412,817</u>

The Company

	Share premium	Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for- sale financial assets revaluation reserve ⁽³⁾	Total
As at 31 December 2012	290,292	63	74,771	113	365,239
Amounts recognized in other					
comprehensive income	-	-	-	401	401
Appropriation to surplus reserve	-	7,065	-	-	7,065
Appropriation to general risk reserve	-	-	7,065	-	7,065
Appropriation to futures risk reserve	-	-	10,336	-	10,336
Utilization of futures risk reserve	-	-	(900)	-	(900)
As at 31 December 2013	290,292	7,128	91,272	514	389,206
Amounts recognized in other					
comprehensive income	-	-	-	(1,501)	(1,501)
Appropriation to surplus reserve	-	7,135	-	-	7,135
Appropriation to general risk reserve	-	-	7,135	-	7,135
Appropriation to futures risk reserve	-	-	7,736	-	7,736
Utilization of futures risk reserve	-	-	(750)	-	(750)
As at 31 December 2014	290,292	14,263	105,393	(987)	408,961

(1) Surplus reserve

Pursuant to the Company Law of the PRC, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately after capitalization.

(2) Other risk reserves

In accordance with the requirements of the Notice of the MOF on Issuing the Financial Rules for Financial Enterprises – Implementation Guide (Caijin [2007] No. 23) issued on 30 March 2007, the Company appropriates 10% of its profit net of the previous years' losses to the general risk reserve.

In accordance with the requirements of the Notice of the MOF on Issuing the Tentative Provisions for the Financial Management of Commodities Futures Trading (Caishang [1997] No. 44) issued on 3 March 1997, the futures risk reserve is appropriated based on 5% of the commission and fee income from futures brokerage and clearing service net of relevant expenses payable to futures exchanges, for the purpose of covering potential losses from futures brokerage service. When actual losses occur, the loss amount is charged to the current profit or loss, with the same amount being transferred from futures risk reserve to retained earnings simultaneously. Appropriation for futures risk reserve is recorded as profit distribution, whilst the utilization of futures risk reserve is recorded as the opposite type of transaction.

(3) Available-for-sale financial assets revaluation reserve

Fair value changes of available-for-sale financial assets for other comprehensive income are as below:

The Group and the Company

	Year ended 31 December 2012		
	Pre-tax amount	Income tax effect	After-tax net amount
		<i>(Note 24)</i>	
Balance at beginning of year	(10,094)	2,524	(7,570)
Changes in fair value of available-for-sale financial assets	(4,175)	1,044	(3,131)
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	14,419	(3,605)	10,814
Balance at end of year	<u>150</u>	<u>(37)</u>	<u>113</u>

The Group

	Year ended 31 December 2013		
	Pre-tax amount	Income tax effect	After-tax net amount
		<i>(Note 24)</i>	
Balance at beginning of year	150	(37)	113
Changes in fair value of available-for-sale financial assets	(4,345)	1,087	(3,258)
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	4,621	(1,156)	3,465
Balance at end of year	<u>426</u>	<u>(106)</u>	<u>320</u>

The Group

	Year ended 31 December 2014		
	Pre-tax amount	Income tax effect	After-tax net amount
		<i>(Note 24)</i>	
Balance at beginning of year	426	(106)	320
Changes in fair value of available-for-sale financial assets	3,221	(805)	2,416
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	178	(45)	133
Balance at end of year	<u>3,825</u>	<u>(956)</u>	<u>2,869</u>

The Company

	Year ended 31 December 2013		
	Pre-tax amount	Income tax effect	After-tax net amount
Balance at beginning of year	150	(37)	113
Changes in fair value of available-for-sale financial assets	(4,086)	1,022	(3,064)
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	4,621	(1,156)	3,465
Balance at end of year	<u>685</u>	<u>(171)</u>	<u>514</u>

The Company

	Year ended 31 December 2014		
	Pre-tax amount	Income tax effect	After-tax net amount
Balance at beginning of year	685	(171)	514
Changes in fair value of available-for-sale financial assets	(1,921)	480	(1,441)
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	(80)	20	(60)
Balance at end of year	<u>(1,316)</u>	<u>329</u>	<u>(987)</u>

35 OTHER CURRENT LIABILITIES

The Group

	31 December 2012	31 December 2013	31 December 2014
Salaries, bonus, allowance and benefits payables ⁽¹⁾	16,409	16,367	25,089
Advance for physical commodity trading and OTC options	–	72	2,274
Payable to Futures Investor Protection Fund	920	1,089	1,270
Interest payable	140	72	38
Accounts payable	–	8,611	–
Other payables	20,388	8,358	6,990
	<u>37,857</u>	<u>34,569</u>	<u>35,661</u>

The Company

	31 December 2012	31 December 2013	31 December 2014
Salaries, bonus, allowance, benefits payable ⁽¹⁾	16,409	16,294	22,883
Payable to Futures Investor Protection Fund	920	1,089	1,270
Interest payable	140	72	38
Other payables	20,388	7,880	10,605
	<u>37,857</u>	<u>25,335</u>	<u>34,796</u>

(1) Salaries, bonus, allowance and benefits payables

The Group and the Company	1 January 2012	Current year charge	Current year payment	31 December 2012
Salaries and bonus	6,170	51,361	(45,389)	12,142
Other welfare	–	4,730	(4,730)	–
Other social securities	12	8,189	(8,158)	43
Labour union funds and employee education funds	3,222	2,310	(1,308)	4,224
	<u>9,404</u>	<u>66,590</u>	<u>(59,585)</u>	<u>16,409</u>

The Group	1 January 2013	Current year charge	Current year payment	31 December 2013
Salaries and bonus	12,141	55,609	(54,114)	13,637
Other welfare	–	3,626	(3,607)	18
Other social securities	44	10,799	(10,758)	85
Labour union funds and employee education funds	4,224	2,503	(4,100)	2,627
	<u>16,409</u>	<u>72,537</u>	<u>(72,579)</u>	<u>16,367</u>

The Group	1 January 2014	Current year charge	Current year payment	31 December 2014
Salaries and bonus	13,636	68,120	(60,322)	21,434
Other welfare	19	5,261	(5,265)	15
Other social securities	85	12,123	(12,122)	86
Labour union funds and employee education funds	2,627	3,052	(2,125)	3,554
	<u>16,367</u>	<u>88,556</u>	<u>(79,834)</u>	<u>25,089</u>

The Company	1 January 2013	Current year charge	Current year payment	31 December 2013
Salaries and bonus	12,141	53,908	(52,413)	13,636
Other welfare	–	3,481	(3,462)	19
Other social securities	44	10,437	(10,396)	85
Labour union funds and employee education funds	4,224	2,426	(4,096)	2,554
	<u>16,409</u>	<u>70,252</u>	<u>(70,367)</u>	<u>16,294</u>

<u>The Company</u>	<u>1 January 2014</u>	<u>Current year charge</u>	<u>Current year payment</u>	<u>31 December 2014</u>
Salaries and bonus	13,636	62,505	(56,626)	19,515
Other welfare	19	4,918	(4,931)	6
Other social securities	85	11,324	(11,324)	85
Labour union funds and employee education funds .	2,554	2,814	(2,091)	3,277
	<u>16,294</u>	<u>81,561</u>	<u>(74,972)</u>	<u>22,883</u>

36 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at exchange-clearing organizations by the Company. Most of these balances are non-interest bearing.

The majority of the accounts payable balances are repayable on demand except for certain balances relating to margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral are repayable on demand.

37 CASH AND CASH EQUIVALENTS

For the purpose of cash flow statements, cash and cash equivalents represent cash and bank balances that can be used to meet short-term cash commitments.

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Cash and bank balances (<i>Note 32</i>)	965,324	763,212	748,831
Proprietary deposit with exchange-clearing organizations (<i>Note 30</i>)	31,301	65,592	111,598
Less: Term deposit with original maturity over three months	(680,000)	(480,000)	(485,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(8,000)	(8,000)	(8,000)
	<u>308,625</u>	<u>340,804</u>	<u>367,429</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Cash and bank balances (<i>Note 32</i>)	965,324	733,203	696,792
Proprietary deposit with exchange-clearing organizations (<i>Note 30</i>)	31,301	54,843	103,586
Less: Term deposit with original maturity over three months	(680,000)	(480,000)	(485,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(8,000)	(8,000)	(8,000)
	<u>308,625</u>	<u>300,046</u>	<u>307,378</u>

38 COMMITMENTS AND CONTINGENT LIABILITIES**(1) Capital commitments**

Other than what has been disclosed in Note 20, as at 31 December 2012, 31 December 2013 and 31 December 2014, the Group and the Company were not involved in any material capital commitments.

(2) Operating lease commitments

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

The Group

	31 December 2012	31 December 2013	31 December 2014
Within 1 year	3,706	4,837	9,306
1 to 3 years	4,221	5,912	13,397
Over 3 years	912	1,036	14,158
	<u>8,839</u>	<u>11,785</u>	<u>36,861</u>

The Company

	31 December 2012	31 December 2013	31 December 2014
Within 1 year	3,706	4,031	7,057
1 to 3 years	4,221	4,150	10,895
Over 3 years	912	1,036	14,158
	<u>8,839</u>	<u>9,217</u>	<u>32,110</u>

(3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2012, 31 December 2013 and 31 December 2014, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down.

39 RELATED PARTY TRANSACTIONS**39.1 Related parties**

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2014:

Significant related legal entities	The relationship with the Group
Qilu Securities Co., Ltd. ("Qilu Securities")	The controlling shareholder of the Company
Qilu International Holdings Co., Ltd. ("Qilu International")	Controlled by the controlling shareholder of the Company
Qilu Investment Management Consulting (Shenzhen) Co., Ltd. ("Qilu Consulting")	Controlled by the controlling shareholder of the Company
Qilu Securities (Shanghai) Asset Management Co., Ltd. ("Qilu Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The largest and direct controlling shareholder of Qilu Securities
Shandong Laigang Yongfeng Steel International Trade Co., Ltd. ("Laigang Trade")	Controlled by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel")	The indirect controlling shareholder of Qilu Securities
Laiwu Xintai Copper Industry Co., Ltd. ("Xintai Copper")	Controlled by Laiwu Steel
Shandong Yongfeng Steel International Trade Co., Ltd ("Yongfeng Trade")	Controlled by Laiwu Steel
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Jinan Steel Co., Ltd. ("Jinan Steel")	Controlled by Shandong Steel
Rizhao Board of Trade Co., Ltd. ("Rizhao Trade")	Associate invested by the Group

39.2 Related party transactions and balances

39.2.1 The Company's direct controlling shareholder – Qilu Securities

Transactions during the year

	Year ended 31 December		
	2012	2013	2014
Income from providing futures brokerage service			
– Jintaishan No.1 & No.2	276	578	869
Purchase of collective asset management schemes managed by Qilu Securities			
– Jinhui Hanyucheng No.1	–	20,000	–
– Qilu Jinquan	20,000	–	–
– Qilu Huiquan B	–	6,475	–
Proceeds from disposal of collective asset management schemes managed by Qilu Securities			
– Jinhui Hanyucheng No.1	–	–	21,603
– Qilu Jinquan	–	19,635	–
– Jintaishan No.1	–	–	12,011
Dividends from collective asset management schemes managed by Qilu Securities			
– Qilu Jinquan	–	785	–
– Jintaishan No.1	–	–	1,096
Introducing broker commission ⁽¹⁾	7,008	9,166	11,608
Commission payable for new shares subscription	15	–	81
Rentals payable	924	924	912

⁽¹⁾ Introducing broker commission expense relates to commission paid to Qilu Securities for introducing futures brokerage clients. It is calculated as a fixed percentage of the commission income from transactions executed by those clients.

Balances at the end of the year

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Accounts payable to brokerage clients	141,646	77,622	289,434
Demand deposit with securities companies	790	213	4
Other current liabilities			
– Introducing broker commission payable	751	824	2,001
– Other payable	7,980	42	42
– Rental payable	–	–	65
Other receivable			
– Customer maintenance fee receivable	285	177	–
– Rental prepayment	–	100	75
Collective asset management schemes managed by Qilu Securities			
– Qilu Jinquan	Financial assets at fair value through profit or loss	20,318	–
– Jintaishan No.1 & No.2	Available-for-sale financial assets	32,519	27,747
– Jinhui Hanyucheng No.1	Available-for-sale financial assets	–	20,152
– Qilu Huiquan B	Available-for-sale financial assets	–	6,475
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>

39.2.2 Related parties other than the Company's direct controlling shareholder*Transactions during the year*

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Income from providing futures brokerage service			
– Wanjia Funds	–	6	33
– Jinan Steel	3	44	7
– Qilu Asset Management	–	–	12
Income from investing in fund managed by Wanjia Funds			
– Wanjia Tianli	784	–	–
Purchase of collective asset management scheme managed by Wanjia Funds			
– Wanjia Funds-Luzheng Futures-Tongxin	–	–	30,000
Proceeds from disposal of fund managed by Wanjia Funds			
– Wanjia Tianli	30,000	–	–
Income from providing consulting services			
– Qilu Consulting	–	–	120
Interest income from bank deposit			
– Laishang Bank	–	11,919	8,297
Cost of purchase of physical commodities			
– Yongfeng Trade	–	–	8,061
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

Balance at the end of year

	<u>31 December</u> <u>2012</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2014</u>
Accounts payable to brokerage clients:			
– Jinan Steel	2,054	2,538	2,449
– Xintai Copper	801	1	1
– Wanjia Funds	–	5,369	35,748
– Qilu International	–	–	4,086
– Qilu Asset Management	–	–	2,947
Cash and bank balance			
– Laishang Bank	–	391,619	145,001
Collective asset management scheme managed by Wanjia Funds			
– Wanjia Funds-Luzheng Futures-Tongxin Available-for-sale financial assets	–	–	28,684

39.2.3 Subsidiary

	<u>Year ended 31 December</u>	
	<u>2013</u>	<u>2014</u>
Income from providing futures brokerage services	18	311
	<u> </u>	<u> </u>
	<u>31 December</u>	<u>31 December</u>
	<u>2013</u>	<u>2014</u>
Accounts payable to brokerage clients	10,749	8,011
Other payable	60	–
	<u> </u>	<u> </u>

Significant balances and transactions with subsidiary set out above have been eliminated in the consolidated financial statements.

39.2.4 Key management personnel

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, Supervisory Committee and other members of the senior management.

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Key management compensation	4,146	4,604	3,998
	<u> </u>	<u> </u>	<u> </u>

There is no loan or advance to key management during the financial years ended 31 December 2012, 2013 and 2014.

40 SEGMENT ANALYSIS

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- (a) Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- (b) Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- (c) Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- (d) Headquarters and others: including headquarters operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

Expenses for each segment mainly contains depreciation cost allocated based on the area of the office, actual expense of salaries, bonus, and other relevant staff cost which is directly related.

The Group mainly operates in Shandong Province, the PRC.

Year ended 31 December 2012

	Futures brokerage	Headquarters and others	Total
Net commission and fee income			
– external	164,639	–	164,639
– internal	–	–	–
Net interest income			
– external	50,592	33,869	84,461
– internal	–	–	–
Net investment gains			
– external	–	3,989	3,989
– internal	–	–	–
Other income			
– external	54,733	–	54,733
– internal	–	–	–
Total operating income	269,964	37,858	307,822
Total operating expenses	(151,775)	(72,699)	(224,474)
Other gains, net	444	1,705	2,149
Profit/(loss) before income tax	118,633	(33,136)	85,497
Total assets	2,886,054	753,394	3,639,448
Total liabilities	2,528,051	739	2,528,790
Supplemental information			
Depreciation and amortization	2,054	6,862	8,916
Impairment provision	–	12,280	12,280
Capital expenditure	1,284	11,755	13,039

Year ended 31 December 2013

	Futures brokerage	Commodity trading and risk management	Futures assets management	Headquarters and others	Elimination	Total
Net commission and fee income						
– external	164,904	–	181	–	–	165,085
– internal	18	–	–	–	(18)	–
Net interest income						
– external	52,524	222	–	27,505	–	80,251
Gain on physical commodities trading						
– external	–	2,816	–	–	–	2,816
Net investment gains						
– external	–	277	–	25,432	–	25,709
Other income						
– external	41,800	–	–	–	–	41,800
Total operating income	259,246	3,315	181	52,937	(18)	315,661
Total operating expenses	(150,017)	(5,195)	(305)	(64,414)	18	(219,913)
Other gains, net	689	2,030	–	3,955	–	6,674
Profit/(loss) before income tax	<u>109,918</u>	<u>150</u>	<u>(124)</u>	<u>(7,522)</u>	<u>–</u>	<u>102,422</u>
Total assets	<u>3,041,755</u>	<u>69,194</u>	<u>61,915</u>	<u>714,655</u>	<u>(70,749)</u>	<u>3,816,770</u>
Total liabilities	<u>2,596,967</u>	<u>9,309</u>	<u>–</u>	<u>31,704</u>	<u>(10,749)</u>	<u>2,627,231</u>
Supplemental information						
Depreciation and amortization	2,575	110	49	6,495	–	9,229
Impairment provision	–	11	–	5,083	–	5,094
Capital expenditure	2,870	958	–	4,634	–	8,462

Year ended 31 December 2014

	Futures brokerage	Commodity trading and risk management	Futures assets management	Headquarters and others	Elimination	Total
Net commission and fee income						
– external	115,816	–	8,483	120	–	124,419
– internal	311	–	–	–	(311)	–
Net interest income						
– external	66,945	143	–	29,128	–	96,216
Loss on physical commodities trading						
– external	–	(15,275)	–	–	–	(15,275)
Net investment gains						
– external	–	28,878	–	49,225	–	78,103
Other income						
– external	38,590	–	–	–	–	38,590
Total operating income	221,662	13,746	8,483	78,473	(311)	322,053
Total operating expenses	(126,003)	(13,124)	(6,508)	(74,203)	–	(219,838)
Share of losses of investment in an associate	–	–	–	(1,115)	–	(1,115)
Other gains, net	618	115	–	3,779	–	4,512
Profit before income tax	96,277	737	1,975	6,934	(311)	105,612
Total assets	4,699,760	127,504	182,876	645,171	(128,011)	5,527,300
Total liabilities	4,220,086	3,106	–	39,740	(8,011)	4,254,921
Supplemental information						
Depreciation and amortization	2,773	324	80	5,350	–	8,527
Impairment (provision)/reversal	–	17	–	215	–	232
Capital expenditure	1,936	350	–	2,973	–	5,259

41 FINANCIAL RISK MANAGEMENT

41.1 Risk management policies and structure

(1) Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximize the shareholders' value. The Group's risk management strategy is to identify and analyze the risks to which the Group is exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Operating risks to which the Group is exposed to mainly include: credit risk, market risk, liquidity risk and capital management risk. The Group has designed a comprehensive system, internal control policies and procedures to identify, access, monitor and manage the financial risks. The Group reviews the risk management policies and systems regularly, and revises according to the market environment, as well as changes in products and services. The group is devoted to establish a control environment consisting of a clear framework, normative process and specific responsibilities.

