



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)

2015

Annual Report



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Company Limited
Annual Report 2015

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Definition

“Articles of Association”	The current Articles of Association of LUZHENG FUTURES Company Limited
“Audit Committee”	the Audit Committee of the board of director(s)
“Board of Directors”	the board of director(s) of the Company
“CG Code”	Corporate Governance Code and Corporate Governance Code set out in Corporate Governance Report as set out in Appendix 14 of the Listing Rules
“China”, “PRC” or “Country”	the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “LUZHENG FUTURES”	LUZHENG FUTURES Company Limited, a company incorporated in the PRC on 10 December 2012 with limited liability
“Controlling Shareholder”	Zhongtai Securities, Laiwu Steel and Shandong Steel
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the issued ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, subscribed for in renminbi or credited as fully paid
“End of Reporting Period”	31 December 2015
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which were listed on the main board of Stock Exchange in Hong Kong
“HK\$” or “HK dollars”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a company established in the PRC on 6 May 1999 with limited liability, wholly owned by Shandong Steel and being one of the controlling shareholders of the Company
“Listing Date”	7 July 2015, being the date of listing of H Shares of the Company on the main board of the Stock Exchange.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), a company established in the PRC on 15 February 2015 with limited liability, which is a wholly-owned subsidiary of the Company
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company established in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
“Nomination Committee”	the Nomination Committee of the board of director(s)
“PRC Futures Exchanges”	China Financial Futures Exchange (中國金融期貨交易所), Dalian Commodity Exchange (大連商品交易所), Zhengzhou Commodity Exchange (鄭州商品交易所) and Shanghai Futures Exchange (上海期貨交易所)
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the board of director(s)
“Reporting Period”	the year ended 31 December 2015
“Risk Control Committee”	the Risk Control Committee of the board of Director(s)
“RMB” or “Renminbi”	the lawful currency of the PRC
“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
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd., a company established in the PRC on 17 March 2008 with limited liability, wholly owned by Shandong 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) office and being one of the controlling shareholders of the Company
“Share(s)”	the Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Development Committee”	the Strategic Development Committee of the board of director(s)
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券有限公司), previously known as Qilu Securities Co., Ltd. (齊魯證券有限公司), a company established in the PRC on 1 May 2001 with limited liability. Laiwu Steel owns 45.91% interests of the company. It is a subsidiary of Laiwu Steel and a controlling shareholder of the Company

Risk Warnings

The major factors affecting our operating results include: macro economic conditions, policies, laws and regulations concerning financial and futures industries, capital sources available in short term or long term, capital costs, level and degree of fluctuation of exchange and interest rates as well as extent of price fluctuation of bulk commodity dealings, etc.

The Company may be mainly exposed to the following risks:

1. Risk of failure to comply with relevant laws, regulations or rules due to its business operations or improper behavior of its employees, which may cause the Company to suffer legal penalty, regulatory measures taken against it, disciplinary action, financial or reputational loss.
2. Risk of being materially and adversely affected due to failure to efficiently compete or retain talents in the futures industry of China where market competition is increasingly furious.
3. Risk of uncertainty on determining the material development strategy of the Company as both domestic and overseas conditions keep changing.
4. Market risks arising from continuously dramatic change of market conditions which is beyond its expectation.
5. Credit risks resulting from debtors or counterparties' failure to perform their liabilities under relevant contracts.
6. Liquidity risks occurred when the Company is lack of capital to settle its payment obligations during the normal operation.
7. Operation and management risk due to business updates which lead to falling behind of the original operation and management experiences.
8. Operational risk arising from system failure, procedure flaw or artificial factors.
9. Risk of reputation loss due to negative publicity in operation.
10. Risk of any force majeure event, including political crisis, break of war, terrorism, major epidemics or natural disasters.

With respect to the above potential risks, the Company has managed to and will prevent such risks by optimizing organization structure, establishing perfect systems and taking effective measures, etc..

Company Profile

I. COMPANY PROFILE

1. Registered Chinese Name: 魯証期貨股份有限公司

Registered English Name: LUZHENG FUTURES Company Limited

2. Registered office

15-16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, 250001, PRC

3. Head office in the PRC

15-16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, 250001, PRC

4. Principal place of business in Hong Kong

18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

5. Board of Directors

Executive Directors: Mr. Chen Fang
Mr. Liang Zhongwei

Non-executive Directors: Mr. Lu Xiangyou
Mr. Zhang Yunwei
Mr. Li Chuanyong
Mr. Liu Feng

Independent Non-executive Directors: Mr. Gao Zhu
Mr. Yu Xuehui
Mr. Wang Chuanshun
Mr. Wei Wei

Company Profile

6. Authorized representatives

Mr. Chen Fang

Room 201, Unit 1, Building 26, No. 20 South Shanda Road, Licheng District, Jinan, Shandong Province, PRC

Mr. Meng Tao

Room. 1402, Unit 2, Building 29, No. 21 Yangguang New Road, Huaiyin District, Jinan, Shandong Province, PRC

7. Joint company secretary

Mr. Meng Tao

Ms. Ng Wing Shan

8. Auditors

PRC Auditor

PricewaterhouseCoopers Zhong Tian LLP

11/F PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai, PRC

International Auditor

PricewaterhouseCoopers

Certified Public Accountant

22/F, Prince's Building, Central, Hong Kong

9. Legal advisers

As to Hong Kong law: Tung & Co. Solicitors

Office 1601, 16th Floor, LHT Tower, 31 Queen's Road Central, Hong Kong

As to PRC law: Jia Yuan Law Office

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

10. Compliance advisor

Zhongtai International Capital Ltd. (formerly known as Qilu International Capital Limited)

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

11. 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

12. H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

13. Stock Code

01461

14. Investor enquiries

Investors' Service Line: +86-531-81678629
Fax: +86-531-81678628
Website: <http://www.luzhengqh.com>
E-mail: investor@luzhengqh.com

Company Profile

II. HISTORY

Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司) (“Quanxin Futures”), the predecessor of LUZHENG FUTURES Company Limited, is a company established in the PRC on 5 June 1995 as approved by CSRC and registered with the State Administration for Industry & Commerce of the PRC. Its initial registered capital of RMB10.2 million was jointly contributed by Jinan Huaqing Group Corporation (濟南化輕集團總公司), Jinan Economic Development Corporation (濟南經濟發展總公司), 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).

On 18 May 2000, Jinan Energy Investment Co., Ltd. (濟南市能源投資有限責任公司) made capital contribution of RMB20.0 million to Quanxin Futures as its new shareholder, since then, the registered capital of Quanxin Futures increased to RMB30.2 million.

On 5 July 2004, Jinan Energy Investment Co., Ltd. made capital contribution of RMB0.62 million to Quanxin Futures, since then, the registered capital of Quanxin Futures increased to RMB30.82 million.