(2) *Policies and structure for the Company*

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee, Risk Control Committee and Audit Committee; (ii) the top management; (iii) Compliance and Internal Audit departments; and (iv) risk management functions in operating departments.

Level 1: Board, Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for the Company's overall risk strategy, risk preference, risk management policies and business progress. The Board is responsible for the Company's overall risk control efficiency. The Supervisory Committee focuses on monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons. The Risk Control Committee is responsible for accessing, suggesting and supervising the Company's risk management progress.

Level 2: Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee

The Risk Control Committee is responsible ensuring that the decision making procedures and risk control system are in compliance with applicable laws and regulations. The Audit Committee is principally responsible for the overall audit related matters. The Asset Management Investment Decision Committee is principally responsible for reviewing the investment scale, major issues in product design, operations, liquidation and other major issues raised by the Asset Management Department; The Treasury Operations Investment Decision Committee principally responsible for reviewing the scale of the treasury operations, prospective investment portfolio, stop-loss measures and other major issues raised by the Treasury Department.

Level 3: Compliance and Internal Inspection Audit departments

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

Level 4: Frontline operation teams at our business departments and branches

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities, including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.

(3) *Policies and structure for the subsidiary*

Subsidiary's risk management structure constitutes board, supervisory committee, Risk Management Department and relevant business department:

Level 1: The board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.

Level 2: Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.

Level 3: Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

41.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, bank balances held for brokerage clients, deposits with exchange-clearing organizations, available-for-sale financial assets, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

In terms of the Group's investment in debt instruments and certain trust schemes which are debt in nature, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee's report on a timely basis.

The Group's bank balances, bank balances held for brokerage clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group and the Company's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore and a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation.

To mitigate the credit risk from futures brokerage service, the Group and the Company usually require the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group and the Company's exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group and the Company to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group and the Company may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group and the Company also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group and the Company with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 31 December 2012, 2013 and 2014, the fair values of such collateral were RMB77,691 thousand, RMB72,343 thousand and RMB69,864 thousand, respectively.

(1) *Maximum credit risk exposure*

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

The Group

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Refundable deposits	20,166	20,157	20,157
Other current assets	8,939	16,179	5,220
Available-for-sale financial assets	–	184,913	212,018
Deposits with exchange-clearing organizations	1,677,619	1,543,968	2,331,191
Bank balances held for brokerage clients	843,837	1,105,021	1,986,475
Bank balances	<u>965,227</u>	<u>763,145</u>	<u>748,770</u>
	<u>3,515,788</u>	<u>3,633,383</u>	<u>5,303,831</u>

The Company

	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Refundable deposits	20,166	20,157	20,157
Other current assets	8,939	4,668	4,207
Available-for-sale financial assets	–	184,913	212,018
Deposits with exchange-clearing organizations	1,677,619	1,543,968	2,331,191
Bank balances held for brokerage clients	843,837	1,105,021	1,986,475
Bank balances	<u>965,227</u>	<u>733,136</u>	<u>696,731</u>
	<u>3,515,788</u>	<u>3,591,863</u>	<u>5,250,779</u>

The above available-for-sale financial assets represent available-for-sale debt instruments including unlisted debt instruments of RMB100,250 thousand and RMB100,250 thousand (Note 23) and certain trust schemes of RMB84,663 thousand and RMB111,768 thousand as at 31 December 2013 and 2014 respectively. The unlisted debt instruments are issued by a non-related party with a maturity of 12 months and secured by the equity interest of an unlisted financial service firm with an approximate fair value of RMB155 million and RMB175 million as at 31 December 2013 and 2014 respectively (2012: nil). The afore-mentioned trust schemes are all issued by Shandong International Trust Corporation (山東國際信託有限公司), a state owned company incorporated in Shandong Province with remaining maturity dates of no more than 12 months as at 31 December 2013 and 2014 (2012: nil). Trust schemes of RMB84,663 thousand and RMB28,219 thousand as at 31 December 2013 and 2014 hold underlying investments in loans to domestic companies which are fully secured by asset collateral. The remaining trust schemes of RMB83,549 thousand as at 31 December 2014 hold

underlying investments in unsecured loans to domestic companies backed with guarantors, of which RMB52,129 thousand are guaranteed by large state-owned enterprises with strong financial strengths and RMB31,420 thousand are guaranteed by the trust scheme issuer for repurchase to ensure repayment of principal and expected return. No overdue case existed for the years ended 31 December 2012, 2013 to 2014.

(2) *Credit risk from brokerage service*

The Group and the Company

	31 December 2012		31 December 2013		31 December 2014	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Client Risk Ratio						
Below 80%	852,334	2,192,164	900,053	2,404,195	1,338,778	3,862,229
80%-100%	284,812	297,991	169,764	178,707	313,855	333,593
Above 100% . . .	–	–	11,244	10,152	18,257	17,382
	<u>1,137,146</u>	<u>2,490,155</u>	<u>1,081,061</u>	<u>2,593,054</u>	<u>1,670,890</u>	<u>4,213,204</u>
Coverage ratio . .		<u>219%</u>		<u>239%</u>		<u>252%</u>

(3) *Quantity analysis of other current assets*

The Group

	31 December 2012	31 December 2013	31 December 2014
Overdue but not impaired	84	84	163
Neither overdue nor impaired	8,855	16,095	5,057
	<u>8,939</u>	<u>16,179</u>	<u>5,220</u>

The Company

	31 December 2012	31 December 2013	31 December 2014
Overdue but not impaired	84	84	163
Neither overdue nor impaired	8,855	4,584	4,044
	<u>8,939</u>	<u>4,668</u>	<u>4,207</u>

41.3 Market risk

Summary

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

41.3.1 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives and collective asset management schemes. The market prices of those financial instruments could lead to the fluctuation of investment value. All these investments are in the domestic capital markets. The Group is faced with high market risk due to the volatility of the domestic stock markets.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to control the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different types of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

The portfolios of the Group and the Company mainly comprised collective asset management schemes, futures and equity securities at 31 December 2012, 2013 and 2014.

Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, derivatives, trust schemes and collective asset management schemes in nature of equity by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

The Group

	Year ended 31 December		
	2012	2013	2014
Profit before income tax			
Increase by 5%	1,016	2,210	2,451
Decrease by 5%	(1,016)	(2,210)	(2,451)
	Year ended 31 December		
	2012	2013	2014
Other comprehensive income before income tax			
Increase by 5%	1,883	5,245	6,304
Decrease by 5%	(1,883)	(5,245)	(6,304)

The Company

	Year ended 31 December		
	2012	2013	2014
Profit before income tax			
Increase by 5%	1,016	-	-
Decrease by 5%	(1,016)	-	-

	Year ended 31 December		
	2012	2013	2014
Other comprehensive income before income tax			
Increase by 5%	<u>1,883</u>	<u>4,922</u>	<u>4,723</u>
Decrease by 5%	<u>(1,883)</u>	<u>(4,922)</u>	<u>(4,723)</u>

41.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposit, bank balances held for brokerage clients, deposits with exchange-clearing organizations and available-for-sale debt instruments. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

Finance departments of the Company and its subsidiary monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

The Group and the Company	Within 1 month	1-3 months	3 months to 1 year	Non-interest bearing	Total
As at 31 December 2012					
Refundable deposits	20,166	-	-	-	20,166
Other current assets	-	-	-	8,939	8,939
Deposits with exchange-clearing organizations	540,472	-	-	1,137,147	1,677,619
Bank balances held for brokerage clients	843,837	-	-	-	843,837
Cash and Bank balances	<u>285,324</u>	<u>260,000</u>	<u>420,000</u>	<u>-</u>	<u>965,324</u>
Sub-total	<u>1,689,799</u>	<u>260,000</u>	<u>420,000</u>	<u>1,146,086</u>	<u>3,515,885</u>
Other current liabilities	-	-	-	(14,116)	(14,116)
Accounts payable to brokerage clients	<u>(267,224)</u>	<u>-</u>	<u>-</u>	<u>(2,222,931)</u>	<u>(2,490,155)</u>
Sub-total	<u>(267,224)</u>	<u>-</u>	<u>-</u>	<u>(2,237,047)</u>	<u>(2,504,271)</u>
Interest rate sensitivity gap	<u>1,422,575</u>	<u>260,000</u>	<u>420,000</u>	<u>(1,090,961)</u>	<u>1,011,614</u>

The Group	Within 1 month	1-3 months	3 months to 1 year	Non-interest bearing	Total
As at 31 December 2013					
Refundable deposits	20,157	–	–	–	20,157
Other current assets	–	–	–	16,179	16,179
Available-for-sale financial assets	–	–	184,913	–	184,913
Deposits with exchange-clearing organizations	462,907	–	–	1,081,061	1,543,968
Bank balances held for brokerage clients	1,105,021	–	–	–	1,105,021
Cash and Bank balances	283,212	80,000	400,000	–	763,212
Sub-total	1,871,297	80,000	584,913	1,097,240	3,633,450
Other current liabilities	–	–	–	(12,633)	(12,633)
Accounts payable to brokerage clients	(322,136)	–	–	(2,260,170)	(2,582,306)
Sub-total	(322,136)	–	–	(2,272,803)	(2,594,939)
Interest rate sensitivity gap . . .	1,549,161	80,000	584,913	(1,175,563)	1,038,511
As at 31 December 2014					
Refundable deposits	20,157	–	–	–	20,157
Other current assets	–	–	–	5,220	5,220
Available-for-sale financial assets	–	–	212,018	–	212,018
Deposits with exchange-clearing organizations	660,301	–	–	1,670,890	2,331,191
Bank balances held for brokerage clients	1,986,475	–	–	–	1,986,475
Cash and Bank balances	263,831	–	485,000	–	748,831
Sub-total	2,930,764	–	697,018	1,676,110	5,303,892
Other current liabilities	–	–	–	(5,405)	(5,405)
Accounts payable to brokerage clients	(125,821)	–	–	(4,079,372)	(4,205,193)
Sub-total	(125,821)	–	–	(4,084,777)	(4,210,598)
Interest rate sensitivity gap . . .	2,804,943	–	697,018	(2,408,667)	1,093,294

<u>The Company</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Non-interest bearing</u>	<u>Total</u>
As at 31 December 2013					
Refundable deposits	20,157	–	–	–	20,157
Other current assets	–	–	–	4,668	4,668
Available-for-sale financial assets	–	–	184,913	–	184,913
Deposits with exchange-clearing organizations	462,907	–	–	1,081,061	1,543,968
Bank balances held for brokerage clients	1,105,021	–	–	–	1,105,021
Cash and Bank balances	253,203	80,000	400,000	–	733,203
Sub-total	1,841,288	80,000	584,913	1,085,729	3,591,930
Other current liabilities	–	–	–	(4,022)	(4,022)
Accounts payable to brokerage clients	(322,136)	–	–	(2,270,918)	(2,593,054)
Sub-total	(322,136)	–	–	(2,274,940)	(2,597,076)
Interest rate sensitivity gap . . .	1,519,152	80,000	584,913	(1,189,211)	994,854
<u>The Company</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Non-interest bearing</u>	<u>Total</u>
As at 31 December 2014					
Refundable deposits	–	–	–	20,157	20,157
Other current assets	–	–	–	4,207	4,207
Available-for-sale financial assets	–	–	212,018	–	212,018
Deposits with exchange-clearing organizations	660,301	–	–	1,670,890	2,331,191
Bank balances held for brokerage clients	1,986,475	–	–	–	1,986,475
Cash and Bank balances	211,792	–	485,000	–	696,792
Sub-total	2,858,568	–	697,018	1,695,254	5,250,840
Other current liabilities	–	–	–	(5,405)	(5,405)
Accounts payable to brokerage clients	(125,821)	–	–	(4,087,383)	(4,213,204)
Sub-total	(125,821)	–	–	(4,092,788)	(4,218,609)
Interest rate sensitivity gap . . .	2,732,747	–	697,018	(2,397,534)	1,032,231

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 50 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

The Group

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net interest income			
Increases by 50 bps	<u>8,709</u>	<u>8,877</u>	<u>14,849</u>
Decreases by 50 bps	<u>(8,709)</u>	<u>(8,877)</u>	<u>(14,849)</u>

The Company

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net interest income			
Increases by 50 bps	<u>8,709</u>	<u>8,732</u>	<u>14,596</u>
Decreases by 50 bps	<u>(8,709)</u>	<u>(8,732)</u>	<u>(14,596)</u>

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

41.3.3 Currency risk

No material currency risk for the Group as all the business activities are within mainland China and settled in RMB.

41.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading position, or an excessive high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset

structure or comply with regulatory requirements on the risk indicators, the Group could be faced with penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause bad effects on the Group's operations and reputation.

The Group manages and controls its funds in a centralized manner. The Company's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity could be met timely with an appropriate cost.

The Group's finance department organize the cash budget annually and set up the fund plan based on it. Under the approval of the Company, the funds will be scheduled and arranged uniformly in order to ensure the consistence of funds demand and cost of the capital control.

After approved by the board of directors, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. As at 31 December 2012 and 2013 and 2014, the Group held cash and cash equivalents of approximately RMB309 million, RMB341 million and RMB367 million respectively that are expected to readily generate cash inflows for managing liquidity risk.

The tables below present the cash flows payable by the Group and the Company for non-derivative financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for brokerage clients.

The Group and the Company

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
As at 31 December 2012					
Non-derivative cash flow					
Accounts payable to brokerage clients . . .	2,490,155	–	–	–	2,490,155
Other current liabilities	140	5,245	–	8,731	14,116
	<u>2,490,295</u>	<u>5,245</u>	<u>–</u>	<u>8,731</u>	<u>2,504,271</u>

The Group

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
As at 31 December 2013					
Non-derivative cash flow					
Accounts payable to brokerage clients . . .	2,582,306	–	–	–	2,582,306
Other current liabilities	71	3,084	8,611	867	12,633
	<u>2,582,377</u>	<u>3,084</u>	<u>8,611</u>	<u>867</u>	<u>2,594,939</u>

The Group

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
As at 31 December 2014					
Non-derivative cash flow					
Accounts payable to brokerage clients . .	4,205,193	–	–	–	4,205,193
Other current liabilities	38	3,323	–	2,044	5,405
	<u>4,205,231</u>	<u>3,323</u>	<u>–</u>	<u>2,044</u>	<u>4,210,598</u>
Derivative cash flow					
Derivative financial instruments settled on a gross basis					
(a) total inflow	–	–	1,023	–	1,023
(b) total outflow	–	–	(15,178)	–	(15,178)

The Company

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
As at 31 December 2013					
Non-derivative cash flow					
Accounts payable to brokerage clients . .	2,593,054	–	–	–	2,593,054
Other current liabilities	71	3,084	–	867	4,022
	<u>2,593,125</u>	<u>3,084</u>	<u>–</u>	<u>867</u>	<u>2,597,076</u>

The Company

	<u>On demand</u>	<u>Within 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total</u>
As at 31 December 2014					
Non-derivative cash flow					
Accounts payable to brokerage clients . .	4,213,204	–	–	–	4,213,204
Other current liabilities	38	3,323	–	2,044	5,405
	<u>4,213,242</u>	<u>3,323</u>	<u>–</u>	<u>2,044</u>	<u>4,218,609</u>

41.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiary to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiary;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

According to the Notice of "Decision on Revising <Futures company's regulatory risk management index pilot scheme>" (《關於修改〈期貨公司風險監管指標管理試行辦法〉的決定》) issued by the CSRC on 21 February 2013, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB15,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 40%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB8,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

42 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

42.1 Financial instruments not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, bank balances held for brokerage clients, deposits with exchange-clearing organizations, refundable deposits, accounts payable to brokerage clients, their fair values approximate their carrying amounts.

42.2 Financial instruments measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

- Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level III – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2012, 2013 and 2014.

The Group and the Company

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2012				
Financial assets at fair value through profit or loss				
– Collective asset management schemes ⁽¹⁾	–	20,318	–	20,318
Available-for-sale financial assets				
– Collective assets management schemes ⁽¹⁾	–	37,669	–	37,669
	<u>–</u>	<u>57,987</u>	<u>–</u>	<u>57,987</u>

The Group

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2013				
Available-for-sale financial assets				
– Collective asset management schemes ⁽¹⁾	–	74,907	–	74,907
– Trust schemes ⁽²⁾	–	–	114,663	114,663
– Debt instruments ⁽³⁾	–	–	100,250	100,250
	<u>–</u>	<u>74,907</u>	<u>214,913</u>	<u>289,820</u>

The Group

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2014				
Financial assets at fair value through profit or loss				
– Equity securities	1,596	–	–	1,596
Available-for-sale financial assets				
– Collective asset management schemes ⁽¹⁾	–	76,073	–	76,073
– Trust schemes ⁽²⁾	–	–	161,768	161,768
– Debt instruments ⁽³⁾	–	–	100,250	100,250
	<u>1,596</u>	<u>76,073</u>	<u>262,018</u>	<u>339,687</u>

The Company

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2013				
Available-for-sale financial assets				
– Collective asset management schemes ⁽¹⁾	–	68,432	–	68,432
– Trust schemes ⁽²⁾	–	–	114,663	114,663
– Debt instruments ⁽³⁾	–	–	100,250	100,250
	<u>–</u>	<u>68,432</u>	<u>214,913</u>	<u>283,345</u>

The Company

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 31 December 2014				
Available-for-sale financial assets				
– Collective asset management schemes ⁽¹⁾	–	44,457	–	44,457
– Trust schemes ⁽²⁾	–	–	161,768	161,768
– Debt instruments ⁽³⁾	–	–	100,250	100,250
	<u>–</u>	<u>44,457</u>	<u>262,018</u>	<u>306,475</u>

(1) As at 31 December 2012, 2013 and 2014, collective asset management schemes that are classified as level 2 in fair value hierarchy are issued and managed by Qilu Securities, Wanjia Funds and other non-related financial institutions, with the underlying investments mainly in stocks and bonds that are listed on stock exchanges, bonds that are quoted on the interbank market and listed financial and commodity futures in the PRC. Fair value of the asset management schemes is calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 41.3.1.

(2) As at 31 December 2013 and 2014, trust schemes that are classified as level 3 in fair value hierarchy are issued by Shandong International Trust Corporation (山東省國際信託有限公司), with the underlying investments mainly in loans and receivables and unlisted equity instruments. Such trust schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within trust schemes where principal and return of senior tranche is guaranteed by junior tranche investors. Fair value of the trust schemes is determined using discounted cash flows that are estimated based on expected future cash flows of the trust schemes discounted at rates that reflects management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 41.2 (1) and 41.3.2.

(3) As at 31 December 2013 and 2014, debt instruments that are classified as level 3 in fair value hierarchy represent unlisted debt instruments issued by a non-related party with a maturity of 12 months. Fair value of the debt instruments is determined using discounted cash flows that are estimated based on expected future cash flows of the debt instruments discounted at rates that reflects management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 41.2 (1) and 41.3.2.

For the years ended 31 December 2012, 2013 and 2014, there were no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group and the Company.

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker 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 closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities.

(b) 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 maximize 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.