On 31 December 2006, Zhongtai Securities Co., Ltd., Shandong Xinkuang Investment Holding Group Co., Ltd. (山東新礦投資控股集團有限公司), Jinan Energy Investment Co., Ltd., Jinan Economic Development Corporation (濟南經濟發展總公司), Jinan Jingmao Industrial Investment Corporation (濟南經貿實業投資總公司) and Shandong Province Resources Development Corporation (山東省資源開發總公司) entered into the “Capital Increase and Reorganization Agreement of Shandong Quanxin Futures Brokerage Co., Ltd.”(《山東泉鑫期貨經紀有限公司增資重組協議書》) to collectively conduct reorganization and capital increase of Quanxin Futures. Upon this capital increase and reorganization, the registered capital of Quanxin Futures increased to RMB50.0 million.

On 14 February 2007, Quanxin Futures changed its name to Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司) (“Luzheng Brokerage”).

On 22 August 2007, Zhongtai Securities Co., Ltd. increased capital contribution of RMB150.0 million to Luzheng Brokerage, since then, the registered capital of Luzheng Brokerage increased to RMB200.0 million.

On 27 December 2007, Luzheng Brokerage was renamed as LUZHENG FUTURES CORPORATION LIMITED (魯証期貨有限公司) (“Luzheng Limited”).

On 24 May 2010, Zhongtai Securities Co., Ltd. and Jinan Energy Investment Co., Ltd. increased capital contribution of RMB200.0 million and approximately RMB3.62 million to Luzheng Limited respectively, since then, the registered capital of Luzheng Limited increased to approximately RMB403.62 million.

On 30 June 2011, Zhongtai Securities Co., Ltd. and Jinan Energy Investment Co., Ltd. increased capital contribution of approximately RMB114.30 million and approximately RMB2.07 million to Luzheng Limited respectively, since then, the registered capital of Luzheng Limited increased to RMB520.0 million.

On 26 September 2012, registered capital of RMB120.0 million was increased through introduction of new shareholders who shall offer a price of RMB2.94 for entitlement to RMB1.0 in the registered capital, among which, Zhongtai Securities Co., Ltd. and Jinan Energy Investment Co., Ltd. subscribed the newly increased registered capital of RMB49.11 million and RMB0.89 million, respectively, and Yongfeng Group Co., Ltd. (永鋒集團有限公司), Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司), Linglong Group Co., Ltd. (玲瓏集團有限公司) and Yantai Shengli Investment Co., Ltd. (煙台勝利投資有限公司), as the new shareholders, subscribed the newly increased registered capital of RMB30.0 million, RMB20.0 million, RMB10.0 million and RMB10.0 million respectively. Since then, the registered capital of Luzheng Limited was further increased to RMB640.0 million.

On 10 December 2012, Luzheng Limited was reorganized and renamed as LUZHENG FUTURES Company Limited upon an overall share conversion based on the audited net assets of Luzheng Limited as of 30 September 2012. After such conversion, the registered capital of the Company amounted to RMB750.0 million.

On 7 July 2015, LUZHENG FUTURES was officially listed on the main board of the Hong Kong Stock Exchange with the stock code of 01461. An aggregate of 275,000,000 H shares were issued through the global offering (excluding the shares subject to the Over-allotment Option) at the price of HK\$3.32 per Share.

On 24 July 2015, Zhongtai International Capital Limited, Haitong International Securities Company Limited and CCB International Capital Limited (the "Joint Global Coordinators") exercised the Over-allotment Option in part, involving an aggregate of 2,090,000 H shares, including (i) 1,900,000 H shares further issued by the Company; and (ii) 190,000 H shares transferred from the Domestic Shares sold by the selling Shareholders (namely Zhongtai Securities, Shandong State-owned Assets Investment Holdings Co., Ltd. and Jinan Energy Investment Co., Ltd), which were listed for dealing on the Hong Kong Stock Exchange on 7 August 2015.

On 17 September 2015, Shandong Administration for Industry & Commerce approved the Company's request for change of registration information. Upon completion of this change, the registered capital of the Company was further increased to RMB1,001.9 million, and the shareholding structure was detailed as follows: Zhongtai Securities Co., Ltd., Yongfeng Group Co., Ltd., Shandong State-owned Assets Investment Holdings Co., Ltd., Jinan Energy Investment Co., Ltd., Linglong Group Co., Ltd., Yantai Shengli Investment Co., Ltd. and holders of H shares held 632,176,007.50 Shares, 35,156,250 Shares, 22,583,601.69 Shares, 11,456,570.81 Shares, 11,718,750 Shares, 11,718,750 Shares and 277,090,000 Shares of the Company, respectively, representing 63.10%, 3.51%, 2.25%, 1.14%, 1.17%, 1.17% and 27.66% of the total ordinary share capital of the Company respectively.