(c) Valuation methods for specific investments

As at 31 December 2012, 2013 and 2014, the Company’s valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (2) For collective asset management products, fair value is determined based on the net asset value as at the reporting date.

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the years ended 31 December 2013 and 2014.

The Group and the Company

	Available-for-sale financial assets
Balance at 1 January 2013	–
Increase	214,913
	<hr style="border-top: 3px double #000;"/>
Balance at 31 December 2013	214,913
	<hr style="border-top: 3px double #000;"/>
Total gains or losses for the year included in profit or loss for assets held at end of year under "Net investment gains"	8,648
	<hr style="border-top: 3px double #000;"/>
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	–
	<hr style="border-top: 3px double #000;"/>

The Group and the Company

	<u>Available-for-sale financial assets</u>
Balance at 1 January 2014	214,913
Increase	262,018
Decrease	(214,913)
Balance at 31 December 2014	<u>262,018</u>
Total gains or losses for the year included in profit or loss for assets held at end of year under "Net investment gains"	<u>10,788</u>
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	<u>-</u>

<u>Financial assets</u>	<u>Fair value hierarchy</u>	<u>Valuation techniques and key inputs</u>	<u>Significant unobservable inputs</u>	<u>Relationship of unobservable inputs to fair value</u>
Available-for-sale financial assets – Trust schemes and debt instruments	Level 3	Discounted cash flows that are estimated based on expected future cash flows, discounted at rates that reflect management’s best estimation of the expected risk level.	Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.

43 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

The Group

	<u>As at 31 December 2012</u>				
	<u>Gross amounts of recognized financial assets</u>	<u>Gross amounts of recognized financial liabilities</u>	<u>Net amounts of financial assets/ (liabilities)</u>	<u>Cash paid as settlement</u>	<u>Net amount of financial assets/ (liabilities) presented in the statements of financial position</u>
Derivative financial instruments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Group

As at 31 December 2013					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets/ (liabilities)	Cash paid as settlement	Net amount of financial assets/ (liabilities) presented in the statements of financial position
Derivative financial instruments	–	(15)	(15)	15	–

The Group

As at 31 December 2014					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets/ (liabilities)	Cash paid as settlement	Net amount of financial assets/ (liabilities) presented in the statements of financial position
Derivative financial instruments	–	(370)	(370)	370	–

The Company

As at 31 December 2013					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets/ (liabilities)	Cash paid as settlement	Net amount of financial assets/ (liabilities) presented in the statements of financial position
Derivative financial instruments	–	–	–	–	–

The Company has not entered into master netting arrangements for the purpose of trading on its own account for the Relevant Periods.

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing organizations for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

44 UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities ("SEs") of the Group mainly include collective asset management schemes and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 31 December 2012, 2013 and 2014, the interests in unconsolidated structured entities held by the Group included investment recognized as available-for-sale financial assets and financial assets at fair value through profit or loss. The related carrying amount and the maximum exposure were as follows:

	<u>31 December</u> <u>2012</u>	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2014</u>
Available-for-sale financial assets	37,669	189,570	237,841
Financial assets at fair value through profit or loss	20,318	–	–
	<u>57,987</u>	<u>189,570</u>	<u>237,841</u>

For the years ended 31 December 2012, 2013 and 2014, the income from these unconsolidated structured entities held by the Group was as follows:

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net investment gains	3,989	21,612	39,057

As at 31 December 2012, 2013 and 2014, the Group had no financial support provided to these unconsolidated structured entities, and there was no plan of providing financial support by the Group to these unconsolidated structured entities.

45 SUBSEQUENT EVENTS

A new subsidiary, Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), was incorporated on 15 February 2015, with a registered capital of RMB50 million. The scope of business includes: electronic products, office automation equipment, personal computer, office instruments, control device, machine room device sales, integration service of IT system, network products, software development, sales and relative technical service, electrical engineering design and operation, IT consulting service, etc.

III SUBSEQUENT FINANCIAL STATEMENTS

The Group has not prepared audited financial statements for any period between 31 December 2014 and the date of this report. Save as disclosed above, the Group has not declared or paid dividends for any period after 31 December 2014.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth 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 headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2014 and based on the consolidated net tangible assets attributable to shareholders of the Company as at 31 December 2014 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.

This unaudited pro forma adjusted consolidated net tangible assets 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 December 2014 or at any future date.

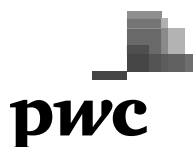
	Audited consolidated net tangible assets attributable to shareholders of the Company as at 31 December 2014 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per share	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB ⁽³⁾</i>	<i>HK\$ ⁽⁵⁾</i>
Based on the Offer Price of					
– HK\$2.90 per Share	1,266,242	518,967	1,785,209	1.79	2.27
– HK\$3.64 per Share	1,266,242	660,690	1,926,932	1.93	2.45

Notes:

- (1) The audited consolidated net tangible assets attributable to shareholders of the Company as at 31 December 2014 is extracted from the Accountant's Report set forth in Appendix I to the prospectus, which is based on the audited consolidated net assets attributable to shareholders of the Company as at 31 December 2014 of RMB1,272 million with an adjustment for the intangible assets as at 31 December 2014 of RMB6 million.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$2.90 and HK\$3.64 per Share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and do not take into account of any Shares that may be issued pursuant to the Over-Allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 1,000,000,000 Shares are in issue, assuming the Global Offering had been completed on 31 December 2014 but takes no account of any shares which may fall to be issued upon the exercise of the Over-Allotment Option.
- (4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2014.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK\$1.00 to RMB0.78895. 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.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 INCLUDED IN A
PROSPECTUS****TO THE DIRECTORS OF LUZHENG FUTURES COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of LUZHENG FUTURES Company Limited (the "Company") and its subsidiary (collectively the "Group") by the directors of the Company (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 December 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 23 June 2015, in connection with the proposed initial public offering of the 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 pages II-1 to 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 December 2014 as if the proposed initial public offering had taken place at 31 December 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended 31 December 2014, 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").

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 complies with ethical requirements and 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 December 2014 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, 23 June 2015

TAXATION

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds such H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section of this prospectus does not address any aspect of Hong Kong or PRC taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult your own tax advisers regarding the PRC, Hong Kong and other tax consequences of investing and disposing of the H Shares.

TAXATION IN THE PRC

The following is a discussion (the “Discussion”) of certain PRC tax provisions relating to the ownership and disposal of H Shares purchased in connection with the Global Offering and held by the investors as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares and does not take into account the specific circumstances of any particular investor. This summary is based on the PRC tax laws in effect as of the Latest Practicable Date, as well as on the Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, the Second Protocol to Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排第二議定書) effective from June 11, 2008 and the Third Protocol to Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排第三議定書) effective from December 20, 2010 (collectively, the “Arrangement”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than tax on dividends, capital tax, stamp duty, estate duty, income tax, value-added tax and business tax. Prospective investors are urged to consult your own tax advisers regarding PRC and other tax consequences of owning and disposing of H Shares.

TAXES APPLICABLE TO JOINT-STOCK LIMITED COMPANIES**(i) Enterprise Income Tax**

The Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法) (“Enterprise Income Tax Law”) was approved and promulgated at the Fifth Meeting of the Tenth National People’s Congress on March 16, 2007 and became effective from January 1, 2008. The Enterprise Income

Tax Law sets the rate of enterprise income tax at 25% for domestic enterprises. Pursuant to the Notice on the Transitional Preferential Policies in Respect of the Implementation of the Enterprise Income Tax Law (關於實施企業所得稅過渡優惠政策的通知) (Guo Fa [2007] No. 39) promulgated by the State Council on December 26, 2007, those enterprises which were established before the promulgation of the Enterprise Income Tax Law and entitled to a preferential tax rate under the prevailing tax laws and administrative regulations may gradually shift to the tax rate set under the Enterprise Income Tax Law within five years from the effective date of the Enterprise Income Tax Law. Pursuant to the State Council's requirements, those enterprises which were entitled to the fixed-term tax breaks may continue to enjoy the tax benefit until the expiration of the tax holiday or preferential term. For those enterprises which had not enjoyed tax benefits due to the failure to realize profits, their preferential term commenced from the effective date of the Enterprise Income Tax Law (i.e. January 1, 2008).

(ii) Business Tax

According to the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例) which became effective on January 1, 1994 and was amended on January 1, 2009 and the Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則) which became effective on January 1, 1994 and was amended on October 28, 2011, all institutions and individuals engaged in the provision of labour services, the transfer of intangible assets or the sale of immovable properties as prescribed in these regulations within the PRC shall be subject to business tax. The latest amendments of the above mentioned regulations and rules are reflected in the following aspects:

- the tax filing period shall be extended from 10 days to 15 days.
- the withholding agents of business tax shall be: (i) the domestic agents for foreign entities or individuals, who provide taxable labour services, transfer intangible assets or sell immovable properties within the PRC but have no business institutions in the PRC; or (ii) the assignees of the assets or the purchasers of the labour services in case there is no domestic agent.
- the column specifying the taxable labour services and business shall be deleted from the list of taxation items and tax rates attached to the regulations, which enable the MOF and the SAFE to define the scope of taxable business and labour services.

(iii) Value-added Tax

According to the Provisional Regulations of the People's Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例) effective from January 1, 2009, and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例實施細則) effective from January 1, 2009 and amended on October 28, 2011, all institutions and individuals that sell goods or provide processing, repairing or replacement labour services or import goods within the PRC shall pay value-added tax. A tax rate of 13% shall be levied on general taxpayers that sell or import grain, edible vegetable oil, tap water, heating supply, air-conditioning, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertilizer, pesticide, farming machines, films for agricultural use and other goods specified by the State Council. The rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed

by the State Council. A rate of 17% shall be levied on taxpayers that sell or import goods other than the abovementioned items, and that provide processing, repair or replacement labour services. The rate applicable to goods sold or taxable labour services provided by small-scale taxpayers shall be 3% (previously 6%). A small-scale taxpayer is defined as a taxpayer who is engaged in the manufacturing of goods or the supply of taxable labour services, or primarily engaged in the manufacturing of goods or supply of taxable labour services while concurrently dealing in the wholesale or retail of goods as secondary operations, and who has annual taxable sales (hereinafter referred to as “taxable sales”) of less than RMB0.5 million; or apart from afore-mentioned taxpayers, other taxpayers who have annual taxable sales of less than RMB0.8 million. Other individuals whose annual taxable sales exceed the standards for small-scale taxpayers shall be subject to the tax based on the standards for small-scale taxpayers. Non-enterprise organizations or enterprises without frequent occurrence of taxable activities shall be deemed to be subject to the value-added tax based on the standards for small-scale taxpayers. In addition, the new regulations and rules also provide the following:

- the tax paid for purchasing fixed assets shall be deducted from the payable tax;
- extension of tax filing period from 10 days to 15 days.
- the withholding agents of value-added tax shall be: (i) the domestic agents for foreign entities or individuals, who provide taxable labour services within the PRC but have not established business institutions in the PRC; or (ii) the assignees of the assets or the purchasers of the services in event there is no domestic agent.

The PRC government is in the process of implementing value-added tax reform. According to which certain industries will gradually transit from the business tax regime to the value-added tax regime. According to the Notice of the Ministry of Finance and the State Administration of Taxation on the Tax Policies for Implementing across the Country the Pilot Program on Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries (財政部國家稅務總局關於在全國開展交通運輸業和部分現代服務業營業稅改徵增值稅試點稅收政策的通知), the rate of value-added tax is 11% for the transportation industry and 6% for some modern service industries

(iv) Stamp Duty

According to the Provisional Regulations of the People’s Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例) effective from October 1, 1988 and recently amended on January 8, 2011 and the Detailed Rules for Implementation of the Provisional Regulations of the People’s Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例實行細則) effective from October 1, 1988, all institutions and individuals that execute or receive taxable evidential documents within the PRC shall be subject to stamp duty. Such taxable evidential documents shall include purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other evidential documents that resemble contracts in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by the Ministry of Finance.

TAXES APPLICABLE TO SHAREHOLDERS OF COMPANIES

(i) Dividend-related Tax

Individual investors

Pursuant to the Provisional Regulations Concerning Issues of Taxation on Enterprises Experimenting with the Share System (中華人民共和國股份制試點企業有關稅收問題的暫行規定) and the Law of the People's Republic of China on Individual Income Tax (中華人民共和國個人所得稅法) (the "New Individual Income Tax Law") which was amended on June 30, 2011 and became effective from September 1, 2011, dividends paid by PRC companies are subject to a PRC withholding tax levied at a rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a PRC company is subject to a withholding tax of 20% unless reduced by an applicable tax treaty or specially exempted by the tax authority of the State Council.

On July 21, 1993, the State Administration of Taxation of the People's Republic of China (the "SAT", the tax authority of the PRC central government, formerly known as the State Tax Bureau) issued a Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer of and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) (Guo Shui Fa [1993] No. 45) (the "Old Tax Notice") which stipulates that dividends paid by a PRC company to foreign individuals with respect to shares listed on an overseas stock exchange ("Overseas Shares"), such as H Shares, shall temporarily not be subject to PRC withholding tax.

In the letter dated July 26, 1994 to the former State Commission for Restructuring the Economic Systems of the PRC, the former Securities Commission of the State Council and the China Securities Regulatory Committee, the SAT reiterated the temporary tax exemption set out in the Old Tax Notice for dividends received by a non-PRC resident from a PRC company listed overseas. According to such exemption, dividends may be subject to withholding tax at a rate of 20% in compliance with the Provisional Regulations and Individual Income Tax Law.

On January 4, 2011, the SAT issued the Notice of the PRC State Administration of Taxation Concerning the Collection and Management of Individual Income Tax after the Abolition of Guo Shui Fa [1993] 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》) (the "New Tax Notice"). Pursuant to the New Tax Notice, after the abolition of the Old Tax Notice, dividends paid by a PRC non-foreign-funded company listed in Hong Kong to individual foreign-resident shareholders are subject to withholding tax according to the New Individual Income Tax Law and its implementation rules, and such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty. Generally, because we are a company listed in Hong Kong, we will pay the withholding tax at a tax rate of 10% of the dividends received by non-PRC resident individuals. If an applicable tax treaty provides that the applicable tax rate is lower than 10%, a non-PRC resident individual holder may be entitled to claim a refund from the PRC tax authorities. If an applicable tax treaty provides that the tax rate is between 10% and 20%, it is possible that we may be required to pay the withholding tax at a tax rate under an applicable treaty (but with respect to H Shares held through HKSCC Nominees, we currently intend to pay the withholding tax at a tax

rate of 10%). In the absence of any applicable double taxation treaty, non-PRC resident individual holders of H Shares may be required to pay tax on the difference between the amount withheld by us and the 20% of the amount of the pre-tax dividends.

Enterprise Investors

Pursuant to the Arrangement between the Mainland of 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避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, the PRC government may impose a tax on dividends paid from a PRC company to a Hong Kong resident (including any Hong Kong resident who is a natural person or a legal entity), but such tax shall not exceed 10% of the total sum of the dividends payable. If a Hong Kong resident holds 25% or more of an equity interest in a PRC company, such tax shall not exceed 5% of the total sum of dividends payable by that PRC company.

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) effective from January 1, 2008 (the "New Enterprise Income Tax Law") and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例), a non-resident enterprise, which has not established a representative office or other premises in the PRC or whose dividends received have no effective connections with the established representative office or premises in the PRC, shall be subject to a 10% enterprise income tax on its revenues sourced within the PRC. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident 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) which was promulgated by the State Administration of Taxation and became effective on November 6, 2008, a PRC resident enterprise, when distributing dividends for 2008 and for the years thereafter, shall withhold enterprise income tax at a uniform rate of 10%. Pursuant to that notice, we intend to impose a withholding tax of 10% on the dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement shall be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the rate under an applicable treaty, and payment of such refund shall be subject to approval by the PRC tax authorities.

Taxation Treaties

Investors who are not PRC residents but either reside in countries which have entered into double-taxation treaties with the PRC or reside in the Hong Kong SAR or the Macau SAR, shall be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The People's Public of China currently has signed double-taxation avoidance arrangements with the Hong Kong SAR and the Macau SAR respectively, and has signed double

taxation avoidance treaties with a number of other countries, which include but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

(ii) Taxation on Sales of Shares

Individual Investors

Pursuant to the New Individual Income Tax Law and the Detailed Rules for Implementation of the Law of the People's Republic of China on Individual Income Tax (中華人民共和國個人所得稅法實施條例) as amended on July 19, 2011, gains realized on the sale of equity interests shall be subject to individual income tax at a rate of 20%.

Pursuant to the Notice on Continuing the Suspended Levy of Individual Income Tax on the Transfer of Shares by Individuals (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) jointly issued by the Ministry of Finance and the SAT on March 30, 1998, in respect of the suspended levy of individual income tax on gains realized from the sales of shares, gains on sales of shares by non-PRC resident individuals may be exempted from individual income tax. To our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities had not sought to levy individual income tax on such gains. If such tax is levied in the future, such tax may be reduced or exempted under an applicable double taxation treaty.

Enterprise Investors

Pursuant to the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例), a non-PRC resident enterprise, which has not established a representative office or other premises in the PRC or whose established representative office or premises in the PRC have no effective connections with the dividends received, shall be subject to an enterprise income tax of 10% on its earnings sourced in the PRC, including dividends and any gains on disposition of shares of a PRC company. The PRC tax authorities have uncertainties over the interpretation and application of the Enterprise Income Tax Law and its implementation regulations, including whether and how enterprise income tax on gains derived from the sale or disposition of H Shares otherwise should be levied on the H-share holders of non-PRC resident enterprises. If such tax is levied in the future, such tax may be reduced or exempted pursuant to an applicable double taxation treaty.

(iii) Estate Duty or Inheritance Tax

No estate duty or inheritance tax is levied in the PRC at present.

(iv) Stamp Duty

Pursuant to the terms of the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》), the applicable PRC stamp tax on the transfers of shares of PRC public companies shall not apply to the trading in H-shares carried out outside the PRC. The Provisional Regulations provide that PRC stamp tax shall be only levied on all the types of documents executed or received and legally bound within the PRC as well as protected under the PRC laws.

(v) Tax Policies for Shanghai-Hong Kong Stock Connect

On 10 November 2014, the CSRC and the Securities and Futures Commission granted their approvals to Shanghai Stock Exchange, The Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited, Hong Kong Securities Clearing Company Limited for formal launch of the Shanghai-Hong Kong Stock Connect pilot program. Trading in shares under the Shanghai-Hong Kong Stock Connect kicked off formally on 17 November 2014.

Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (關於滬港通股票市場交易互聯互通機制試點有關稅收政策的通知) (hereinafter as "Tax Policies for Shanghai-Hong Kong Stock Connect"):

- From 17 November 2014 to 16 November 2017, gains on transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are temporarily exempt from individual income tax. Gains on price difference derived by mainland individual investors through trading in shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are exempt from business tax levying pursuant to current policies. Dividends derived by mainland individual investors through investment into H shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to 20% of withholding 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 the 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 Shanghai-Hong Kong Stock Connect are subject to individual income tax pursuant to provisions above.
- Pursuant to the Tax Policies for Shanghai-Hong Kong Stock Connect, gains on transfer of shares derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Gains on price difference derived by mainland corporate investors through trading in shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are exempt from business tax pursuant to current policies. Dividends derived by mainland corporate investors through investment into shares listed into the Hong Kong Stock Exchange via the Shanghai-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 subject to corporate income tax in

accordance with laws. For dividends derived by mainland resident enterprises, there will be no withholding tax 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.