Company Profile

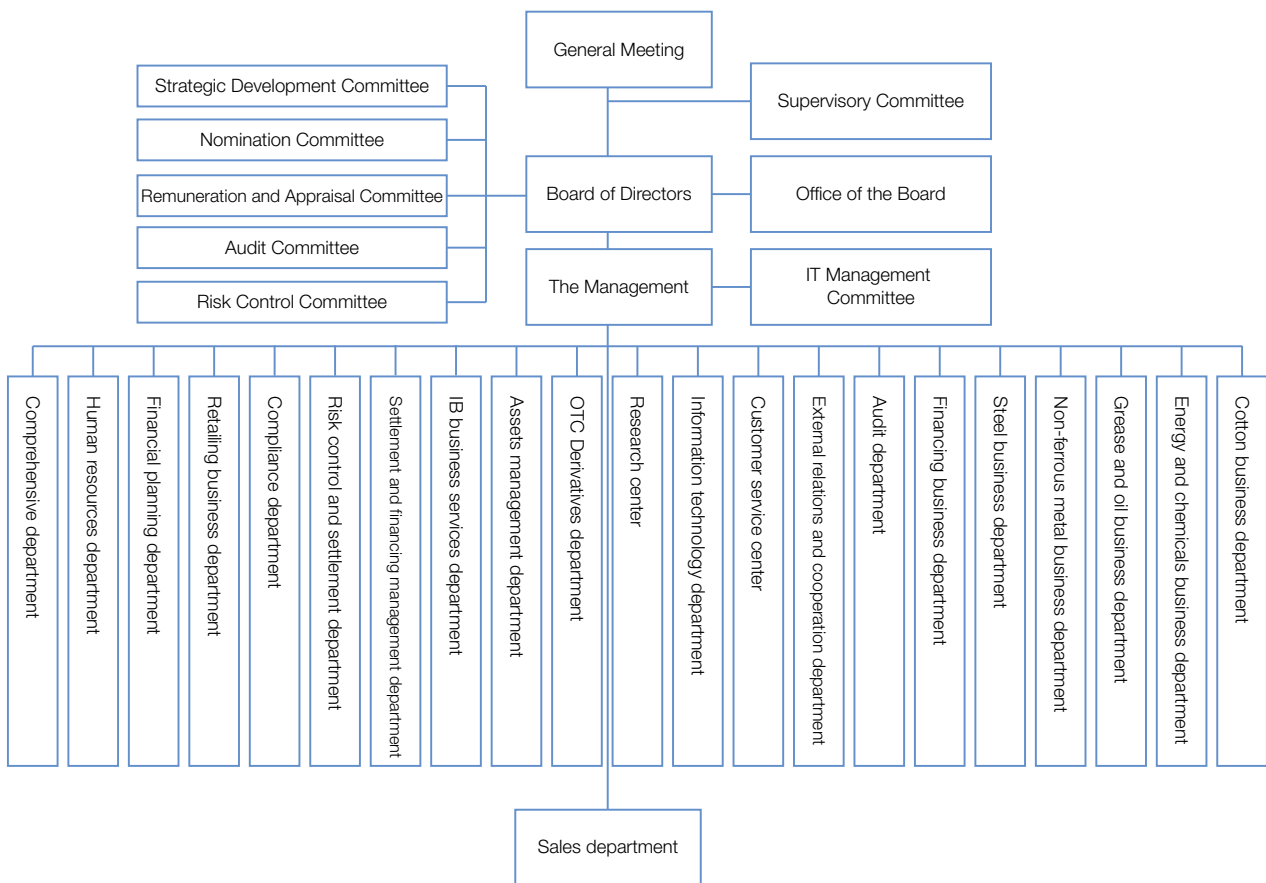
III. STAFF PROFILE

As of 31 December 2015, the Company has 468 employees in total. The breakdown of the composition of the employees is as follows:

	Category	Number	Proportion (%)
By profession	Administrative management	65	13.9%
	Financial planning	31	6.6%
	Management of brokerage business	42	9.0%
	Information technology	35	7.5%
	Clearing	7	1.5%
	Compliance and risks control	40	8.5%
	Research and development	17	3.6%
	Auditing	2	0.4%
	Customer services	13	2.8%
	Assets management	19	4.1%
	OTC businesses	6	1.3%
	Marketing	191	40.8%
	Total	468	100%
By age	Below 30	213	45.5%
	31–35	136	29%
	36–40	58	12.4%
	41–45	35	7.5%
	Above 45	26	5.6%
	Total	468	100%
By education background	Post-graduate and above	88	18.8%
	Bachelor degree	292	62.4%
	College degree and below	88	18.8%
	Total	468	100%

IV. BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES OF THE COMPANY

According to the Company Law (《公司法》), 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》) of the PRC, the Listing Rules and laws and regulations of Hong Kong, as well as the relevant provisions under the Articles of Association, the Company has established the legal corporate governance structure as monitored by the general meeting, Board of Directors, Supervisory Committee and senior management, namely the structure of “three organisations and one management level”. Under this structure, the general meeting will serve as the highest authority of the Company, with the Board of Directors, Supervisory Committee and senior management serving as the organs of decision-making, supervision and execution, respectively. The Company has set 16 functions, 6 business segments and 25 departments. The organization structure of the Company is set out below:



Company Profile

During the Reporting Period, the Company has set up a total of 25 branches operating futures products, among which, 10 are located at Shandong province and the other 15 are out of there, with details as follows:

Name of branch	Principal	Number of employees	Date of opening	Address	Contact number
Jinan Branch	Niu Baodong	49	18 October 2007	4/F, Jihua Building, No.19 Yingxian Street, Tianqiao District, Jinan	0531-81916257
Beijing Branch	Hou Chunmei	10	16 April 2007	Units 201B and 202, 2/F, Block No.99, North Third Ring Road West, Haidian District, Beijing	010-64402919
Shanghai Branch	Liu Jie	23	13 October 2008	Room 1801, No.438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950
Tianjin Branch	Cui Maozong	13	10 April 2007	Units 301A, 301B and 301C, No.39 Third Avenue West, Economy and Technology Development Zone, Tianjin	022-66283471
Dalian Branch	Jiang Hong	17	11 February 2003	Units 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No.129 Huizhan Road, Shahekou District, Dalian	0411-84800770
Shenyang Branch	Song Binbin	10	6 November 2007	Units 701-703, Block C, No.161 Nanjing North Street, Heping District, Shenyang	024-23253298
Hangzhou Branch	Wang Genwang	7	31 July 2008	Unit 4001, Yueming Building, No.231 Moganshan Road, Xihu District, Hangzhou, Zhejiang	0571-28118966
Zhengzhou Branch	Xue Pu	6	11 June 2009	Suite 1203, Futures Building, No.30 Shangwu Waihuan Road, Zhengzhou, Henan	0371-65629609

Name of branch	Principal	Number of employees	Date of opening	Address	Contact number
Ningbo Branch	Ling Bo	7	8 June 2010	Unit 9-1, Block 004, No.475 Jiangdongbei Road, Jiangdong District, Ningbo, Zhejiang	0574-27893883
Haikou Branch	Qu Chao	5	22 December 2010	Unit F, 22/F, Beijing Building, No.56 Guomao Road, Haikou, Hainan	0898-68503101
Qingdao Branch	Liang Dong	14	4 November 2008	No.78 Jiangxi Road, Shinan District, Qingdao	0532-80776050
Yantai Branch	Guo Feng	14	27 May 2002	4/F, Block B, Guanhai Building, No.267 Guanhai Road, Laishan District, Yantai	0535-6605095
Zibo Branch	Xue Liang	10	25 July 2008	9/F, Securities Building, No.66 Renmin West Road, Zhangdian District, Zibo	0533-2187987
Linyi Branch	Xue Xiangxu	14	29 October 2007	Unit 701, Block 3, Aoernuo International Building, No.26 Qiyang Road, Lanshan District, Linyi	0539-8073720
Jining Branch	Li Xiangmin	9	16 May 2008	Unit 807, Xingtang Jinmao Building, No.123, Guanghe Road, Jining	0537-2715707
Weifang Branch	Mo Zhenqiang	9	30 October 2008	Unit A,12/F, Yinhai Hengji Building, No.338 Dongfeng East Road, Kuiwen District, Weifang	0536-8263608
Dongying Branch	Fang Zheng	10	11 November 2008	11/F, Xindu Fortune Center, No.20 Jinan Road, Dongying District, Dongying	0546-8279996
Dezhou Branch	Tang Zhen	7	29 January 2010	11/F, Lijing Building, No.1369 Tianqu Central Road, Decheng District, Dezhou	0534-2617086
Wenzhou Branch	Yu Wenhao	9	12 August 2011	6/F, Guoding Office Building, Xiaonan Road, Lucheng District, Wenzhou, Zhejiang	0577-85552177

Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address	Contact number
Shenzhen Branch	Lu Zongjian	8	27 December 2011	Units 723, 725, 726 and 728, Xinhua Insurance Building, Southwest of the cross between Shennan Avenue and Mintian Road, Futian District, Shenzhen	0755-83509686
Guangzhou Branch	Yu Zhanyong	6	22 October 2012	Unit 302-4, No.180 Huasui Road, Tianhe District, Guangzhou	020-38838558
Changsha Branch	Wang Xiaochun	6	12 March 2013	Units 1520-1522, Heart of the City, Northwest of the cross between Furong Road and Chengnan Road, Tianxin District, Changsha	0731-84637766
Chengdu Branch	Fu Qi	6	25 July 2013	Unit 2, 5/F, No.42 Donghuazheng Street, Jinjiang District, Chengdu	028-85970818
Rizhao Branch	Chu Yanfang	4	26 December 2014	Unit 1801, Block 001, Hangmao Center, No.277 Beijing Road, Economy and Technology Development Zone, Rizhao, Shandong	0633-8088272
Tai'an Branch	Fan Chao	2	4 December 2015	Unit 5012, 5/F, No.171 Dongyue Street, Tai'an	0538-6117399

During the Reporting Period, the Company has set up a total of 3 subsidiaries, namely, Luzheng Economic and Trade Co., Ltd., Luzheng Information Technology Co., Ltd and Zhongtai Huirong Investment (HK) Company Limited. For details, please refer to “VII. Briefings of our Subsidiaries” of this chapter.

V. BASIC INFORMATION ABOUT THE INDUSTRY IN WHICH THE COMPANY OPERATES

In 2015, the global economy is under deep adjustment and recovery of the global economy is subject to numerous uncertainties. The global exchange rates and prices of bulk commodities such as crude oil etc. fluctuate dramatically. Subject to the aforesaid factors, the futures index of bulk commodities has experienced a sharp decrease of over 20% in mainland China. Meanwhile, abnormal furious fluctuation also occurred in stock and stock index futures markets. However, the futures market in mainland China has successfully maintained relatively steady and rapid development as a result of the hard efforts from various parties. In 2015, new products have been launched into the futures market in China, including two commodity futures, three financial futures and one financial option and there is a total of 52 futures and options products in the entire futures market in China. A total of 3.578 billion lots have been traded in futures market in China throughout the year, representing an increase of 42.78% over the previous year; the trading volume was RMB554.2 trillion, representing a year-on-year increase of 89.81%. (Source: China Futures Association)

VI. BUSINESS BRIEFINGS OF THE COMPANY

Our business scope covers futures brokerage of commodity, financial futures brokerage, futures investment consulting and asset management. Besides, we continue to develop various innovative businesses such as commodity trading and risk management, etc..

Company Profile

VII. BRIEFINGS OF OUR SUBSIDIARIES

Up to the end of the Reporting Period, the Company owns three wholly-owned subsidiaries, namely Luzheng Trading Co., Ltd. (魯証經貿有限公司), Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) and Zhongtai Huirong Investment (HK) Company Limited (中泰滙融(香港)有限公司). Luzheng Trading is mainly engaged in sale and wholesale, import and export activities, and provision of investment consultancy and risk management services of agricultural products, metal products, mining products, chemical products and edible oil, while 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, and while the business scope of Zhongtai Huirong Investment (HK) Company Limited include the provision of import and export activities, investment, capital risk management and technology consultancy services. Details are as follows:

Name of the company	Shareholding percentage (%)	Date of establishment	Registered capital	Registered address	Responsible person	Contact number
Luzheng Trading Co., Ltd (魯証經貿有限公司)	100	2013.4.24	RMB 250 million	Room 201, Block A, No.1 Qianwanyilu, Shenzhen – Hong Kong Cooperation Zone, Qianhai, Shenzhen PRC	Liu Qingbin (劉慶斌)	0531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.2.15	RMB 50 million	Room 1515, Floor 15 No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province PRC	Pei Yingjian (裴英劍)	0531-81678620
Zhongtai Huirong Investment (HK) Company Limited (中泰滙融(香港)有限公司)	100	2013.11.21	HK\$30 million	Unit 04, 7/F, Bright Way Tower, No. 33 Mong Kok Road, Kowloon, Hong Kong	Liu Qingbin (劉慶斌)	0531-86161199

VIII. HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD

The Company has been rated by the CSRC as one of Class AA futures firms under Class A for two consecutive years, which makes it rated by the CSRC as a Class A futures firm for seven consecutive years.

During the Reporting Period, the Company was honored, for the third time consecutively, as the “Best Futures Firm in China (中國最佳期貨公司)” in the 8th session of 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) as jointly held by the Futures Daily (期貨日報) and the Securities Times (證券時報). In addition, the Company was also granted the awards of “China Futures Firm Gold Management Team (中國期貨公司金牌管理團隊)”, “Best Financial Futures Service Award (最佳金融期貨服務獎)”, “Best Assets Management Business Award (最佳資產管理業務獎)”, “Best Capital Operation Development Award (最佳資本運營發展獎)”, “Best Risk Management Subsidiary Service Award (最佳風險管理附屬公司服務獎)” and “Best Futures IT System Construction Award (最佳期貨IT系統建設獎)” during this rating.

It was awarded as the “Excellent Membership Award (優秀會員獎)” by Dalian Commodity Exchange.

The Company was also honored with the “Top Ten Organizations Award (十佳組織獎)” in the prize-giving quiz campaign for 2015 based on Wechat platform held by China Futures Association.

Our chairman Mr. Chen Fang was recognized as the pioneer for the year in futures market as rated by the China Business News Financial Value Ranking for 2015 (2015第一財經金融價值榜年度期貨領軍人).

Financial Summary

Unless otherwise stated, the accounting data and financial indicators set out in this report are prepared in accordance with International Financial Reporting Standards.

I. MAJOR ACCOUNTING DATA OF THE GROUP

(RMB'000)

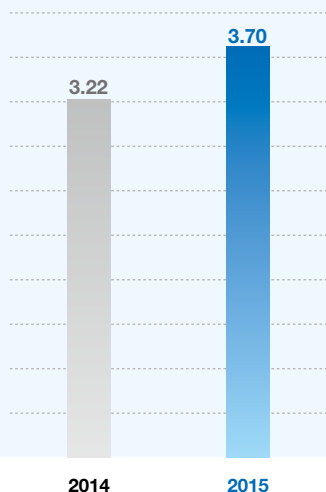
Item	Year ended 31 December 2015	Year ended 31 December 2014	Increase/ decrease over corresponding period of last year	Year ended 31 December 2013
Operating income	369,898	322,053	14.86%	315,661
Operating profit	115,184	102,215	12.69%	95,748
Total profit	124,910	105,612	18.27%	102,422
Net profit attributable to shareholders of the Group	93,583	80,291	16.55%	78,674
Net cash flow from operating activities	(32,603)	31,805	(202.51)%	52,932

(RMB'000)

Item	As of 31 December 2015	As of 31 December 2014	Increase/ decrease over corresponding period of last year	As of 31 December 2013
Total assets	7,433,409	5,527,300	34.49%	3,816,770
Total liabilities	5,455,048	4,254,921	28.21%	2,627,231
Equity attributable to shareholders of the Group	1,978,361	1,272,379	55.49%	1,189,539
Total share capital	1,001,900	750,000	33.59%	750,000