- Pursuant to the Tax Policies for Shanghai-Hong Kong Stock Connect, mainland investors who transfer shares listed on the Stock Exchange via the Shanghai-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 Hong Kong Securities Clearing Company Limited are authorized to levy stamp duties above on behalf of each other.

TAXATION IN HONG KONG

Taxation 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 the Company.

Taxation on Capital Gains and Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or generated in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax. Currently, a profits tax is imposed on corporations at a rate of 16.5% and on non-corporate at a maximum rate of 15.0%. 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 the sale of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from the sale of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the market value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% stamp duty is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK\$5 is charged on any instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the transferee will be required to pay such duty on the relevant instrument of transfer (if any), together with other duties payable.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The foreign exchange control system of the PRC has experienced a number of reforms. The existing system has been governed by two pieces of major legislation since 1993. The State Council promulgated the Regulations of the People's Republic of China on 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, and were amended for the first time on January 14, 1997 and for the second time on August 1, 2008 with effect from August 5, 2008. The Foreign Exchange Control Regulations apply to the receipts, payments or business activities in the PRC transacted in foreign currencies by domestic institutions, individuals, foreign establishments within the PRC and foreign individuals visiting the PRC. On June 20, 1996, the PBOC promulgated the Regulations Governing Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (PBOC Order [1996] No. 1) which became effective from July 1, 1996, governing the foreign exchange, settlements, purchases, foreign exchange account openings and payments to foreign countries that are carried out in the PRC by domestic institutions, individual residents, foreign establishments in the PRC and foreign individuals visiting the PRC. The PBOC announces the exchange rates of RMB against other major foreign currencies on each business day. The exchange rates are determined with reference to the trading prices of RMB on the preceding day against major foreign currencies in the inter-bank foreign exchange market.

Prior to the second amendment to the Foreign Exchange Control Regulations in August 2008, all institutions and individuals in the PRC, unless special exemptions have been obtained, shall sell their foreign exchange income to designated banks, while foreign-invested enterprises are allowed to retain a certain percentage of their foreign exchange income and deposit it in the foreign exchange accounts opened with designated banks. However, the newly amended Foreign Exchange Control Regulations introduced substantial changes to the regulatory system by abolishing the principle for compulsory sale of foreign exchange income under current items, which means enterprises and individuals have the option either to sell to banks or retain the exchange income.

The PRC government has been continuing to loosen its control of foreign exchange purchase for years. Any PRC enterprises in need of foreign currencies for ordinary course of business, trading or non-trading business, import business and foreign debt payment may purchase foreign currencies from designated banks upon the submission of necessary verified supporting documents. In addition, if foreign-invested enterprises need foreign currencies for distributing dividends, bonuses or profits to foreign investors, they may draw the amount needed from their foreign exchange accounts at designated banks upon payment of applicable dividend tax. If the foreign currencies in relevant accounts are insufficient, foreign-invested enterprises may apply to the competent authorities for the purchase of foreign currencies in the required amount from designated banks to make up the insufficient amount. Despite the loosened foreign exchange control of current account transactions, the acceptance of foreign exchange loans, provision of foreign

currency guarantees, foreign investment or other capital account transactions involving the purchase of foreign currencies by enterprises shall be subject to the approval of the State Administration of Foreign Exchange.

In conducting foreign exchange transactions, designated banks may freely determine applicable exchange rates based on the exchange rates announced by the PBOC under certain government restrictions.

The CSRC and the SAFE jointly promulgated the Notice on Relevant Issues Concerning the Foreign Exchange Administration for Overseas Listings (關於境外上市外匯管理有關問題的通知) (Zheng Jian Fa Zi [1994] No. 8), effective from January 13, 1994, pursuant to which:

- Funds raised by domestic enterprises through issuing shares overseas shall be categorized as income from capital accounts, and may be deposited in cash in foreign exchange accounts opened in the PRC as approved by the SAFE.
- A domestic enterprise issuing shares overseas shall, within ten days upon receipt of the foreign proceeds from the issuance of the shares, repatriate the full amount of the funds to the PRC and deposit the amount in a foreign exchange account as approved.

Since then, the CSRC and SAFE promulgated a series of relevant rules to gradually loosen the applicable requirements for the repatriation of proceeds raised by overseas listed companies to the PRC. In August 2008, the Foreign Exchange Control Regulations were amended for the second time and further loosened the rules on the repatriation of foreign exchange income to the PRC, stating that foreign exchange income can be repatriated to the PRC, or deposited in an overseas account in according with specific conditions and/or within a specific period of time.

On January 28, 2013, the SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for Overseas Listings (關於境外上市外匯管理有關問題的通知) (Hui Fa [2013] No. 5), pursuant to which a domestic company shall, within 15 working days after the end of an overseas initial public offering, handle the registration of overseas listing at the foreign exchange bureau in the place of registration and obtain a certificate of overseas listing registration, and open respective special domestic accounts specifically for the initial public offering (or additional share issuances) or the business buyback to be used for the exchange and transfer of funds corresponding to that business. The proceeds from the overseas listing of domestic issues may be repatriated to a designated domestic account or deposited in a designated overseas account, while the use of the proceeds shall be consistent with the disclosure documents including the prospectuses, circulars and resolutions of general meetings; domestic shareholders of an overseas listed company are allowed to open a special domestic account for the increase or reduction of their shareholdings. The capital account income of domestic shareholders generated from the reduction of their shareholdings and transfer of the overseas shares of the issuers shall be repatriated to their domestic accounts designated for such reduction within two years from the day on which the income is received.

On December 26, 2014, the State Administration of Foreign Exchange issued the Notice on Relevant Issues Concerning the Foreign Exchange Administration for Overseas Listings (Hui Fa [2014] No. 54) (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) and at the same time repealed the rules of the same title promulgated by the State Administration of Foreign Exchange on January 28, 2013, to simplify the foreign exchange business operations of domestic enterprises for overseas listings. The major changes include:

- cancellation of approval for the repatriation of proceeds raised overseas for foreign exchange settlement from the listing of foreign shares overseas so that companies listed overseas may directly handle foreign exchange settlement at banks on the strength of their business registration certificates.
- integration of foreign exchange accounts and centralized processing of the exchange and transfer of relevant funds. Domestic companies are required to open a “special foreign exchange account for domestic companies listed overseas” at banks within the PRC in line with their needs. They are no longer required to open respective accounts specifically for their initial public offering (or additional share issuances) or business buyback. Domestic shareholders are required to open a “special account for domestic shareholders for holding shares overseas” at banks within the PRC in line with their needs. They are no longer required to open respective accounts specifically for the increase or decrease in their shareholdings, assignment of shares listed overseas and other businesses.
- allowance of domestic companies to repurchase, or domestic shareholders to repatriate, transfer freely and settle the foreign exchange balance after they remit funds out of the PRC they repurchase their domestic shares or after the domestic shareholders increase their holding of the domestic shares of the domestic companies in accordance with the relevant regulations.

SUMMARY OF PRC PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This appendix sets out a summary of PRC laws and regulations regarding companies and securities in China, certain major differences between the PRC Company Law and the Company Ordinance as well as the additional regulatory provisions of the Hong Kong Stock Exchange on joint stock limited companies of China. The principal objective is to provide with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which may be important to the potential investors. For discussion of laws and regulations specifically governing the business of the Company, see “Regulatory Environment.”

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 rules, autonomy regulations, rules and regulations of State Council departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Court judgments may be used for judicial reference and guidance but do not constitute legally binding precedents.

According to the Constitution and the Legislation of the PRC (中華人民共和國立法法), the National People’s Congress (“NPC”) and the Standing Committee of the NPC 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 NPC 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 NPC during the adjournment of the NPC, provided 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 ministries, 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 congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities, which will become enforceable after being reported to and approved by the standing committees of the relevant provinces or autonomous regions but such local regulations shall conform with the Constitution, laws, administrative regulations, and the relevant local regulations of the relevant provinces or autonomous regions. People’s

congresses of national autonomous areas have the power to enact autonomy regulations and separate regulations in the light of the political, economic and cultural characteristics of the nationality (nationalities) in the areas concerned.

The people's governments of the provinces, autonomous regions, and municipalities directly under the central government and the comparatively larger cities may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The significance of laws is greater than that of administrative regulations, local regulations and rules. The significance of administrative regulations is greater than that of local regulations and rules. The significance of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The significance of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or separate regulations that have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the Central Government, but contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate department rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at the lower level.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Resolutions of the Standing Committee of the NPC 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. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In case 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 directly under the Central Government

which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

PRC Judicial System

Under the Constitution and the PRC Law of 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 divisions 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 litigation 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 administration of justice by the people's courts at all levels.

The people's courts have adopted a "second instance as final" appellate system. A party may appeal against a judgment or ruling of a local people's court to the people's court at the next higher level prior to the judgment or the ruling of the first instance is legally effective. 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 and legally binding. If, however, 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 and 2012, 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 ruling. 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 in the defendant's place of domicile. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of domicile, 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 individual 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 compulsory enforcement of the same. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment in accordance with the law. A specific time limit being two years is imposed on the right to apply for such compulsory enforcement.

A party seeking to enforce an effective judgment or ruling of a people's court against a party who, 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 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 non-conformity with social and public interest.

THE PRC Company Law, Special Regulations and Mandatory Provisions

A joint stock limited company which is established 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:

- the Company Law of the People's Republic of China (the "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, October 27, 2005 and December 28, 2013, respectively and the latest revision of which was implemented on March 1, 2014;
- the Special Provisions 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) (the "Special Provisions"), which were formulated by the State Council on August 4, 1994 pursuant to Articles 85 and 155 of the PRC Company Law, and are applicable to overseas offering and listing of shares by joint stock limited companies; and
- the Mandatory Provisions in Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款) (the "Mandatory Provisions"), which were 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 have been included in the Articles of Association of the Company, a summary of which is set out in Appendix VI of this prospectus.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Provisions and the Mandatory Provisions applicable to our Company.

General Provisions

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 liability of the company is limited to the full amount of all its own assets.

A state-owned enterprise 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 handling and evaluation of the company's assets and liabilities and the establishment of its internal management organs.

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 for by law, the joint stock limited company may not be a capital 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 two to two hundred promoters, but at least half of the promoters must reside in the PRC. Pursuant to the Special Provisions, state-owned enterprises 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 can issue new shares once incorporated.

For companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce. For companies incorporated by way of subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce.

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 shareholders holding shares representing at least 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of the articles of association and the election of members of the board of directors and members of the Supervisory Committee of the company will be dealt with. Any 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 authorities for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process 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.

Allotment and Issue of Shares

All issuances 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. Shares may be issued at nominal value or at a premium, but not at a discount to the nominal value.

A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Provisions, shares issued to foreign investors by joint stock limited companies and listed overseas are known as "overseas listed foreign invested shares". Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed foreign invested shares, are known as "domestic shares". Upon approval of the securities regulatory authorities under the State Council, a company issuing overseas listed foreign invested shares within the aggregate number of shares as determined in the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed 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 promoters of a company may make capital contributions in cash, or in non-currency property that can be valued in currency and transferable according to laws such as contributions in kind, intellectual property rights or land-use rights. If capital contribution is made other than in currency by the promoters of the company, valuation and verification of the properties contributed must be carried out.

Pursuant to the Special Provisions, overseas listed 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

Pursuant 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 under the State Council, it shall publish a prospectus and financial accounts, 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:

- the company shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by shareholders' in the general meeting;
- the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days once the resolution of the reduction in registered capital is approved;
- 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
- the company shall apply to the relevant administration bureau for Industry and Commerce for the registration of the reduction in registered capital.

Repurchase of Shares

Pursuant 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 reward; (iv) to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies in the shareholders' general meeting; and (v) other purposes permitted by laws and administrative regulations.

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 canceled within ten days from the date of purchase in the case of (i) above, or transferred or canceled 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 lawfully established securities exchange or in other manners stipulated by the State Council. No modifications of registration in the register of shareholders caused by transfer of 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, whereas there are separate provisions by law on alternation of registration in the register of shareholders of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the register of shareholders 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.

Pursuant to the PRC Company Law, shares held by the promoters of a company shall not be transferred within one year from the date of incorporation of the company. 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 of the company's listing 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 thereat;

- 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, register of shareholders, counterfoil of company debentures, minutes of shareholders' general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the Supervisory Committee 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 the 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
- any 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, pay the subscription moneys in respect of the shares subscribed for, 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 functions and powers in accordance with the PRC Company Law.

Under the PRC Company Law, the shareholders' general meeting exercises the following principal functions and powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove directors and supervisors not being representatives of employees 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 Supervisory Committee;
- 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 loss recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on issuance 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 functions and powers specified in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the PRC Company Law, a shareholders' extraordinary 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 Supervisory Committee so requests; or
- other circumstances by 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 chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman 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 Supervisory Committee shall convene and preside over such meeting in a timely manner. In case the Supervisory Committee 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 a shareholders' extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. Under the Special Provisions 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 confirmation letters of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

A shareholder may entrust a proxy to attend a general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. 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 Provisions 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 Special 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 Provisions, where the company convenes shareholders' annual general meeting, shareholders holding 5% or more of voting shares have the 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 cumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the cumulative 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 two-thirds or more 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) issuance of any types of shares, warrants or other similar securities; (iv) issuance 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 chairman 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 of Directors

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 employees of the company, who shall be democratically elected by the company's employees at the employees' representative assembly, employees' general meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. Directors may serve consecutive terms upon re-election. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly 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 in 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 decide on the establishment of the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- 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 ten days before the meeting. Interim Board meetings may be proposed to be convened by shareholders representing 10% or more of voting rights, one-third or more of the directors or the supervisors. The chairman 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 relieved from that liability.

Chairman of the Board

Under the PRC Company Law, the board of directors shall appoint a chairman and may appoint a vice chairmen. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman 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 offence 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 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 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; or
- 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.

Supervisory Committee

A joint stock limited company shall have a Supervisory Committee composed of not less than three members. The Supervisory Committee is made up of representatives of the shareholders and an appropriate proportion of representatives of employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of employees shall not be less than one-third of the supervisors. Representatives of employees of the company in the Supervisory Committee 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 Supervisory Committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the Supervisory Committee are elected with approval of more than half of all the supervisors. The chairman of the Supervisory Committee shall convene and preside over the meetings of the Supervisory Committee. In the event that the chairman of the Supervisory Committee is incapable of performing or not performing his duties, the vice chairman of the Supervisory Committee shall convene and preside over the meetings of the Supervisory Committee. In the event that the vice chairman of the Supervisory Committee 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 Supervisory Committee.

Each term of office of a supervisor is three years and he or she may serve consecutive terms upon re-election. 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 Supervisory Committee 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 shareholders' resolution;

- 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 shareholders' extraordinary 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 the PRC Company Law;
- to make proposals at 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 Supervisory Committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work at the company's expense.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of the company.

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 be in charge of the company's business and management activities and organize for the implementation of resolutions of the board of directors;
- to organize the implementation of the company's annual business plans and investment schemes;
- to draft plans for the establishment of the Company's internal management structure;
- to formulate the basic management system of the company;
- to formulate specific rules and regulations of the company;
- to recommend the appointment and dismissal of deputy managers and financial officers;
- 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.

Other provisions of the articles of association concerning the manager's powers shall also be complied with. The manager shall be in attendance at board meetings.

Pursuant 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.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to manager and senior management of the company.

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 company funds;
- depositing company funds 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 the board of directors;
- entering into contracts or transactions 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;
- accepting and possessing the commissions paid by a third party for transactions conducted with the company;
- unauthorized divulgence of confidential information of the company; or
- other acts in violation of their fiduciary duties to the company.

A director, supervisor or senior management member who contravenes any laws, administrative regulations or the company's articles of association in the performance of his duties shall be held liable for compensation to any loss caused 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 report which shall be audited by an accounting firm as required by laws. The company's financial and accounting reports 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, a joint stock limited company shall make its financial statements available at the company for inspection by the shareholders at least 20 days before the convening of a shareholders' annual general meeting. A joint stock limited company with publicly offered shares must also publish its financial statements.

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 by 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 funds shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

No profit shall be distributed in respect of the shares in company held by itself.

The premium received through issuance of shares at prices above nominal value and other incomes required by the finance department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

Reserve funds 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 an 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 the board of directors in accordance with provisions of the articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or the 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 engages without any refusal, withholding and misrepresentation.

The Special Provisions provide that a company shall employ an independent accounting firm complying with the relevant regulations 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

Pursuant to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory reserve fund is drawn. The Special Provisions provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed foreign invested shares.

Dissolution and Liquidation

Pursuant 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, or 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 10% or more of the voting rights of all its shareholders, on the grounds that the company suffers significant hardships in its operation and management, rendering ongoing existence of the company a cause for significant losses for shareholders, and where this cannot be resolved through other means.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment to the articles of association in accordance with provisions set out above shall require approval of two-thirds or more 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, employee wages, social insurance expenses and statutory compensation, outstanding taxes and debts 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 payments 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 affairs of 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 company registration authorities 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 abusing 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 willful or material default.

Overseas Listing

Pursuant to the Special Provisions, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed foreign invested shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issues within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

If a share certificate in registered form 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 foreign invested share certificates is provided for in the Mandatory Provisions.

Securities Laws and Regulations

The PRC has promulgated a number of regulations that relate to issuance and trading of shares and disclosure of information. 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 and execution arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public

offerings 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.

On April 22, 1993, the State Council promulgated the Provisional Regulations on Issuance and Trading of Shares (股票發行與交易管理暫行條例). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information, investigation and penalties with respect to a listed company and dispute settlement. Pursuant to these regulations, a company must obtain the approval of the Securities Committee to offer its shares outside the PRC. In addition, if a company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it must comply with the Provisional Regulations on Issuance and Trading of Shares. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

The Securities Law took effect on July 1, 1999 and was revised for the first time as of August 28, 2004, for the second time on October 27, 2005 and for the third time on August 31, 2014. This is the first national securities law in the PRC governing, among other things, issuance and trading of securities, takeovers of listed companies, securities exchanges, and the duties of the securities regulatory authorities under the State Council. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that enterprises in the PRC which intend to directly or indirectly issue securities outside the PRC or to list their securities outside the PRC must obtain prior approval from the securities regulatory authorities under the State Council. Article 239 of the Securities Law provides that specific measures in respect of shares of companies in the PRC that are to be subscribed for and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issuance 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 Hong Kong 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 Hong Kong 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 overseas listed foreign invested share and the issuer, (ii) between holders of overseas listed foreign invested share and the issuer's directors, supervisors, manager or other senior management, and (iii) between holders of overseas listed foreign invested share 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 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, as the company or its shareholders, directors, supervisors, managers or other senior management, shall 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 China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the 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 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) amended on November 4, 2014 and 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. CIETAC is established in Beijing and its branches and centers have been set up in Shenzhen, Shanghai, Tianjin, Chongqing and Hong Kong.