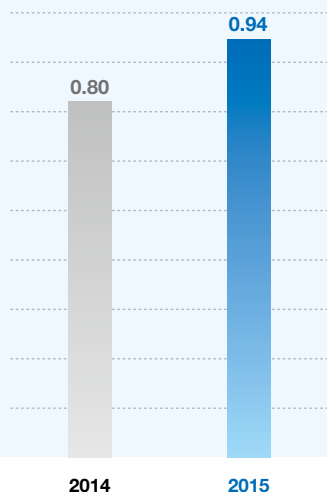
Operating income

in RMB 100 million



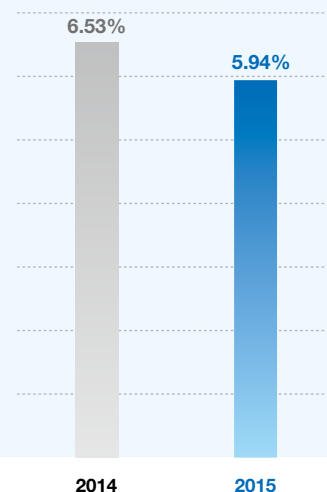
Profit for the period – Attributable to Shareholders of the Company

in RMB 100 million



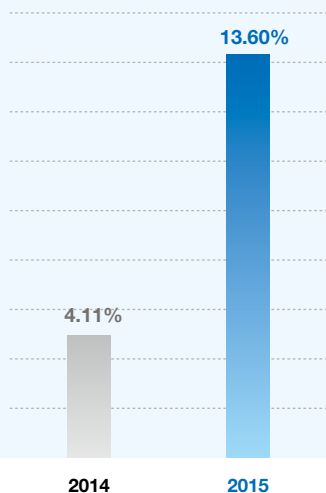
Weighted average return on net asset

%



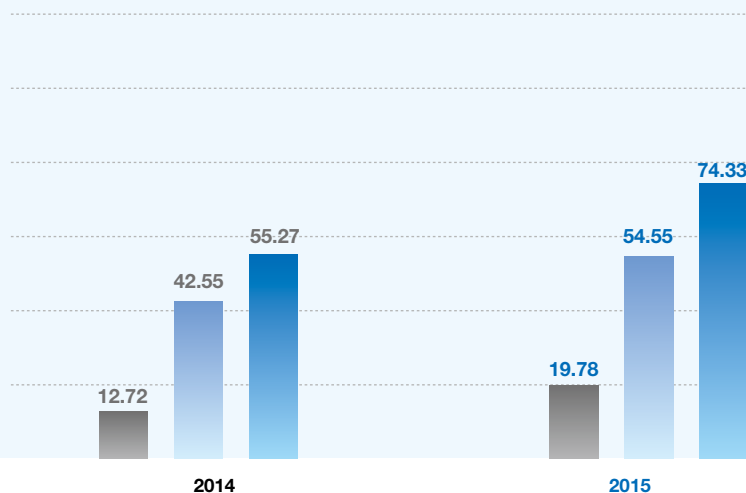
Gearing ratio

%



Scale Indicator

in RMB 100 million



■ Total assets
■ Total liabilities
■ Equity attributable to the Company's Shareholders

Financial Summary

II. MAJOR FINANCIAL INDEXES OF THE GROUP

Item	Year ended 31 December 2015	Year ended 31 December 2014	Increase/ decrease over corresponding period of last year	Year ended 31 December 2013
Basic earnings per Share (RMB)	0.11	0.11	—	0.1
Diluted earnings per Share (RMB)	0.11	0.11	—	0.1
Weighted average return on net asset (%)	5.94%	6.53%	Decrease by 0.59 percentage points	6.84%

Item	As of 31 December 2015	As of 31 December 2014	Increase/ decrease over corresponding period of last year	As of 31 December 2013
Net asset per Share attributable to shareholders of the Group (RMB)	1.97	1.70	16.39% Increase by 9.49 percentage points	1.59
Gearing ratio (%)	13.60%	4.11%	points	3.85%

Note: With respect to the gearing ratios for the respective reporting periods as set out in the above table, all the assets and liabilities are stated at figures excluding margin deposits for customers' futures trading.

III. NET CAPITAL OF THE COMPANY AND RELEVANT RISK CONTROL INDICATORS

Indicators	As of 31 December 2015	As of 31 December 2014	Regulatory standard
Net capital (RMB)	1,302,998,553.03	796,056,742.41	15,000,000.00
Net capital/total risk capital reserves (%)	480.94%	368.58%	100.00%
Net Capital/net assets (%)	68.40%	66.24%	40.00%
Current assets/current liabilities (%)	1098.00%	733.89%	100.00%
Liabilities/net assets (%)	6.39%	9.38%	150.00%
Settlement reserve funds (RMB)	174,716,013.54	103,586,147.84	8,000,000.00

Note: During the Reporting Period, the net capital and other risk regulatory indexes of the Company have been complying with relevant requirements under the Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) (the "Regulatory Standard") promulgated by the CSRC.

IV. FINANCIAL CONDITIONS OF THE GROUP OF THE LATEST FOUR YEARS

1. Profitability

Item	(RMB'000)			
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Operating income	369,898	322,053	315,661	307,822
Operating expenses	254,714	219,838	219,913	224,474
Profit before tax	124,910	105,612	102,422	85,497
Net profit attributable to shareholders of the Company	93,583	80,291	78,674	66,233

Financial Summary

2. Assets Condition

(RMB'000)

Item	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
Total assets	7,433,409	5,527,300	3,816,770	3,639,448
Total liabilities	5,455,048	4,254,921	2,627,231	2,528,790
Equity attributable to shareholders of the Company	1,978,361	1,272,379	1,189,539	1,110,658
Total share capital	1,001,900	750,000	750,000	750,000

Chairman Statement

Over our 20 years of operating history, we have navigated through various market and business cycles, financial crises and regulatory reforms. 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.



Chen Fang Chairman

Chairman Statement

Dear Shareholders,

2015 is a crucial year in all-round deepening reform and the reform in the economic and financial industries continued to deepen in China. With the concerns and supports from Shareholder and the society, the Group actively adapted to the trend of diversified development of the futures market. We firmly grasped the opportunities under the “Belt and Road” initiatives and the market-oriented reform in the interest and exchange rates, actively responded to the continuous global economic decline, the plunge of the domestic stock market and the strict restrictions on index futures as well as other challenges and insisted on the operation idea of balancing innovation and development and risks prevention. As a result, all businesses of the Company were of stable and rapid development.