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 procedural or membership irregularity 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 on the principle of reciprocity the foreign arbitral awards that are made within the territory of another party to the New York Convention; 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, an arrangement was reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. The Supreme People's Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR (關於內地與香港特別行政區相互執行仲裁裁決的安排), which became effective on 1 February, 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 Investments (境外投資管理辦法) promulgated by the MOFCOM on September 6, 2014 which became effective on October 6, 2014, enterprises shall obtain approval from the MOFCOM for conducting overseas investments involving sensitive countries and regions and/or sensitive sectors, or otherwise, file the investments with the MOFCOM and provincial commerce administrative authorities. In case of a change in overseas investment after being approved or filed, the enterprise shall complete the procedures for the change with the authority by which the investment was approved or filed.

Pursuant to the Administrative Measures on Approval and Filing of Overseas Investment (境外投資項目核准和備案管理辦法) promulgated by the NDRC which became effective on May 8, 2014 and the Catalogue of Government-endorsed Investment Projects (version 2014) published by the State Council on October 31, 2014 with immediate effect, enterprises shall obtain approval from the NDRC for conducting overseas investments involving sensitive countries and regions and/or sensitive sectors. Investments by enterprises under central government not applicable to the preceding requirements and investments by local enterprises with Chinese investment amounting US\$300 million or above shall be filed with the NDRC, and investments by local enterprises with Chinese investment below US\$300 million shall be filed with investment administrative authorities of provincial government.

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 Notice on Further Simplifying and Improving Foreign Exchange Control Policies on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by the SAFE on February 13, 2015 with effect from June 1, 2015, the SAFE shall cancel administrative approval requirements on foreign exchange registration under overseas direct investment, which shall instead be directly reviewed and handled by banks in accordance with the notice and the Guides on Foreign Exchange Business Operation attached thereto whilst indirectly supervised by the SAFE and its branches through banks.

Anti-money Laundering Regulations

The Anti-money Laundering Law of the PRC (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 sound systems for distinguishing clients' identities, preserve the data for clients' identities and records of transactions, and a report system for transactions involving large sums of money and for dubious transactions.

Pursuant to the Anti-money Laundering Regulations for Financial Institutions (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 keep improving it, 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 on Client Identification and Maintenance of Client Identity Materials and Transaction Records 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 books.

Pursuant to the Administrative Measures on Reporting Large-sum Transactions and Dubious Transactions 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 which became effective on March 1, 2007, upon the detection of any transactions involving large sums of money or dubious transactions, the head office or the designated department of the financial institution shall 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 is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of 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 company established 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 with share capital is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the company upon its incorporation and 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 restrictions on membership, transfers of shares and making of securities offers. A public company's articles of association do not contain such restrictions.

Share Capital

Under Hong Kong law, the shares of a Hong Kong company have no nominal value and the directors may, with the prior approval of the shareholders if required, cause the company to issue new shares up to the maximum number (if any) set out in its articles of association. Under the PRC Company Law, a joint stock limited company may be established by promotion or public subscription. Any increase in our registered capital must be approved by our shareholders in general meeting and the relevant PRC governmental and regulatory authorities. Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authorities to list its shares on a stock exchange must have a total share 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 must be carried out to ensure no over-valuation or under-valuation of the assets. Hong Kong law does not specify such appraisal processes for a Hong Kong company, although there may be legal implications for the company and its directors if shares issued to shareholders do not appropriately reflect the value of the consideration promised.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, 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, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed 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.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period within one year after the date of establishment of the company. Shares in issue prior to the 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 held by its directors, supervisors and managers and transferred 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 officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares

and the 12-month lockup on Controlling Shareholders' disposal of shares, imposed by the undertakings given by our Company and our Controlling Shareholder to the Hong Kong Stock Exchange described in the section entitled "Underwriting" in this prospectus.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance that are in a number of respects more restrictive than those under the Hong Kong company law which allows financial assistance to be given on the basis of a solvency test and relevant directors' and shareholders' resolutions.

Variation of Class Rights

The PRC Company Law has 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 the appendix entitled "Appendix VI – Summary of Articles of Association" to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except in accordance with the articles of association or, if the articles do not make such provisions, by written consent of 75% of the total voting rights of shareholders of the relevant class or by special resolution passed at a general meeting of shareholders of that class.

Directors, Senior Management and Supervisors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, transactions and arrangements, restrictions on companies providing certain loans and quasi-loans to and entering into certain transactions with directors, providing indemnities and exemptions in respect of directors' liability and prohibitions against compensation for loss of office and employment of directors for a term exceeding three years without disinterested shareholders' approval. The Mandatory Provisions, however, specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Committee

Under the PRC Company Law, a joint stock limited company's directors and managers are subject to the supervision of a Supervisory Committee. There is no mandatory requirement for the establishment of a Supervisory Committee for a Hong Kong company. 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 in the best interests of the Company 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 of a Hong Kong company or of its associated company to initiate a derivative action with the leave of the court on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the 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 provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding 1% or more of the shares in the company for more than 180 consecutive days may make a request in writing to the Supervisory Committee to initiate proceedings in the people's court. In the event that the Supervisory Committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the Supervisory Committee or the board of directors refuses to initiate such proceedings, or does not initiate proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a Hong Kong company are being or have been conducted in a manner unfairly prejudicial to his interests, or that an actual or proposed act or omission of the company is or would be so prejudicial, may petition to the court to restrain the relevant conduct, require the doing of a relevant act, appoint a receiver to the company's property and business, or make any other order as the court thinks fit. In addition, on the application of a specified number of members or member holding a specified percentage of issued shares, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a Hong Kong company. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Provisions and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a Hong Kong company, the minimum period of notice of an extraordinary general meeting is 14 days and for an annual general meeting is 21 days. 28 days' notice is required for a meeting to consider any matter (e.g. removal of directors and auditors) requiring "special notice".

Quorum for Shareholders' Meetings

Under Hong Kong law, the quorum for a general meeting of a Hong Kong company with more than one member shall be at least two members unless the articles of association of the company otherwise provide. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Provisions and the Mandatory Provisions provide that general meetings 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, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, a resolution is passed at a general meeting on a show of hands by (for an ordinary resolution) a simple majority or (for a special resolution) at least 75% of the number of persons voting in person or by proxy. A resolution is passed on a poll by (for an ordinary resolution) a simple majority or (for a special resolution) at least 75% of the total voting rights of all the members voting in person or by proxy. Under the PRC Company Law, the passing of any resolution requires affirmative votes of 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 a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing two-thirds or more of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial position and other relevant annexures 20 days before its shareholders' annual general meeting. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial position. The Companies Ordinance requires a Hong Kong company to send to every shareholder a copy of reporting documents including financial statements, directors' report and auditor's report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. The financial statements of a Hong Kong company must be prepared in accordance with the standards issued or specified by the Hong Kong Institute of Certified Public

Accountants. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC Generally Accepted Accounting Principles (中國公認會計準則). The Mandatory Provisions require that a company must, in addition to preparing accounts according to the PRC GAAP, have its accounts prepared and audited in accordance with IFRS or Hong Kong accounting standards and its 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 GAAP.

The Special Provisions require that there should not be any inconsistency between the information disclosed within and outside of the PRC and that, to the extent 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 differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's 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 limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (《香港受託人條例》) (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganization

Corporate reorganization involving a Hong Kong company 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 voluntary winding up 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 668 to 674 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, demerger, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meetings.

Dispute Resolution

In Hong Kong, disputes between shareholders on the one hand, and a Hong Kong company or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after-tax profit to the statutory reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or 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 manager should be responsible to the company for such damages. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances 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 must not exercise its powers to forfeit any unclaimed dividend in respect of 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 which includes, among other things, duty to act in good faith in the best interest of the company, duty not to put oneself in a position of conflict of interest with the company and duty to exercise director's powers for a proper purpose. Under the Special Provisions, directors and supervisors are not permitted to engage in any activities which compete with or damage the interests of 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 PRC Company Law and the Mandatory Provisions, share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

Hong Kong Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to us as an issuer established in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance Adviser

A company seeking a listing on the Hong Kong Stock Exchange is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date to the date of the publication of its financial results for the first full financial year. The compliance adviser should provide professional advice to the company on a continuous basis regarding compliance with the Hong Kong Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may ask the company 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 to the Hong Kong 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 Hong Kong Stock Exchange if the authorized representatives of the company are expected to be outside of Hong Kong frequently.

Accountant's Report

The accountant's report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises (《中國企業會計準則》) ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

A listed company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, termination of appointment and his contact particulars.

Public Shareholding

If at any time there are existing issued securities of a PRC issuer other than foreign invested shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of the H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's total issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalization at the time of listing of more than HK\$10,000 million.

Independent non-executive Directors

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 the listed company's general body of shareholders will be adequately represented.

Restrictions on Repurchase of Securities

Subject to governmental approvals and the articles of association, a listed company may repurchase its own shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of a special resolution of the holders of class shares at separate class meetings conducted in accordance with the articles of association is required for share repurchases. In seeking approvals, a listed company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The director must also state the consequences (if any) of any purchases which will arise under either or both of the Codes on Takeovers and Mergers and Share Buy-backs and any similar PRC law of which directors are aware. Any general mandate given to the directors to repurchase shares must not exceed 10% of the total number of its issued shares.

Redeemable Shares

A listed company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at a general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by 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 under the Hong Kong Listing Rules to the extent that the existing shareholders have by special resolution in general meeting given a mandate to the board of 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 at the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and H shares and which plan is implemented within 15 months from the date of approval by the securities regulatory authorities of the State Council.

Supervisors

A PRC company listed or seeking to list on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the supervisors in the securities of the PRC company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting 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 listed company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration of more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the listed company or an independent board committee must form a view in respect of the service contracts that require shareholders' approval and advise the shareholders (other than the 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 listed company and its shareholders as a whole and advise the shareholders on how to vote.

Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would cause them to cease to comply with the PRC Company Law, the Mandatory Provisions or the Hong Kong Listing Rules.

Documents for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of its issued share capital;

- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by it 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 class shares);
- copy of the latest annual return filed with the State Administration of Industry and Commerce of the PRC (中華人民共和國工商管理總局) or other competent PRC authority; and
- for shareholders only, copies of minutes of meetings of shareholders.

Receiving Agents

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) 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

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Provisions and its articles of association;
- agrees with the company, each shareholder, director, supervisor, manager and other senior management and it (acting both for the company and for each director, supervisor, manager and other senior management), 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 or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and

- authorizes the company to enter into a contract on his behalf with each director and senior management whereby such directors and senior management undertake to observe and comply with their obligations to shareholders as stipulated in the articles of association.

Legal Compliance

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Provisions and its articles of association.

Contract between the PRC Issuer and its Directors, Senior Management and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

- an undertaking by the director or senior management to the PRC issuer to observe and comply with the PRC Company Law, the Special Provisions, its articles of association, the Codes on Takeovers and Mergers and Share Buy-backs and an agreement that the PRC issuer shall have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;
- an undertaking by the director or senior management to act as agent for each shareholder to observe and comply with his obligations to the shareholders as stipulated in the articles of association; and
- an arbitration clause which provides that whenever any differences or claims arise from the contract, its articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between the company and its directors or senior management and between a holder of shares and a director or senior management, such differences or claims will be referred to arbitration at either the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) 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 shall submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at Hong Kong International Arbitration Centre (香港國際仲裁中心), then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of HKIAC (《香港國際仲裁中心證券仲裁規則》). 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 register of shareholders do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

Subsequent Listing

A PRC issuer must not apply for the listing of its H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its H shares are adequately protected.

English Translation

All notices or other documents required under the Hong Kong Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to the holders of the 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 Hong Kong Stock Exchange may impose additional requirements or make the listing of the H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of any company's listing.

Other Legal and Regulatory Provisions

Once listed on the Hong Kong Stock Exchange, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Buy-backs and such other relevant ordinances and regulations will apply to a PRC issuer.

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 established in the PRC and listed on the Hong Kong 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.

PRC Legal Matters

Jia yuan Law offices, our legal advisers on PRC law, has sent to us a legal opinion confirming that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This legal opinion is available for inspection as referred to in the section entitled “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix VII to this prospectus.

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 the principal provisions of the Articles of Association, which was adopted by our shareholders in the shareholders' general meeting held on March 16, 2015 and will become effective on the date on which our H Shares are listed on the Hong Kong Stock Exchange. The principal objective of this appendix is to provide an overview of the Articles of Association for potential investors. As this is a summary, it may not contain all the information that is important to potential investors.

DIRECTORS AND BOARD OF DIRECTORS

Power to allocate and issue shares

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare issue proposal for share allotment or issue, which are subject to approval by the shareholders at the shareholders' general meeting in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

Power to dispose of assets of our Company or our subsidiaries

The Directors may decide on matters including venture investment, acquisitions and disposals of assets, pledge of assets, external guarantees, entrusted wealth management and connected transactions within the scope of authorization by the shareholders' general meeting.

Indemnification or compensation for loss of office

As provided in the contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the approval of the shareholders and supervisors at the shareholders' general meeting in advance.

Acquisition of our Company refers to any of the following circumstances:

- (i) an offer made from any person to all the shareholders; or
- (ii) an offer is made by any person such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

Loans to Directors, Supervisors or other senior management

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees.

A loan guarantee provided by the Company in breach of the provisions referred to above shall be unenforceable against the Company unless:

- (i) that the loan is provided to a person connected with a Director, Supervisor or senior management of the Company or its holding company, and the lender is not an informed person, or
- (ii) that the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The following circumstances are not subject to the foregoing prohibition:

- (i) the provision by the Company of a loan or a loan guarantee to its subsidiaries;
- (ii) the provision by the Company of a loan or a loan guarantee or other funds to any of its Directors, Supervisors or senior management to meet expenditure incurred by him or her for the purposes of the Company or for the purpose of enabling him or her to perform his or her duties properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- (iii) the Company may provide a loan to or provide a guarantee for a loan extended by another person to any of its Directors, Supervisors or senior management or other connected persons where the ordinary course of its business includes the provision of loans or guarantees and provided that the provision of loans or such guarantees is on normal commercial terms.

Provide financial aid for acquiring our shares or shares of any of our subsidiaries

Our Company or our subsidiaries shall not provide any financial assistance at any time or in any manner to a person that acquires or plans to acquire our shares. Such person include any who assumes obligations, directly or indirectly, from acquiring the shares. Our Company or our subsidiaries shall not provide such person mentioned in the preceding paragraph with financial aid at any time or in any manner to mitigate or exempt the obligations of that person.

The following transactions are not prohibited:

- (i) financial aid provided by our Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our shares or is an incidental part of a master plan of our Company;
- (ii) lawful distribution of our properties by way of dividend;

- (iii) distribution of dividends in the form of shares;
- (iv) reduction of the registered capital, repurchase of the shares or adjustment of the equity structure pursuant to the Articles of Association;
- (v) our Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or even if the net assets are reduced, this financial aid is paid from the profit available for distribution; and
- (vi) our Company provides the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, this financial aid is paid from the profit available for distribution.

For the purpose of the above provisions,

- (1) financial aid includes, but is not limited to:
 - (i) gifts;
 - (ii) guarantees (including acts of the guarantor assuming liabilities or providing property to ensure that the obligor performs the obligations), compensation (other than compensation in respect of our Company's own default), release or waiver of rights;
 - (iii) provision of loans or entering into agreements under which our Company needs to perform its obligations ahead of the other contracting parties, or a change in the parties to, or the assignment of rights arising under, such loans or agreements; and
 - (iv) financial aid provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.
- (2) Assumption of obligations includes assuming obligations by making an agreement or arrangement (whether enforceable or unenforceable, and whether made on one's own account or on the account of any other person) or by changing one's financial position by any other means.

Disclosure of interests in contracts with our Company or any of Our Subsidiaries and voting events regarding the contracts

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the persons shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above matters are subject to the approval of the Board of Directors in normal circumstances.

Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations.

Where connected persons or associates of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the related Directors, Supervisors and senior management shall be deemed to have interests.

In the event that, prior to the Company's initial consideration of such contracts, transactions, or arrangements, Directors, Supervisors, and senior management of the Company have delivered a written notice to the Board, stating his interests in such future contracts, transactions, or arrangements, the Directors, Supervisors, and senior management of the Company shall be deemed to have made the disclosure as provided in the Articles of Association with respect to the statement(s) contained in the notice.

Remuneration

Our Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the shareholders' general meeting, including:

- (i) remuneration for providing services as the Directors, Supervisors or senior management of our Company;
- (ii) remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- (iii) remuneration for providing other services for management of our Company and our subsidiaries; and
- (iv) compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interest payable relative to the above unless provided for in the above contracts.

Resignation, appointment and dismissal

None of the following persons shall serve as our Director, Supervisor or senior management:

- (i) anyone who has no civil capacity or has restricted civil capacity;

- (ii) anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;
- (iii) anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of the company or enterprise;
- (iv) anyone who has served as the legal representative of a company or enterprise whose business license was revoked and whose operation was ordered to be terminated due to violation of the law, was personally liable, and is within three years of the date on which the business license of our Company or enterprise was revoked;
- (v) anyone who has a large sum of debt, which was not paid at maturity;
- (vi) anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;
- (vii) anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations;
- (viii) anyone who is not a natural person;
- (ix) anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made.
- (x) anyone who has been punished by the CSRC with denial of access to securities market by the CSRC and the denial period has not expired;
- (xi) anyone who is not qualified to be a Director, Supervisor or senior management of the Company pursuant to relevant requirements of the Management Measures on Qualifications of Directors, Supervisors or Members of the Senior Management of the Company;
- (xii) Other circumstances as stipulated by laws and regulations of the place where our shares are listed.

Any election, appointment of Directors, Supervisors or senior management in violation of the above provisions shall be invalid. The Company may remove the Director, Supervisor, president and senior management in the event of his or her involvement in the said circumstances during his or her term of office.

The validity of the acts of the Directors, president and senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

Our company has the Board of Directors. The Board of Directors consists of ten directors, one chairman, vice chairmen and four independent non-executive directors.

The Board of Directors are elected at the shareholders' general meeting and serves three-year terms. Upon expiration of the term, the Director may be re-elected.

The chairman and vice chairman of the Board shall be elected and dismissed by a vote of more than one half of all the Directors. The Directors need not hold any of our shares.

Subject to compliance with related laws and administrative regulations, the shareholders' general meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

Duties

The controlling directors and actual controllers shall bear the obligations of good faith and diligence towards our Company and public shareholders.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which our shares are listed, Directors, Supervisors and senior management in the exercise of their powers owe the following obligations to each shareholder:

- (i) not to cause the Company to go beyond the business scope specified by its business license;
- (ii) to act honestly in what they consider to be the best interest of the Company;
- (iii) not to deprive in any way the Company of its assets, including (but not limited to) opportunities beneficial to the Company;
- (iv) not to deprive shareholders of their personal interests, including (but not limited to) rights to distributions and to vote, except in a Company reorganization submitted in accordance with the provisions of the Articles of Association and adopted at a shareholders' general meetings.