While advancing the traditional brokerage business, the Company also orderly conducted the asset management business, commodity trading, risks management and other innovative businesses and actively explored the “Internet plus” and other new types of business in 2015. The business size and the operation quality have improved markedly. The asset management platform of the Company has been gradually improved. The commodity trading and risks management services have been deepened and expanded. The supporting of the information technology in the operation management and business transformation has been increasingly strengthened. The international competitiveness and the influence of the Company in the industry has been improved significantly,

2016 is the first year of the Thirteenth Five-Year Plan for the National Economic and Social Development of the PRC (中國國民經濟和社會發展第十三個五年規劃綱要) “13th Five-Year” Plan period. The “Belt and Road” initiatives and the market-oriented reform in the interest and exchange rates will be gradually deepened. The No. 1 Central Document of the Communist Party of China published on 27 January 2016 proposed to “create agricultural futures varieties and conduct pilots on agriculture options and gradually expand the pilot on insurance plus futures”. With policy supports and driven by the regulatory authorities of China, the futures industry will embrace more development opportunities and huge potential. The strong innovation vigor will be unleashed gradually. Under such circumstances, the Company will continue to follow the tenets of “serving the real economy” with the target of “building a leading comprehensive financial services provider in the industry with risks management as main business” and firmly focus on advancing the business transformation and internationalization and improving the capacities in transaction-based businesses, the integration of the Internet and traditional businesses as well as serving big customers, industrial customers in particular. We will make strenuous efforts, strive to expand our businesses and make innovations and transformation to make new progresses and create a brighter future.

Chen Fang

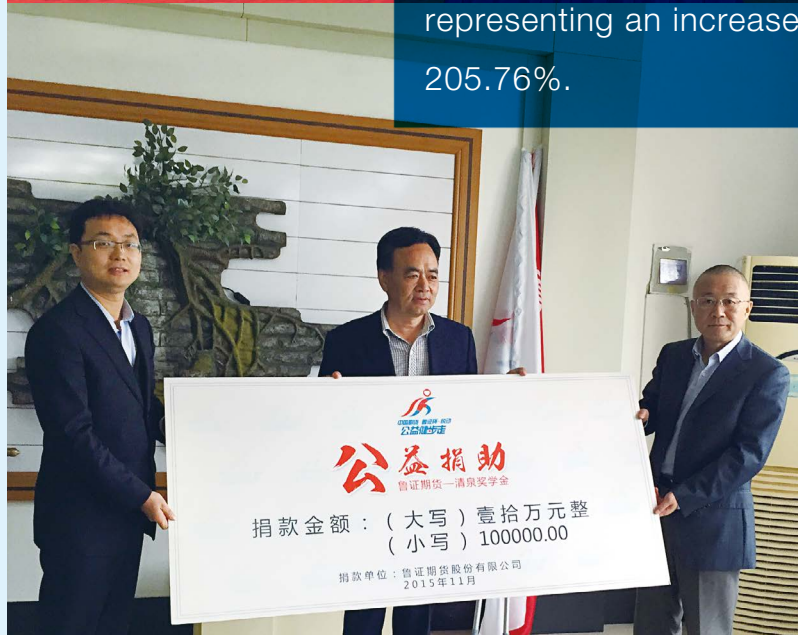
Chairman

22 March 2016

Management Discussion and Analysis



The aggregate trading volume of the national futures market amounted to RMB3,391 million lots and the aggregate trading amount was RMB707.37 trillion representing an increase of 205.76%.



I. ECONOMIC AND FUTURES MARKET ANALYSIS DURING THE REPORTING PERIOD

(1) Economic Conditions

The global economy remained weak and experienced a sluggish recovery in 2015. With slower economic growth as compared with 2014, overall economic developments continued to be diverse: the growth rate of developed economy was moderate while that of emerging market and developing economy continued to slip. International trade market was of steady or even declining growth rate. The change of the major economies' monetary policies stimulated global capital flow. The long-lasting impact of the international financial crisis lingered on and the world economy is still undergoing major adjustments. There was large contrast between different economy in terms of their monetary policies: on one hand, the United States, which is the largest economy in the world, has entered an interest rate hike due to its satisfactory economic recovery; on the other hand, the Eurozone and Japan were considering further monetary easing in view of their sluggish recoveries.

In 2015, the economy of China was in transition and continued to perform poorly. The annual Gross Domestic Product growth rate fell below 7%, it was the lowest in the past 25 years. Investment in the manufacturing industry remained scarce with negative annual growth in Producer Price Index for the fourth consecutive year. With a temporary boom in the financial market, the economy met expected growth in the first half year. However, it slid in the second half year, reflecting the difficulties of transformations and reforms under the "New Normal". With slackened investment, export and consumption, the new economy growth lacked a new momentum of growth. The "demand-side reform" has been gradually replaced by a new structural "supply-side reform". Nonetheless, the government was still striking a balance between reform and stability in its policy formation. Interest rate and exchange rate reforms were implemented in 2015. In respect of interest rates, the People's Bank of China ("Central Bank") loosened the upper limit of floating deposit rates for financial institutions, thereby marking the end of interest rate control. As for exchange rates, the Central Bank introduced Renminbi exchange rate reform and sped up depreciation with an annual depreciation rate of 5.77% after Renminbi was included in Special Drawing Rights. In terms of policies, the Central Bank implemented a series of flexible stabilizing monetary adjustments, including 5 decreases in interest rates and reserve requirements and offered Pledged Supplementary Lending and Medium-term Lending Facility. As the role of currency in the economy has changed from "active" to "neutral", the Central Bank maintained neutral monetary policies. Fiscal and macro-economic policies have also shifted towards "supply-side reform" to facilitate the economic transition.

(2) Futures Market Analysis

Against the backdrop of declining global economic growth, interest rate hike in the United States and the economic transition in China, prices of bulk commodity futures continued to fall in 2015 while the prices of certain industrial product futures dropped below their lows during the financial crisis in 2008. In particular, prices of chemical products dropped significantly due to the 12 years' low in crude prices. Due to the “supply-side reform”, sluggish China domestic property market and slackened fixed asset investment, prices of non-ferrous metals and ferrous industrial products (such as coke steel) slid across the board. The overall prices of domestic agricultural products futures (excluding white sugar futures) also plunged. In the first half of 2015, the stock market boomed temporarily benefit from loosened monetary policies, but collapsed in the second half of June 2015. The Stock index futures also collapsed. The stock market and stock index futures were stabilized in the fourth quarter.

At the same time, to implement the mission to “scrap unnecessary limitations on the use of risk management instruments by enterprises” promulgated on 8 May 2014 by the State Council of the PRC in the Several Opinions on Further Promoting the Healthy Development of the Capital Market (國務院關於進一步促進資本市場健康發展的若干意見), on 26 November 2015, the Ministry of Finance of the PRC issued the Interim Provisions on the Accounting Treatment of the Hedging Operations of Commodity Futures (商品期貨套期會計處理暫行規定), which greatly improved the existing Accounting Standard for Business Enterprises No. 24 — Hedging (企業會計準則第24號 — 套期保值). These improvements included lowering the barrier and difficulties for enterprises to use futures market hedges. Internet finance has also made tremendous progress with the launch of PC and mobile portals which allow users to set up futures accounts online. In terms of new products, SSE 50 ETF futures (listed on 19 February 2015), 10-year Treasury bond (listed on 20 March 2015) as well as 5 other futures, namely nickel (listed on 27 March 2015), tin (listed on 27 March 2015), SSE 50 Index (listed on 16 April 2015) and CSI 500 Index (listed on 16 April 2015), were rolled out in China. The introduction of SSE 50 ETF futures unveiled the start of futures market in China. The terms, regulations and relevant policies of the first international crude futures were ready. Both aggregate trading volume and amount of the Chinese futures market across the nation climbed to record high.