When discharging its duties, the Board of Directors shall observe relevant laws, administrative regulations, the Articles of Association or resolutions passed at the shareholders' general meeting. When performing their duties, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- (i) acting honestly in the best interest of our Company;

- (ii) exercising his duties within the scope specified and not to act ultra vires;
- (iii) exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless and to the extent permitted by laws and administrative regulations or with the informed consent of shareholders given in a general meeting;
- (iv) treating shareholders of the same class equally and shareholders of different classes fairly;
- (v) entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the shareholders' general meeting with its full knowledge;
- (vi) seeking private interests using the properties of our Company in any manner is not allowed, unless agreed by the shareholders' general meeting with its full knowledge.
- (vii) using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to our Company;
- (viii) accepting commissions associated with transactions of our Company is not allowed unless agreed by the shareholders' general meeting with its full knowledge;
- (ix) compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking private gain by taking advantage of one's position and authority in our Company;
- (x) competing with our Company in any manner is not allowed, unless agreed by the shareholders at the shareholders' general meeting with its full knowledge; harming our interest by abusing the associate relationship is not allowed;
- (xi) misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names, nor is using the assets of our Company to provide guarantees for the debts of the shareholders or other individuals;
- (xii) disclosure of any confidential information relating to our Company obtained during employment without the consent of the shareholders' general meeting with its full knowledge; unless in the interest of our Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government agencies as required by (a) the provisions of the law; (b) the public interest; (c) the interest of the Directors, Supervisors or senior management.
- (xiii) other fiduciary duties stipulated by laws, administrative regulations, department rules, Hong Kong Listing Rules and the Articles of Associations.

The Directors, Supervisors and senior management may not direct the following personnel or institutions to do acts that the Directors, Supervisors and senior management is prohibited from doing pursuant to laws, regulations, and the Articles of Association:

- (i) spouses or minor children of the Directors, Supervisors and senior management of our Company;
- (ii) trustees of the directors, supervisors and senior management or the persons mentioned in (i);
- (iii) partners of the directors, supervisors and senior management or persons mentioned in (i) and (ii);
- (iv) a company in which that any of the Directors, Supervisors or senior management, alone or jointly with one or more persons referred to (i), (ii) and (iii) and other Directors, Supervisors or senior management; a company in which that Director, Supervisor, or senior management, alone or jointly with one or more persons referred to in (i), (ii) or (iii) above or other Directors, Supervisors, or senior management has a de facto controlling interest; and
- (v) directors, supervisor, president or senior management of the controlled companies mentioned in (iv).

The fiduciary duties owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms; their obligations to keep the trade secrets of our Company in confidence shall survive the expiration of their terms. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

In addition to any rights and remedies provided for in relevant laws and administrative regulations, the Company is entitled to adopt the following measures where a Director, Supervisor or senior management is in breach of his or her obligations to the Company:

- (i) to claim against such a Director, Supervisor or senior management for losses incurred by the Company as a result of his or her breach;
- (ii) to rescind any contract or transaction entered into between the Company and the Director, Supervisor or senior management and a third party where such third party has knowledge or should have had knowledge of the breach of duty;
- (iii) to account for the profits surrendered by the Director, Supervisor or senior management as a result of his or her breach;
- (iv) to recover any monies received by the Director, Supervisor or senior management which should have been received by the Company, including but without limitation to commissions;

- (v) to demand the return of the interest earned or which may have been earned on any monies by the Director, Supervisor or senior management which should have been received by the Company; and
- (vi) to execute legal procedures judging that the interest of a Director, Supervisor or senior management earned through his breach of duty should belong to the Company.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and the Articles of Association.

Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorized by the State Council and the securities regulatory authority under the State Council before taking effect. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

In addition to holders of other class shares, holders of domestic shares and overseas listed foreign shares are deemed to be shareholders of different classes. The Company may not vary or abrogate rights attached to any class of shares unless approved by a special resolution of shareholders at a shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances should be deemed to be change or abrogation of the Class Rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of class having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (ii) to effect an conversion of all or part of the shares of such class into shares of another class or to effect an conversion or create a right of conversion 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 attached to shares of such class;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transferor pre-emptive rights, or rights to acquire securities of our Company attached to shares of such class;

- (vi) to remove or reduce rights to receive payments payable by our Company in a particular currency attached to shares of such class;
- (vii) to create a new class of shares having voting or equity right or privileges equal or superior to those of the shares of such class;
- (viii) to restrict the transfer or ownership of the shares of such class or add to such restriction;
- (ix) to issue rights to subscribe for, or convert into, shares of such class or another class;
- (x) to increase the rights or privileges of shares of another class;
- (xi) to reorganize our Company where the proposed reorganization will result in different classes of shareholders bearing a disproportionate burden of such reorganization; and
- (xii) to vary or abrogate provisions in the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at the shareholders' general meeting, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

The resolution of a class meeting shall be passed by votes representing more than two thirds of shareholders of that class with voting rights attending such class meeting.

When convening a class meeting, 45 days before the meeting is convened, our Company shall send a written notice to inform all registered holders of the class shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting. In the event that the number of shares with voting power represented by shareholders planning to attend the meeting accounts for more than one half of the total number of class shares with voting power at the meeting, our Company may convene a class meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and our Company may convene a class meeting once the announcement is delivered.

The notice of the class meeting needs only to be sent to the shareholders who have the right to vote at the meeting.

Insofar as possible, any class meeting shall be held in accordance with the same procedures as those of the shareholders' general meeting, and any clause that relates to the procedures for convening the shareholders' general meeting in the Articles of Association shall apply to any class meeting.

Apart from the holders of other class shares, the holders of domestic shares and the holders of overseas listed foreign shares are considered as shareholders of different classes. Voting by shareholders of different classes shall not apply in the following circumstances:

- (i) where our Company issues, upon the approval by a special resolution of its shareholders in a general meeting, either separately or concurrently once every 12 months interval, not more than 20% of each of its existing issued domestic shares and overseas listed foreign shares;
- (ii) where our Company's plan to issue domestic shares and overseas listed Foreign Shares at the time of its establishment is carried out within 15 months from the date of approval of the Securities Authority of the State Council; or
- (iii) where subject to the approval of the securities regulatory authority of the State Council, holders of our domestic shares transfer their Shares to overseas investors, and such transferred shares are listed or traded on an overseas stock exchange.

For the purposes of the Class Rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange in the same proportion, a "controlling shareholder" within the meaning of the Articles of Association;
- (ii) in the case of a repurchase of shares by an off-market contract, a holder of the shares to which the proposed contract relates; and
- (iii) in the case of a reorganization of our Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed reorganization or who has an interest in the proposed reorganization different from the interest of shareholders of that class.

RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE

The resolutions of the shareholders' meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the shareholders (including proxies) attending the shareholders' general meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the shareholders (including proxies) attending the shareholders' general meeting.

VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary shareholders of our Company have the right to attend or appoint a proxy to attend and vote at the shareholders' general meeting. When voting at the shareholders' general meeting, the shareholder (or proxy) may exercise his or her voting rights in accordance with the number of shares with voting power held with each share representing one vote.

When voting at a general meeting, shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of supporting votes (upon show of hands or on a poll), the chairman of the meeting is entitled to one additional vote.

Where any shareholder is, under applicable laws and regulations and the listing rules of stock exchange where the shares in the Company are listed, required to abstain from voting on any particular resolution or restricted to voting only for (or only against) any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be included in the total number of shares carrying voting rights.

SHAREHOLDERS' GENERAL MEETINGS

The shareholders' general meetings are divided into annual shareholders' general meetings and extraordinary general meetings. Shareholders' general meetings are called by the Board of Directors. The annual shareholders' general meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

ACCOUNTING AND AUDITS**Preparation of Financial Reports**

Our Company shall develop its financial accounting policies pursuant to laws, administrative regulations, as well as PRC accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual shareholders' meeting.

Apart from the Chinese accounting standards and regulations, the financial reports of our Company shall also conform to international accounting standards and the accounting standards of overseas areas where the shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the shareholders 20 days before the annual shareholders' general meeting is convened.

Each Shareholder shall be entitled to have a copy of the financial reports referred to in this Chapter. Our Company shall send the aforesaid reports or Directors' Report along with the balance sheet (including each document to be appended to the balance sheet as required by applicable regulations) and the income statement or the statement of income and expenditure or a summary financial report to each of the holders of overseas listed Foreign Shares by the manner as stipulated in the Articles of Association of our Company or by postage-paid mail at least 21 days before the annual shareholders' general meeting is convened and the recipient's address shall be the address as shown in the register of shareholders. Where requirements of laws, administrative regulations or the listing rules of the place where our shares are listed are met, the Company may make it available in the form of announcement, including an announcement posted on the Company's website.

Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with PRC accounting standards, regulations, international accounting standards as well as the accounting standards of the overseas area in which the shares are listed.

The Company shall publish relevant results within two months and deliver the interim report within three months after the first six months of the fiscal year; the Company shall publish relevant results within three months and deliver the annual report 21 days prior to the date of convening the annual general meeting (in any event within four months after the end of the fiscal year).

Appointment of accountants

Our Company shall appoint an accounting firm with independent qualifications that meets appropriate requirements to be responsible for auditing its annual report and reviewing its other financial reports. The term of the accounting firm appointed by our Company shall start at the close of the annual shareholders' general meeting and continue until the close of the next annual shareholders' general meeting.

The shareholders may replace the accounting firm through an ordinary resolution at the shareholders' general meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm. Any right of the accounting firm to claim compensation against our Company for the termination of office shall not be affected by such termination.

Remuneration of the accounting firm and the manner in which the remuneration is determined shall be decided on by the shareholders at the shareholders' general meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

The Company's appointment, removal or non-reappointment of an accounting firm shall be resolved by the shareholders at the general meeting and shall be filed with the securities regulatory agency of the State Council.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accounting firm which is not an incumbent firm to fill a casual vacancy in the office of the accountants firm; re-appointment of a retiring accounting firm which was appointed by the Board of Directors of the Company to fill a casual vacancy; or removal of the accounting firm before the expiration of its term of office, the following provisions shall apply:

- (i) A copy of the proposal shall be sent, before notice of meeting is given to the shareholders, to the accounting firm proposed to be appointed or proposing to leave its post or the accounting firm which has left its post in the relevant fiscal year. Leaving a post includes leaving a post by removal, resignation and retirement.
- (ii) If the accounting firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late): (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association. Such notice shall become effective from the date when it is being placed at the legal address of the Company or any later date stated in the notice.
- (iii) If the accounting firm's representations are not sent in accordance with the preceding subparagraph (2), the accounting firm may (in addition to its right to be heard) require that the representations be read out at the meeting.
- (iv) An accounting firm which is leaving its post shall be entitled to attend: (i) the shareholders' general meeting at which its term of office would otherwise have expired; (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation. In addition, it shall also be entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of the Company.

Prior to the removal or the non-renewal of the appointment of the accounting firm, notice of such removal or non-renewal shall be given to the accounting firm and such firm shall be entitled to make representation at the shareholders' general meeting. In the event that the accounting firm requests to resign, it shall declare to the shareholders' general meeting whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later. The notice shall include the following statements:

- (i) its resignation does not include any statement that should be disclosed to the shareholders or creditors of our Company; or
- (ii) any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent agencies. If the notice contained a statement as referred to in (ii) under paragraph 1 of this section, the Company shall deposit a copy of such statement in the Company for examination by the Shareholders. The Company shall also send a copy of such statement by postage pre-paid mail to each Shareholder entitled to have a copy of financial reports at its registered address contained in the Shareholders' register.

In the event that the resignation notice of the accounting firm includes any statement mentioned in (ii) under paragraph 1 of this section, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

NOTIFICATION AND AGENDA OF SHAREHOLDERS GENERAL MEETINGS

The shareholders' general meeting is the authorized organ of our Company that can perform duties and exercise powers in accordance with the law. In addition to the situation that the Company is in crisis or other special circumstances, the Company shall not enter into any contract with any person other than a Director, Supervisor or other senior management personnel of the Company whereby the management and administration of the whole or any substantial part of any business of the Company is to be handed over to such a person without the prior approval of Shareholders in a general meeting.

The shareholders' general meeting shall be convened annually within six months after the end of last fiscal year. Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (i) the number of Directors is less than the number specified in the Company Law or less than two thirds of the number required in the Articles of Association;
- (ii) the uncovered losses of our Company reach one-third of its total paid-in share capital;
- (iii) the shareholders with 10% or more voting power separately or jointly request to convene an extraordinary general meeting in writing;
- (iv) the Board of Directors considers it necessary or the Supervisory Committee proposes convening an extraordinary meeting; or
- (v) any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a shareholders' general meeting, our Company shall send a written notice to inform each shareholder 45 days before it is convened. Shareholders' general meetings shall be convened at the Company's domicile or at such other place as noticed by the convenors of the shareholders' general meetings. Meeting venue shall be set for shareholders' general meetings which shall be convened by way of on-site meetings. Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's shareholders' general meeting, the shareholders holding 3% or more shares with voting power are entitled to submit written extraordinary proposals to our Company. The Company shall include matters in the temporary proposal falling within the scope of the functions and powers of the shareholders' general meeting in the agenda of the meeting.

Our Company shall calculate the number of shares with voting power represented by the shareholders planning to attend the shareholders' general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of shares with voting power, our Company may convene the shareholders' general meeting. If this number is not reached, our Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within 5 days in the form of an announcement before the shareholders' general meeting may be convened. Matters not specified in the notice shall not be decided at extraordinary general meetings.

The notice of the shareholders' general meeting shall meet the following requirements:

- (i) shall be in writing;
- (ii) specified venue, date and time of the meeting;
- (iii) specified matters to be deliberated at the meeting;
- (iv) inclusion of the equity registration date for shareholders entitled to attend the meeting;
- (v) provision to the shareholders the materials and explanation necessary for the shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and proper explanations about the cause and consequence when our Company proposes merger/s, redemption of shares, restructuring of stock capital or other restructuring;
- (vi) in the event that any of the Directors, Supervisors or senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, manager or other senior management as a Shareholder in a manner different from how they affect other shareholders of the same type, the difference shall be explained;
- (vii) inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- (viii) a clear explanation that the Shareholder is entitled to attend and vote at the shareholders' general meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his or her behalf and that such may not necessarily be shareholders;
- (ix) specified delivery time and place of the power of attorney for proxy voting of the meeting; and
- (x) the name and telephone number of the regular contact person of the meeting.

The notice of the shareholders' general meeting and circular of the Company shall be sent to shareholders (whether or not entitled to vote at the meeting) in person or by postage-paid mail, and each recipient's address shall be according to the address indicated on the register of shareholders. Alternatively, subject to the applicable laws, regulations and the Listing Rules, such notice may be published on the Company's website or the website(s) designated by the stock exchange on which our shares are listed. For holders of domestic shares, the notice of our shareholders' general meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of domestic shares shall be deemed to have received the notice of our shareholders' general meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The following matters shall be approved by the shareholders' general meeting through ordinary resolutions:

- (i) working report of the Board of Directors and the Supervisory Committee;
- (ii) plans of profits distribution and loss make-up schemes drafted by the Board of Directors;
- (iii) appointment or dismissal of the members of the Board of Directors and the members of the Supervisory Committee who are not assumed by staff representatives, their remuneration and payment methods;
- (iv) annual budget/final account report, balance sheet, income and other financial statements of our Company; and
- (v) other matters in addition to those approved by special resolution as required by laws, administrative regulations, listing rules of stock exchanges on which our shares are listed or the Articles of Association.

The following matters shall be approved by special resolution at the shareholders' general meeting:

- (i) the increase or reduction of share capital, redemption of our shares and issue of any class of shares, warrants and other similar securities;
- (ii) issue of bonds of the Company;
- (iii) division, merger, dissolution and liquidation of our Company and the change of form of our Company;
- (iv) amendment of the Articles of Association;

- (v) matters relating to the purchase, sale of material assets or guarantee made by our Company with an amount exceeding 30% of its total assets within one year;
- (vi) share option incentive plans; and
- (vii) other matters as required by the laws, administrative regulations or the Articles of Association, and as approved by ordinary resolution of the shareholders' general meeting which are believed could materially affect our Company and need to be approved by special resolution.

SHARE TRANSFERS

Subject to the approval of the securities regulatory authority of the State Council, holders of our domestic shares may transfer their 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 also comply with the regulatory procedures, rules and requirements of such overseas stock exchange. The listing or trading of transferred shares on an overseas stock exchange is not subject to the resolution of the class meeting.

Shares of the Company held by the promoter are not transferable within one year commencing from the date of establishment of the Company. Shares of the Company that are already in issue prior to its public offering are not transferable within one year commencing from the date on which our shares were listed and traded on a stock exchange.

The Directors, Supervisors and senior management of the Company shall report to the Company the number of shares held by them in the Company and the subsequent changes in their shareholdings. The number of shares which a Director, Supervisor or senior management may transfer every year during his or her term of office shall not exceed 25% of the total number of our shares in his or her possession; and shares of the Company in his or her possession are not transferable within one year commencing from the date on which our shares were listed and traded on a stock exchange. Such personnel shall not transfer our shares in their possession within six months upon termination of their employment with the Company. Such transfer restriction involving H shares shall be in compliance with the requirements of Hong Kong Listing Rules.

Any gains from the sale of shares of the Company by any of the Company's Director, Supervisor, senior management or shareholders holding 5% or more of the shares in the Company within six months after purchasing such shares, or thereafter any gains from repurchasing such shares in the Company within six months after the sale thereof, shall be vested in by the Company. The Board of Directors of the Company shall forfeit such gains from the abovementioned parties. The transfer restriction involving H shares shall be in compliance with the requirements of Hong Kong Listing Rules. However, where the securities company, as the sole underwriter, purchases all the unsold shares and therefore holds more than 5% of the shares in the Company, sale of such shares is exempted from the six-month restriction.

If the Board of Directors of the Company fails to comply with the provision set forth in the preceding paragraph, a shareholder shall have the right to require the Board to act within 30 days. If the Board fails to do so within the said time limit, a shareholder shall have the right to initiate proceedings in a court directly in his own name in the interest of the Company.

Unless otherwise stipulated by laws and administrative regulations or by Hong Kong Stock Exchange, our shares shall be freely transferable and are not subject to any lien.

Alteration or rectification of any part of the register of members shall be made in accordance with the laws of the place where that part of the register of shareholders is maintained.

No changes shall be made in the registration in the register of shareholders as a result of the transfer of shares within 30 days prior to a shareholders' general meeting or within five days prior to the base date on which the Company decides to distribute dividends.