II. DISCUSSION AND ANALYSIS OF OUR DEVELOPMENT PLANS, RESULTS AND PROSPECTS

As of 31 December 2015, the Company were rated by the CSRC as a Class A (Level AA) futures firm for two consecutive years, and has been a Class A futures firm for 7 years. The Company were also named as the “Best Futures Firm in China (中國最佳期貨公司)” for the third time, and was further awarded as the “China Futures Firm (Gold Management Team) (中國期貨公司金牌管理團隊)” and the “Best Financial and Futures Services (最佳金融期貨服務獎)” by the Futures Daily (期貨日報) and the Securities Times (證券時報).

The Company's major businesses are futures brokerage, futures asset management and commodity trading and risk management.

Management Discussion and Analysis

(1) Futures Brokerage

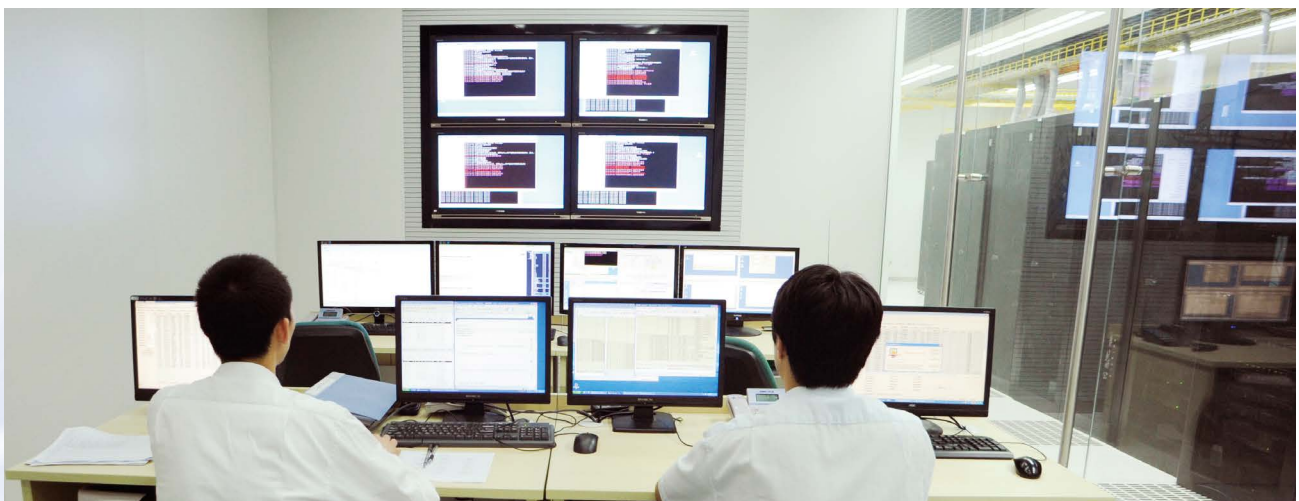
Market Analysis:

During the Reporting Period, total trading amount and volume as well as client balances of futures companies surged in tandem with the development and growth of the Chinese futures market. As the preparation for crude futures and traded options progresses on schedule, the variety of futures products will be broadened. Meanwhile, as competition in the futures market was intensified, trading fees dropped further, and futures firms were increasingly polarized, the degree of market concentration was steady with slight increase.

Development Plans and Results:

We seized various opportunities and implemented a series of operational measures to actively tackle various challenges in order to achieve steady growth in several indicators such as business.

First of all, the Company continued to optimize the client base. Compared with individual clients, institutional clients usually have higher account balances and thus generate more interest income to the Company. They also have stronger demand for asset management, commodity transaction and risk management services, therefore creating opportunities for the relevant departments to cross-sell. During the Reporting Period, the Company optimized its client base through strengthening its focus on serving institutional and professional clients. The number of institutional clients of the Group's futures brokerage business increased from 1,775 as of 31 December 2014 to 2,070 as of 31 December 2015, while the balances of institutional clients increased from RMB1,165.6 million as of 31 December 2014 to RMB2,959.7 million as of 31 December 2015.



Management Discussion and Analysis

Secondly, the Company has also optimized its branch network and set up “light branches”. Through improving its branch network, the Company has coordinated the cooperation among the future brokerage business, the asset management business and risk management business, thereby creating synergies between businesses. The Company has also established an integrated service platform for futures and derivatives to satisfy diversified wealth accumulation and risk management demands. Operating entities were encouraged to change the single brokerage business marketing model to integrated marketing model. On the other hand, the Group also sets up “light branches”, such as the Shanghai branch and Taian branch, to, firstly, strengthen regional service by utilizing the edges of the Group and consolidating resources in Shanghai and the surrounding areas, and, secondly, enlarge its business coverage, expand its service and sales network, and provide customized and accurate customer services.

Thirdly, the Company has fully utilized its advantages in internet financing. The Company believes that the integration of internet and finance will likely serve as a driver of reform and progress in China’s financial sector. As of 31 December 2015, the Group has been improving the functionality and user experience of its online trading systems and to migrate more of its services online so as to quickly expand its client base and enhance customer loyalty.

Fourthly, the sector-focused business teams have been further enhanced. The Group continued to enhance its sector-focused business teams by strengthening the professional capacities of businesses teams that cover industries such as finance, steel, chemicals, agricultural products and non-ferrous metals in 2015. Through internal training and external recruitment, the age composition of the Group’s sector-focused business teams has been improved, and the number of staff with high education levels and more experience has been increased further. As such, the Group was able to regularly provide research reports to industrial enterprises and financial institutions so as to assist them in identifying and evaluating risk management and trading opportunities by offering more professional services according to their needs.

Fifthly, the capability of the research team to support each business segment was strengthened. We have further integrated the work of its research team with the operations of various business lines to better utilize the insights from the research team in its business operations.

As of 31 December 2015, total trading amount of the Group’s futures brokerage business amounted to RMB12.93 trillion, representing a year-on-year increase of 86.31%, while total trading volume amounted to 78 million lots, representing a year-on-year increase of 21.86%. Client balances as at the end of the period was RMB5,384 million, representing a year-on-year growth of 29.95%. Average total daily balance was RMB6,372 million, representing a year-on-year increase of 91.24%. Net commission and fee income amounted to RMB148,133 thousand representing a year-on-year growth of 19.06%.

Management Discussion and Analysis

(2) Futures Asset Management Business

Market Analysis:

The futures asset management market boomed in 2015 thanks to the increase in household income, the strong demand for public investment and financing, the ongoing development of the industry, as well as the introduction of cash pooling. The number, scale and sales of new futures asset management products have all witnessed rapid growth.