RIGHTS OF OUR COMPANY TO REPURCHASE ITS OWN SHARES

According to the provisions of the Articles of Association, the Company may reduce its registered capital. The Company may, according to the procedures laid down in the Articles of Association, and subject to the approval of the relevant governing authority of the PRC, repurchase its issued shares pursuant to legal procedures under the following circumstances:

- (i) cancellation of the shares to reduce our Company's share capital;
- (ii) merger with other companies which holds our Company's shares;
- (iii) granting shares to the staff of our Company as incentives;
- (iv) repurchase of the shares from shareholders who vote against any resolutions adopted at the shareholders' general meeting concerning the merger and division of our Company; or
- (v) other circumstances as allowed by the laws and administrative regulations.

Our Company may repurchase shares as approved by relevant authorities in any of the following means:

- (i) making a general offer of repurchase to all shareholders at the same proportion;
- (ii) repurchasing shares through public dealing on a stock exchange; or
- (iii) repurchasing shares by an off-market agreement; or
- (iv) other means approved by relevant regulatory authorities.

Where our Company repurchases its own shares by an off-market agreement, it shall obtain prior approval at the shareholders' general meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the shareholders' general meeting, our Company may dissolve or change the contract signed in the aforesaid manner or waive any of its rights in the contract.

The said contract that repurchases the shares includes, but is not limited to, an agreement that consents to undertake the obligation to repurchase the shares and obtain the rights to repurchase them.

Our Company shall not transfer any contract that repurchases the shares or any rights conferred under the contract.

Before cancelling its shares as a result of share repurchases, the Company shall apply to the original company registration authority for alteration of its registered capital. The aggregate par value of the cancelled shares shall be deducted from the Company's registered capital.

Unless our Company has entered into the liquidation process, we must observe the following provisions for the repurchase of issued shares:

- (i) where our Company repurchases shares at book value, the funds shall be deducted from the book balance of our distributable profits and the proceeds obtained from the issue of new shares to repurchase the existing shares;
- (ii) where our Company repurchases the shares at a premium to the book value, the portion of funds equivalent to book value shall be deducted from the book balance of our distributable profits and the proceeds obtained from the issue of new shares made for the purpose of repurchase of shares, while the portion of funds higher than book value shall be dealt with in the following manner: a) where the shares repurchased were issued at book value, the funds shall be deducted from the book balance of our distributable profits; b) where the shares repurchased were issued at a premium to the book value, the funds shall be deducted from the book balance of our distributable profits and the proceeds obtained from the issue of new shares made for the purpose of buying back of shares. However, the amount deducted from the proceeds obtained from the issue of new shares shall not exceed the total premium amount obtained when the shares bought back were issued or the amount (including the premium amount of the issue of new shares) in our premium account or capital reserve account when the shares are repurchased.
- (iii) The funds paid by our Company for the following purposes shall be allocated from our distributable profits:
 - a) acquisition of rights to repurchase shares;
 - b) variation of any contract to repurchase shares;
 - c) release any obligation of our Company under any contract to repurchase shares.
- (iv) after the total book value of the cancelled shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable profits for paying up the book value portion of the shares bought back shall be credited to our premium account or capital reserve account.

Power of any subsidiary of the Company to own our shares

There are no provisions stipulated in the Articles of Association that restrict the subsidiaries of the Company from owning our shares.

DIVIDEND AND PROFIT DISTRIBUTION

Our Company may distribute dividends by way of cash or shares.

Dividends and other payments payable by the Company to holders of domestic shares shall be denominated and declared in Renminbi, and payable in Renminbi within three months following the announcement of profit distribution. Dividends and other payments payable to holders of foreign shares shall be denominated and declared in Renminbi and payable in foreign currency within three months following the announcement of profit distribution. The conversion rate shall be the average closing price of relevant foreign currency against Renminbi announced by the People's Bank of China in the five working days prior to the declaration of dividends or other distributions. The Company shall arrange the foreign currency for payment to holders of foreign shares in accordance with foreign exchange management related regulations of the State. The shareholders' general meeting shall, by ordinary resolution, authorize the Board to implement the distribution of dividends of the Company.

Our Company shall appoint, on behalf of holders of overseas listed Foreign Shares, receiving agents to receive dividends and other payable funds that are distributed with respect to our overseas listed foreign shares.

The receiving agents appointed by our Company shall comply with related provisions of the laws or the securities exchange where the shares are listed. The receiving agent for holders of overseas listed foreign shares listed on the Hong Kong Stock Exchange shall be a trust company registered under the Trustee Ordinance.

SHAREHOLDER PROXIES

Any shareholder who is entitled to attend and vote at our shareholders' general meeting has the right to appoint one or more persons (who may not necessarily be shareholders) as his or her shareholder proxy to attend and vote at the meeting in his or her place. The shareholder proxy so appointed shall be entitled to exercise the following rights in accordance with the authorization of that shareholder:

- (i) the shareholder's right to speak at the shareholders' general meeting;
- (ii) the right to demand, whether on his or her own or together with others, a poll; and
- (iii) unless otherwise provided for in applicable securities listing rules or other securities laws and regulations, exercise the right to vote by show of hand or on a poll; however, if one shareholder is represented by more than one shareholder proxy, the shareholder proxy must vote on a poll.

The shareholder proxy appointment shall be in writing and shall be signed by the appointer or a person duly authorized in writing. Where the appointer is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorized agent. Such instrument shall indicate the number of shares represented by the shareholder proxy and in the event of more than one shareholder proxy, the number of shares represented by each shareholder proxy.

The power of attorney must be kept at the domicile or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated voting time. If the power of attorney is signed by another person authorized by the appointer, the power of attorney or other instrument must be verified by a notary. The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

Where the appointer is a legal person, its legal representative or any person authorized by resolutions of its Board of Directors or other governing body attends our shareholders' general meeting as a representative.

The Company shall have the right to require any proxy who attends the shareholders' general meeting on behalf of the shareholder(s) to produce his or her identity certificate.

Any form sent by the Directors to the Shareholder for appointing a shareholder proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the Shareholder does not provide instructions.

The votes of the shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the related meeting is convened.

Calls on shares and forfeiture of shares

Any amount paid up in advance of calls on any share may carry interest but shall not entitle the relevant shareholder to participate in respect thereof in a dividend subsequently declared.

Subject to compliance with the relevant laws and regulations of the PRC and rules of Hong Kong Stock Exchange, the Company may exercise its right to confiscate the dividends which are not claimed by anyone but such right can only be exercised after the expiry of relevant time frame.

Shareholders' rights (including inspection of register of members)

The holders 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 petition, convene, preside, attend or appoint a shareholder proxy to attend the shareholders' general meetings in accordance with laws, and the right to exercise the voting rights;

- (iii) the right to supervise the Company's business operations and present proposals or to raise queries;
- (iv) the right to transfer, grant or pledge the shares he or she holds in accordance with the laws, administrative regulations and the provisions hereof;
- (v) the right to receive information as provided in the Articles of Association, including:
 - a) a copy of the Articles of Association, subject to payment of costs;
 - b) inspection and copy of, subject to payment of a reasonable fee: (a) all parts of the register of members; (b) personal particulars of each of the Company's Directors, Supervisors and senior management, including: current and former name and by name; main address (domicile); nationality; full-time and all other part-time jobs and titles; and identity certificate and its number.
 - c) status of share capital of the Company;
 - d) 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 and the aggregate amount paid by the Company for this purpose;
 - e) the latest published audited financial statements (for inspection purpose only) as well as reports prepared by the Board of Directors, the auditors and the Supervisory Committee;
 - f) minutes and resolutions of shareholders' general meetings; and (for inspection purpose only) counterfoils of the Company's bond, resolutions of the Board meetings, resolutions of the meetings of the Supervisory Committee.
- (vi) in the event of the termination and liquidation of the Company, the right to participate in the distribution of remaining assets of the Company in accordance with the number of shares held; and
- (vii) for shareholders who disagree with the resolution in relation to a merger or division passed at a shareholders' general meeting, the right to request the Company to repurchase their shares; and
- (viii) other rights conferred by laws, administrative regulations, regulatory documents, Hong Kong Listing Rules and the Articles of Association.

QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

The Company shall, based on the written replies received 20 days prior to the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting accounts for more than half of the Company's total voting shares, the Company may

convene a general meeting; otherwise, the Company shall make an announcement within 5 days, notifying the shareholders of matters to be considered as well as the date and venue of the meeting. The Company may convene the meeting once an announcement has been so made.

For convening of a class meeting and its required quorum, see “ – VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES.”

RIGHTS OF NON-CONTROLLING SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

Apart from the obligations required in laws, administrative regulations or the listing rules of the stock exchange on which the shares are listed, the Controlling Shareholder shall not make any decision that is detrimental to the interest of all or part of the shareholders on the following issues by exercising his or her shareholder voting rights:

- (i) releasing the Directors and Supervisors from the duty of acting honestly in the best interest of our Company;
- (ii) permitting the Directors and Supervisors (for their own or others’ interests) to deprive our Company of assets in any form, including, but not limited to, any opportunity that is beneficial to our Company;
- (iii) permitting the Directors and Supervisors (for their own or others’ interests) to deprive the shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the shareholders’ general meeting pursuant to the Articles of Association.

LIQUIDATION PROCEDURES

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

- (i) the shareholders’ general meeting adopts a resolution to dissolve our Company;
- (ii) our Company needs to be dissolved for the purpose of merger or division;
- (iii) our Company is declared legally bankrupt as a result of failure to pay debts as they fall due;
- (iv) the business license is revoked, or our Company is ordered to close or be eliminated according to applicable law;
- (v) where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the shareholders, and the difficulties may not be overcome through other means, shareholders who hold more than 10% of the shares carrying voting rights may request the court to dissolve our Company; and
- (vi) there exist other circumstances to dissolve our Company as required by laws and regulations.

Where our Company is dissolved due to the provisions set forth in (i) above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall consist of the persons determined by the shareholders' general meeting through an ordinary resolution.

In the event that our Company is dissolved in accordance with the provisions set forth in (iii) and (v) above, the people's court shall organize the shareholders, related agencies and professionals to form the liquidation team pursuant to relevant provisions of the law.

In the event that our Company is dissolved in accordance with the provisions set forth in (iv) above, the competent authorities shall organize the shareholders, related agencies and professionals to form the liquidation team.

If the Board of Directors decides to liquidate our Company except where our Company is liquidated after declaring bankruptcy, the Board of Directors shall state in the notice of the shareholders' general meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

Following a resolution to liquidate our Company is adopted by the shareholders' general meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the shareholders' general meeting, the liquidation team shall at least once a year report at the shareholders' general meeting on the income and expenditure of the liquidation team, the business of our Company and progress of the liquidation, and submit a final report at the shareholders' general meeting upon completion of liquidation.

OTHER PROVISIONS MATERIAL TO OUR COMPANY AND OUR SHAREHOLDERS

General provisions

Our Company is a permanently existing joint stock limited liability company.

From the effective date of the Articles of Association, the Articles of Association shall be the legally binding document regulating the Company's structure and behavior, and the rights and obligations between the Company and shareholders, and among shareholders.

The Company may invest in other enterprises. However, unless otherwise stipulated by the law, when making such investment, the Company shall not bear joint and several liabilities for the debts of the enterprise in which the company invests.

Shares and its transfer

Our Company may increase capital by the following means:

- (i) issuing of new shares to unspecified investors;

- (ii) placing of new shares to specified investors and/or its existing shareholders;
- (iii) allotting bonus Shares to its existing shareholders;
- (iv) increasing capital in the means of capital reserve; or
- (v) other means approved by the laws and administrative regulations and the securities regulatory authority of the State Council.

Upon approval to increase our Company's registered capital by issuing new shares according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws and administrative regulations.

When the Company reduces its registered capital, it shall prepare a balance sheet and a list of assets. The Company shall notify creditors of its resolution on reduction in registered capital within 10 days after it adopts such resolution, and announce the same on a newspaper acceptable to the stock exchange on which shares in the Company are listed within 30 days. A creditor shall have the right to request the Company to repay debts or provide relevant guarantee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The registered capital of the Company after reduction shall be no less than the statutory minimum limit.

Subject to the approval from securities regulatory authority under the State Council, shareholders of domestic shares of the Company may transfer their shares to foreign investors and such transferred shares may be listed and traded overseas. The shares transferred shall comply with the regulatory procedures, provisions and requirements of the overseas securities market when listed and traded on an overseas stock exchange.

Shareholders

The Shareholders are persons lawfully holding the shares and whose names (titles) are already listed in the register of shareholders.

A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him or her; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

Holders of the ordinary shares of the Company shall assume the following obligations:

- (i) to observe the law, administrative regulations and the Articles of Association;
- (ii) to pay subscription money according to the number of shares subscribed and the method of subscription;
- (iii) to assume obligations to the Company to the extent of shares he or she subscribed;

- (iv) to dispose his or her shares only under circumstances permitted by laws and administrative regulations;
- (v) not to abuse their shareholders' rights to prejudice the interests of the Company or other shareholders; and not to abuse the independent legal entity status of the Company and the limited liability of a shareholder to prejudice of the interests of creditors of the Company. Any Shareholder of the Company who abuses any of the shareholders' rights to the extent of causing losses to the Company or other Shareholders shall be held liable for compensation of the damages according to laws. Any shareholder of the Company who abuses the independent legal entity status of the Company and the limited liability of a shareholder, evades debt, to the extent of severely jeopardising the interests of creditor(s) of the Company shall be held liable for the joint liability to the relevant liabilities of the Company.
- (vi) to be bound by other obligations as stipulated by laws, administrative regulations and the Articles of Association.

Save for the conditions agreed by a subscriber for shares during subscription, shareholders shall not be liable for any subsequent contribution of additional share capital.

The Board of Directors

The Board of Directors is responsible to the shareholders' general meeting and exercises the following powers:

- (i) to convene the shareholders' general meeting and report on work to the shareholders' general meeting;
- (ii) to implement the resolutions of the shareholders' general meeting;
- (iii) to determine our business plans, investment project, detailed annual operation objectives, and financing plans other than by way of issuing corporate bonds or other securities and of listing;
- (iv) to formulate our annual financial budget and final account;
- (v) to formulate our profit distribution and loss offset plans;
- (vi) to formulate the policy for plan for increasing or decreasing our registered capital, as well as the issue of corporate bonds plans;
- (vii) to formulate plans for major acquisition or share purchase of the Company, corporate merger, separation, dissolution and changing the form of our Company;
- (viii) to decide on the setup of our Company's internal management organization and to decide the setup and dissolution of branches or representatives;

- (ix) to elect the chairman of the Board of Directors and vice chairman of the Board of Directors of our Company;
- (x) to appoint or dismiss the President, secretary of the Board of Director, Chief Risk Officer of our Company and determine their remuneration, incentives and punishment;
- (xi) to appoint vice President, financial officer and other senior management pursuant to the nomination of President, and determine their remuneration, incentives and punishment;
- (xii) to set our basic management systems;
- (xiii) to make the amendment plan to this Articles of Association;
- (xiv) to manage the disclosure of our Company's information;
- (xv) to decide on the establishment of the Company's special committees under the Board of Directors, to appoint or dismiss chairmen of all special committees under the Board;
- (xvi) to propose the appointment or replacement of the accounting firm that performs audits for our Company at the shareholders' general meeting;
- (xvii) to receive regular or irregular work reports submitted by President of the company or senior management authorised by the general manager and to approve work reports of the general manager;
- (xviii) to review and decide on the client's margin safekeeping system, and to ensure the client's safekeeping is in compliance with all requirements regarding the protection of clients' asset and supervision of futures margin safekeeping;
- (xix) to review and decide on the Company's risk control system and internal control system;
- (xx) to decide on the Company's matters including venture investment, acquisitions and disposals of assets, pledge of assets, external guarantees, entrusted wealth management and connected transactions within the scope of authorization by the shareholders' general meeting.
- (xxi) to exercise other powers and duties as conferred by laws, regulations, listing rules of the stock exchanges on which our shares are listed and authorised by shareholders' general meetings as well as this Articles of Association.

The Board of Directors shall be convened at least 4 regular meetings a year and be called by the chairman of the Board of Directors, and a notice shall be sent to all Directors by phone, fax or email at least 14 days before the meeting is convened.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors before the Board of Directors meeting can be convened. Each director has one vote. When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

In the event that a Director is connected to companies associated with matters to be resolved at the Board meeting, such Director shall not exercise his or her voting rights on such resolution, nor shall he or she vote on behalf of other Directors. The Board meeting may be convened with the presence of more than half of the uninterested Directors. Resolutions shall be approved by more than half of the uninterested Directors at the Board meeting. Where there are less than three uninterested Directors present at the Board meeting, such matters shall be submitted to the shareholders' general meeting for consideration. The definition and scope of an uninterested Director are determined based on the requirements of the competent securities regulatory authority and the stock exchange of the place where our shares are listed.

Independent non-executive Directors

The company shall have a Board of Directors. The Board of Directors shall consist of 10 Directors, among which 4 shall be independent non-executive Directors.

Secretary of the Board of Directors

The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

Supervisory Committee

The Directors and senior management shall not act concurrently as Supervisors. The Supervisory Committee consists of six Supervisors and includes at least two independent supervisors. The Supervisors serve three-year terms and may be re-elected.

The Supervisory Committee shall have a chairman. The chairman of the Supervisory Committee shall be elected and dismissed by a two-thirds or more vote of the members of the Supervisory Committee. Resolutions of the Supervisory Committee shall be approved by two-third or more of the Supervisors by way of poll.

The Company's employee representative Supervisors shall be no less than one third of all Supervisors. Employee representative Supervisors shall be elected and removed by the Company's employees in a democratic manner.

The Supervisory Committee shall be accountable to the shareholders' general meeting and exercises the following powers pursuant to the law:

- (i) to examine the financial standing of our Company;

- (ii) to supervise conducts of the Directors and senior management in the course of fulfilling their duties and to put forward suggestions for dismissing any directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the shareholders' general meetings;
- (iii) to require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- (iv) to verify the financial information, such as the financial reports and business reports, to be submitted by the Board to the shareholders' general meeting and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- (v) to propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings, to convene and preside over the general meetings
- (vi) to submit proposals at the shareholders' general meetings;
- (vii) to initiate legal actions against Directors and senior management in accordance with Article 152 of the Company Law;
- (viii) to propose to convene extraordinary meetings of the Board of Directors;
- (ix) to elect the chairman of the Supervisory Committee;
- (x) to identify and investigate into any abnormalities in operation of the Company; and where necessary, to engage professional institutions including accounting firms and law firms to provide assistance in their work, and the expenses so incurred shall be borne by the Company; and
- (xi) to exercise other powers and duties stipulated in the Articles of Association.

The Supervisors shall attend the board meeting and faithfully perform supervisory duties in accordance with to laws, administrative regulations and the Article of Association.

President

Our Company includes one president and certain vice presidents, appointed or dismissed by the Board of Directors. The president is responsible to the Board of Directors and exercises the following powers:

- (i) to be in charge of the producing and operational management of our Company and report to the Board of Directors;
- (ii) to organize the enforcement of resolutions of the Board of Directors;

- (iii) to organize the implementation of the annual operation plans, investment and financing schemes of our Company;
- (iv) to formulate the structure scheme of the internal management agency of our Company;
- (v) to propose plans for the establishment of the Company's branches, operation division and sub-branches;
- (vi) to formulate the substantial management system of our Company;
- (vii) to formulate the substantial rules of our Company;
- (viii) to propose the appointment or dismissal of vice presidents, and chief financial officer of our Company and offer advice on their remuneration;
- (ix) to appoint or dismiss senior management other than those who shall be appointed or dismissed by the Board of Directors, and decide on their assessment, remuneration, incentive and punishment;
- (x) to review and determine the salary, benefit, incentive and punishment package of the Company's employees, and to decide on the engagement or dismissal of the Company's employees;
- (xi) to decide on the Company's matters including investment, financing, contracts and transactions within the scope of authorization by the Articles of Association and the Board of the Directors;
- (xii) other duties authorized by the Articles of Association and the board of directors.

Our president attends the Board Meetings.

Chairman

Where the Chairman is unable or fails to perform his duties, the Vice Chairman shall perform such duties on his behalf; where the Vice Chairman is unable or fails to perform his duties, a Director elected by more than one half of the Directors shall perform such duties on his behalf.

Disputes resolution

Our Company shall comply with the following rules governing the disputes resolution:

Whenever any disputes or claims arise between (1) the Company and its Directors or senior management, and (2) shareholders of overseas listed foreign shares and the Company, shareholders of overseas-listed foreign shares and the Company's Directors, Supervisors, or senior management, or shareholders of overseas-listed foreign shares and shareholders of domestic shares, based on any rights or

obligations conferred or imposed by the Articles of Association, the Company Law, and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where the aforesaid disputes or claims is referred to arbitration, such disputes or claims shall be referred in their entirety, and all persons (being our Company, our Company's shareholders, Directors, Supervisors or senior management) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

Disputes with respect to the definition of shareholders and disputes concerning the register of shareholders need not be resolved by arbitration.

A claimant may elect arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant submits a dispute or claim to arbitration, the other party must arbitrate at the arbitral body elected by the claimant.

If a claimant elects arbitration at HKIAC, any party to the dispute or claim may request Shenzhen as the seat of arbitration in accordance with the Securities Arbitration Rules of the HKIAC.

If any dispute or claim of rights arising for the reasons stated in paragraph (i) is referred to arbitration, the laws of the PRC shall apply, save as otherwise provided in laws and administrative regulations.

The award of an arbitration body shall be final and binding on all parties.

1. FURTHER INFORMATION ABOUT OUR COMPANY**A. Incorporation**

Our Company was established as a joint stock company under the Company Law with limited liability on December 10, 2012 by our promoters, namely Qilu Securities, Yongfeng Group, SSAI Holdings, Jinan Energy Investment, Linglong Group and Yantai Shengli, through a promoters agreement signed on November 23, 2012 with a registered capital of RMB750 million. Our Company has established a principal place of business in Hong Kong at 18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on April 16, 2015. Ms. Ng Wing Shan has been appointed as our agent for the acceptance of service of process in Hong Kong. As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC and Hong Kong is set out in Appendix IV to this prospectus.

B. Changes in Share Capital

At the date of our Company's establishment as a joint stock limited company, our registered capital was RMB750 million, divided into 750,000,000 Domestic Shares of nominal value of RMB1.00 each. There has been no change to our Company's registered capital since its incorporation as a joint stock limited Company on December 10, 2012 up to the Latest Practicable Date.

Upon completion of the Global Offering, but without taking into account any H Shares which may be issued pursuant to the exercise of the Over-allotment Option, our registered capital will be increased to approximately RMB1,000,000,000, comprising 725,000,000 Domestic Shares and 275,000,000 H Shares fully paid up or credited as fully paid up, representing 72.5% and 27.5% of our registered capital, respectively.

Save as aforesaid, there has been no alteration in our Company's share capital since our Company's establishment.

C. Our Company's Extraordinary General Meetings Held on January 20, 2015 and March 16, 2015

At the extraordinary general meeting of our Company held on January 20, 2015 and March 16, 2015, among other things, the following resolutions were passed by the Shareholders of our Company, respectively:

- (a) the issue by our Company of the H Shares of nominal value of RMB1.00 each up to 25% of the Company's enlarged share capital after the issuance (without taking into account the H Shares which may be issued up on the exercise of the Over-allotment Option) and such H Shares being listed on the Stock Exchange; and

- (b) subject to the completion of the Global Offering, the Articles of Association effective on the Listing Date has been adopted, and the Board has been authorized to amend the Articles of Association in accordance with relevant laws and regulations and upon the request from the Stock Exchange and relevant PRC regulatory authorities.

D. Our Reorganization

We have undergone our Reorganization, details of which are set out in “History, Reorganization and Corporate Structure” in this prospectus. As advised by our PRC legal advisers, Jia Yuan Law Offices, the corresponding internal and external approval procedures or subsequent regulatory procedures for the Reorganization set out above have been legally performed; the Reorganization has been completed in compliance with relevant laws, regulations and rules; and the changing procedures with relevant industry and commerce authorities for the Reorganization have been completed pursuant to the applicable PRC law, regulations and rules.

E. Change in Share Capital of Our Subsidiaries

Our subsidiaries (for the purpose of the Listing Rules) as of December 31, 2014 are set out in the Accountant’s Report under Appendix I to this prospectus. The following alteration in the registered capital of our subsidiary Luzheng Trading has taken place within the two years preceding the date of this prospectus:

Luzheng Trading

In July, 2014, the registered capital of Luzheng Trading was increased from RMB60 million to RMB150 million.

Save as disclosed above, there has been no other alteration in the share capital of any of our major subsidiaries within the two years immediately preceding the date of this prospectus.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material, a copy of each has been delivered to the Registrar of Companies for registration:

- (a) the joint venture agreement dated April 10, 2014 entered into by Luzheng Trading and Rizhao Port Group Co., Ltd., pursuant to which Luzheng Trading and Rizhao Port Group Co., Ltd. agreed to contribute RMB49 million and RMB51 million in cash to jointly establish Rizhao Physical Commodity Trading Board, and their respective shareholding is 49% and 51%;

- (b) the equity restructuring agreement dated December 17, 2014 entered into between Luzheng Trading, Rizhao Port Group Co., Ltd., China Railway Materials Co., Ltd., Shandong Wanbao Logistics Co., Ltd., Shandong Huaxin Industry and Trading Co., Ltd., Rizhao Zhongrui Materials Production Co., Ltd. and Rizhao Physical Commodity Trading Board, pursuant to which Luzheng Trading and Rizhao Port Group Co., Ltd. agreed capital contributions to Rizhao Physical Commodity Trading Board in cash for the amount of approximately RMB25.6 million and RMB27 million (both of which are subject to adjustment based on valuation of Rizhao Physical Commodity Trading Board), holding 29.5% and 31% equity interests in Rizhao Physical Commodity Trading Board upon completion of the capital injection, respectively; China Railway Materials Co., Ltd., Shandong Wanbao Logistics Co., Ltd., Shandong Huaxin Industry and Trading Co., Ltd. and Rizhao Zhongrui Materials Production Co., Ltd. made capital contributions to Rizhao Physical Commodity Trading Board using part of their equity interests in Rizhao International Iron Ore Exchange, holding 29.5%, 4%, 3% and 3% equity interests in Rizhao Physical Commodity Trading Board upon completion of such capital injection, respectively;
- (c) the Non-Competition Undertaking dated June 15, 2015 executed by Qilu Securities, Laiwu Steel and Shandong Steel in relation to, among others, certain non-competition undertakings given to us;
- (d) the cornerstone investment agreement dated June 19, 2015, entered into between CM International Capital Limited, Qilu International Capital Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and the Company, pursuant to which CM International Capital Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased in the aggregate amount of Hong Kong dollars equivalent of US\$12 million at the Offer Price;
- (e) the cornerstone investment agreement dated June 19, 2015, entered into between DAZBOG HOLDINGS AA LIMITED, DAZBOG HOLDINGS AFC LIMITED, DAZBOG HOLDINGS BFC LIMITED, DAZBOG HOLDINGS CFC LIMITED, DAZBOG HOLDINGS EFC LIMITED, DAZBOG HOLDINGS HFC LIMITED, DAZBOG HOLDINGS MFC LIMITED, DAZBOG HOLDINGS VFC LIMITED (“Forallon Entities”), Qilu International Capital Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and the Company, pursuant to which Farallon Entities agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased in the aggregate amount of Hong Kong dollars equivalent of US\$10 million at the Offer Price;
- (f) the cornerstone investment agreement dated June 19, 2015, entered into between Roche & Owen Associates (PTE) Limited, Qilu International Capital Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and the Company, pursuant to which Roche & Owen Associates (PTE) Limited agreed to

subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased in the aggregate amount of Hong Kong dollars equivalent of US\$10 million at the Offer Price;





- (g) the cornerstone investment agreement dated June 19, 2015, entered into between CITIC CAPITAL (SHEN ZHEN) ASSET MANAGEMENT CO., LTD., Qilu International Capital Limited, Haitong International Capital Limited, Haitong International Securities Company Limited and the Company, pursuant to which CITIC CAPITAL (SHEN ZHEN) ASSET MANAGEMENT CO., LTD. agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased in the aggregate amount of Hong Kong dollars equivalent of US\$8 million at the Offer Price; and
- (h) the Hong Kong Underwriting Agreement (as more specifically described in the section headed “Underwriting – The Hong Kong Public Offering – Hong Kong Underwriting Agreement” in this prospectus).

B. Our Intellectual Property Rights

(a) Trademarks

Our Registered Trademarks

As of December 31, 2014, our Group owns the following four registered trademarks:

<u>No.</u>	<u>Registered Trademark</u>	<u>Place of Registration</u>	<u>Registration Number</u>	<u>Owner</u>	<u>Period of Validity</u>
1.		PRC	11415127	Company	January 28, 2014 – January 27, 2024
2.		PRC	11415148	Company	January 28, 2014 – January 27, 2024
3.		Hong Kong	302746549	Company	September 25, 2013 – September 24, 2023
4.		PRC	8628192	Company	May 21, 2012 – May 20, 2022

(b) Patents

As of December 31, 2014, our Group has not been granted any patent or authorized to use any patent.

(c) Domain Name

As of December 31, 2014, our Group has registered the following domain names which we consider to be or may be material to our business:

<u>Domain Name</u>	<u>Registrant</u>	<u>Period of Validity</u>
luzhengfutures.com	Company	January 10, 2014 – January 10, 2016
luzhengqh.com	Company	April 2, 2008 – April 2, 2020
lzqh.net.cn	Company	March 13, 2007 – March 13, 2017
鲁证期货.网络	Company	August 21, 2014 – August 21, 2015
鲁证期货.net	Company	June 29, 2010 – June 29, 2016
鲁证期货.com	Company	October 13, 2009 – October 13, 2017
鲁证期货股份有限公司.网络	Company	August 21, 2014 – August 21, 2015

3. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

A. Directors and Supervisors

(a) Disclosure of Interest

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, none of our Directors, Supervisors and chief executives of our Company has any interest and/or short position in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or is deemed to have under such provisions of 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 Issuers to be notified to us and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

(b) Particulars of Service Contracts

Each of the Directors has entered into a service contract with our Company on June 15, 2015. The principal particulars of these service agreements are (a) for a term of three years commencing from the Listing Date; and (b) are subject to termination in accordance with the irrespective terms. The service agreements may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Each of the Directors and Supervisors has entered into a contract pursuant to Rule 19A.54 and Rule 19A.55 of the Listing Rules with our Company which provides for, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with our Company.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have 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).

(c) *Directors' and Supervisors' Remuneration*

For the three years ended December 31, 2012, 2013 and 2014, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors were approximately RMB330,000, RMB658,000 and RMB586,000, respectively. For the three years ended December 31, 2012, 2013 and 2014, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Supervisors were approximately RMB222,000, RMB281,000 and RMB348,000, respectively. Save as disclosed under Note 10 and 39 to the Accountant's Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from our Company in respect of the three years ended December 31, 2012, 2013 and 2014.

Under the current arrangements, our Directors and Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ended December 31, 2015, which is expected to amount to approximately RMB1,419,518.6 in total.

B. Substantial Shareholders

(a) *Interest in the Shares of our Company*

For information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10.0% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company, see "Substantial Shareholders."

(b) *Interest in our Subsidiaries*

So far as our Directors are aware, apart from our Company, no one will, immediately following completion of the Global Offering (and assuming the Over-allotment Option is not exercised), directly or indirectly, be 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 any other member of our Group (excluding our Company).

C. Personal Guarantees

Our Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

D. Agency Fees or Commissions Paid or Payable

Save as disclosed in “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this prospectus.

E. 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 Note 39 – Related Party Transactions to the Accountant’s Report set out in Appendix I to this prospectus.

F. 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 our Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or is deemed to have under such provisions of 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 us and the Stock Exchange, in each case once our H Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “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 us, or are proposed to be acquired or disposed of by or leased to our Company;
- (c) none of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in our Shares falling to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange; save as disclosed in this prospectus, none of our Directors or Supervisors nor any of the parties listed in paragraph headed “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 our business;

- (d) none of the parties listed in the paragraph headed “Qualification of Experts” of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and
- (e) none of our Directors or Supervisors or the respective close associates or any Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

4. OTHER INFORMATION

A. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

B. Litigation

As at the Latest Practicable Date, our Group is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

C. Restrictions on Share Repurchases

In accordance with Article 143 of the Company Law, a company may not repurchase its own shares, except under one of the following circumstances:

- (1) to reduce its capital;
- (2) to merge with another company that holds its shares;
- (3) to reward its staff and workers with shares;
- (4) when a shareholder who votes against the resolution of the shareholders’ general meeting on the merger or division of a company requires the company to repurchase his or her shares.

When a company repurchases its own shares by reason of the provisions in (1) to (3) of the preceding clause, the resolution of the shareholders’ general meeting shall be required. After a company has repurchased its own shares in accordance with the preceding clause by reason of the provision in (1) the repurchased shares shall be cancelled within ten days of the repurchase, and if by reason of the provision in (2) to (4), the repurchased shares shall be transferred or cancelled within six months.

When a company repurchases its shares by reason of the provision in (3) of the above clause, the amount of shares it repurchases shall not exceed 5% of the total amount of shares it has already issued. Funds used to repurchase such shares shall be paid out of the after-tax profits of the company. The shares so repurchased shall be transferred to the staff and workers within one year.

A company may not be the pledgee of its own shares.

D. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for 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 enabling the H Shares to be admitted into CCASS.

Qilu International Capital is an indirect wholly-owned subsidiary of Qilu Securities, being one of the Controlling Shareholders of our Company. As such it is not independent of our Company. The other Joint Sponsors, Haitong International Capital Limited, satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

We have entered into an engagement agreement with the Joint Sponsors, pursuant to which we agreed to pay HK\$3 million to each of the Joint Sponsors to act as the sponsors to our Company in the Global Offering.

E. Preliminary Expenses

Our preliminary expenses are approximately RMB150,000, and were borne by the Company.

F. Qualification of Experts

The qualifications of the experts are as follows:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Jia Yuan Law Offices	PRC legal advisors
Qilu International Capital Limited	Licensed corporation under the SFO to carry on Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities
Haitong International Capital Limited	Licensed corporation under the SFO to carry on Type 6 (Advising on Corporate Finance) regulated activity

G. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2014.

H. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

I. 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).

J. Miscellaneous

Save as disclosed in this prospectus,

- (a) within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no Share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the Sino-Foreign Joint Venture Law of the PRC (中華人民共和國中外合資經營企業法);

- (h) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months; and
- (i) none of the equity and debt securities of our Company, if any, is listed or dealt within any other stock exchange nor is any listing or permission to deal in other stock exchanges being or proposed to be sought.

K. Consents

Each of the experts as referred to in the paragraph headed “Qualification of Experts” in this Appendix has given, and has not withdrawn its written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (other than the penal provisions) of sections 44A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable, except that Qilu International Capital is an indirect wholly-owned subsidiary of Qilu Securities, being one of the Controlling Shareholders of our Company.

L. Promoters

Promoters of the Company are Qilu Securities, Yongfeng Group, SSAI Holdings, Jinan Energy Investment, Linglong Group and Yantai Shengli. For details of our promoters please see “History, Reorganization and Corporate Structure.”

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other interest have been paid, allotted or given to the above promoters in connection with the Hong Kong Public Offering or related transactions in this prospectus.

Certain particulars of the Selling Shareholders are set out as follows:

<u>Name</u>	<u>Description</u>	<u>Address</u>	Number of Sale Shares (assuming the Over-allotment Option is not exercised)	Number of Sale Shares (assuming the Over-allotment Option is exercised in full)
1. Qilu Securities Co., Ltd. (齊魯證券有限公司)	Its business scope includes securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, securities underwriting and sponsorship, proprietary securities trading, securities asset management, margin financing and securities lending, agency sale of securities investment funds, agency sale of financial products and stock option market-making business.	No.86 Jingqi Road, Shizhong District, Jinan, Shandong Province, PRC	23,722,630	27,281,025
2. Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司)	Its business scope includes administration of state ownership and disposal of non-performing assets as authorized by the Shandong SASAC, investment and management of industrial projects, asset management and capital operation, custody operation, and investment consultancy.	Building No.5 Huangjin Shidai Plaza, No.9999, Jingshi Road, Lixia District, Jinan, Shandong Province, PRC	847,458	974,576
3. Jinan Energy Investment Co., Ltd. (濟南市能源投資有限責任公司)	Its business scope includes operation and management of power construction funds and energy funds, budget examination on power construction projects and related business consultancy services, supervision and management on the major decisions, selection of managers and operating activities of enterprises who have the ownership over state-owned assets within the authority scope.	Jihua Tower, No.19 Yingxian Street, Tianqiao District, Jinan, Shandong Province, PRC	429,912	494,399

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) a copy of each of the WHITE, YELLOW and GREEN Application Forms;
- (b) the written consents referred to in the paragraph headed “Statutory and General Information – 4. Other Information – K. Consents” in Appendix VI to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Statutory and General Information – 2. Further Information about our Business – A. Summary of our Material Contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 27/F, Jardine House, One Connaught Place, 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 Accountant’s Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (d) the consolidated audited financial statements of our Group for the three years ended December 31, 2012, 2013 and 2014;
- (e) the PRC legal opinions issued by Jia Yuan Law Offices, our PRC legal adviser in respect of our general matters and property interests;
- (f) the material contracts referred to in the paragraph headed “Statutory and General Information – 2. Further Information about our Business – A. Summary of our Material Contracts” in Appendix VI to this prospectus;
- (g) the written consents referred to in the paragraph headed “Statutory and General Information – 4. Other Information – K. Consents” in Appendix VI to this prospectus;
- (h) the service contracts referred to in the paragraph headed “Statutory and General Information – 3. Further Information about our Directors, Supervisors and Substantial Shareholders – A. Directors and Supervisors” in Appendix VI to this prospectus;

- (i) the particulars of the Selling Shareholders; and
- (j) the Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof.



LUZHENG FUTURES COMPANY LIMITED
鲁证期货股份有限公司