Development Plans and Results:

During the Reporting Period, the Company's futures asset management products recorded outstanding results and contributed to a relatively rapid business growth. The Company have made further efforts to recruit talents, particularly professionals who studied at renowned overseas universities and had overseas work experience in the relevant industry. As at 31 December 2015, the asset management business employed a total of 20 employees, including 12 employees with master degree or above, and 7 employees who studied at renowned overseas universities and had overseas work experience in the relevant industry. Secondly, the Company had broadened its investment product and strategy choices and launched cross-border interest rate swap. Thirdly, the branches were transforming into sales platform with better asset management product sale capabilities. As of 31 December 2015, the Group issued 36 asset management products and recorded total annual asset management product issue size of RMB704 million, representing a year-on-year increase of 183.87%. In particular, 10, or 30.30%, were cash pooling products. The weighted average annualized yield of all products was 22.82%. The outstanding results of its asset management products boosted the business and were well recognized by the market with good reputation among peers and investors.

(3) Commodity Trading and Risk Management Business

Market Analysis:

During the Reporting Period, the commodity trading and risk management industry grew rapidly. The industry witnessed relatively large increases in trading volumes and amounts of warehouse receipt business, spread quotation, cooperative insurance and OTC option trading.

Development Plans and Results:

The Company engages in the commodity trading and risk management business through Luzheng Trading, a wholly-owned subsidiary. During the Reporting Period, the Company achieved rapid growth with controlled risk. Firstly, the product mix of Luzheng Trading's commodity trading business expanded significantly. In 2014, on top of the product mix that covered palm oil, crude soybean oil, soybean meal, rapeseed meal, common wheat and iron ore, trading products such as corn, soybean, corn starch, cotton and hot-rolled coil, etc. were added. Meanwhile, the Company's OTC option business has extended to 9 futures including palm oil, soybean oil, soybean meal, cotton, white sugar, rebar, ores, coking coal and pure terephthalic acid (PTA), representing a year-on-year increase of 300%-surge in product coverage. A total of 94 transactions with over 20 large-scale enterprises were completed, representing a year-on-year increase of 1,780% in number of transactions. Nominal value amounted to RMB840 million, representing a year-on-year increase of 1,687%. The amount of option fees amounted to RMB9.5 million, representing a year-on-year increase of 956%. Apart from demonstrating better risk management for the Company's clients, such increase also contributed an operating income of RMB730 thousand, representing a year-on-year surge of 300%. In addition, the Group piloted the first inter-institution cooperative transaction in the futures industry in May 2015. OTC option transactions with certain financial institutions were subsequently conducted. The Company have also successfully held the "Second Conference on PRC Bulk Commodity OTC Derivatives Cooperation" (第二屆中國大宗商品場外衍生品機構合作會議) and further consolidated the market influence of the Company's OTC business.

(4) Information Technology Business

The Group always believes information technology ("IT") infrastructure and information systems are essential for the effective management and successful development of its business and strive to improve its IT infrastructure. The Company has on one hand further improved and upgraded its IT systems to adapt to the more complex needs of its business and clients. In particular, the Company endeavored to develop a comprehensive online platform that is capable of providing one-stop futures and derivatives solutions. On the other hand, the Company set up the only IT subsidiary in the futures industry, Luzheng Information Technology, during the Reporting Period. Capitalizing on the Company's strengths in technical maintenance and operation, the Company offered IT maintenance and operation services to medium and small futures firms. As of 31 December 2015, Luzheng Information Technology has been providing trust services for maintenance and operation to 2 futures firms. At the same time, Luzheng Information Technology has established its software development platform and team, which have made certain progress in user-end trading software, high-volume trading software and futures information platform through in-house research and development and external collaborations.

(5) Development Plans for 2016

In 2016, the Company will carry on its core plans such as business transformation and upgrade, globalization, improvement in trading business capacities, integration of internet and traditional operations, and strengthening its abilities to serve major clients, particularly industrial clients. In the meantime, the Company will also reinforce its risk control and human resource allocation.

Management Discussion and Analysis

Futures Brokerage

The Group will promote the comprehensive transformation of the brokerage business. Firstly, the Group will apply its IT technologies to develop coordinated online and offline marketing, thereby extend beyond the regional development and service model centering on traditional branches. Collaboration with e-commerce operators will be tightened to reach and secure more clients and increase internet market share. Secondly, the Group will consolidate the resources of various business segments and establish integrated marketing and servicing platform that covers different businesses. Thirdly, the Group will continue to establish “light branches” and streamline and ultimately virtualize point-of-sales. Fourthly, regional management will be set up in key regions in order to consolidate regional resources and strengthen regional development. Last but not least, the internal assessment system will be optimized so as to enhance operating efficiency.

Futures Asset Management Business

The Group will implement plans that focus on improving product’s performance and enlarging business scale. Our trading team will be strengthened through internal promotion, external recruitment of investment advisers and investing in outstanding private equity funds. Asset management branches will be set up at suitable time when opportunity arises in order to retain talents using the advantages of subordinate platforms. We will also build on its outstanding investment performance to develop new products and strengthen innovation. Branches will be transformed into asset management product marketing platforms so as to enhance its sale ability. Communication with banks, securities firms and other financial institutions will be tightened in order to utilize their vast sale channels in order to enlarge its business scale.

Commodity Trading and Risk Management Business

The Group will further expand its business by focusing on serving the industries and integrating with other segments of the Group. First, further capital will be injected into Luzheng Trading to expand the commodity trading and risk management business so as to achieve economies of scale and improve the profitability of the business segment. Secondly, it will improve its decision-making and trading abilities with respect to fluctuation in futures derivatives with the aim of increasing its scale and profitability. Thirdly, it will develop and diversify the scale and portfolio of its basis trading, inventory management and cooperative insurance by learning from mature bulk commodity trading firms at home and abroad. Fourthly, it will strengthen the performance of its in-house OTC products such as option, forward and swap contracts so as to provide client-oriented customized risk management service. Fifthly, its risk management will be enhanced to achieve profitability while closely controlling trading risk.

Information Technology Business

Our Group will utilize Luzheng Information Technology's technical edges to enhance our core competitiveness and secure market share. Firstly, the Company will widen the scope of IT trust services for maintenance and operation. Secondly, the Group's back-office maintenance and operation as well as software development support will also be enhanced with a view to achieve digitalization of the Group's middle and back-office management and operation. Thirdly, customized trading software systems will be developed according to clients' needs to support their development and maintenance in order to enhance their loyalty. The Group will also develop a customer relation management system that can conduct "Big Data" analysis of clients' preference and behavior with the aim of improving the suitability of the Group's customer service.

Speed up Globalization of the Group

Leveraging on the Group's capital and credibility advantage resulting from its listing on the Hong Kong Stock Exchange, the Group will recruit more overseas talents. Tapping into the "London-Hong Kong Connect" of the Hong Kong Stock Exchange, the development of its overseas platform will be accelerated through new establishment as well as merger and acquisition when opportunity arises. This trading platform will be linked to key futures exchanges across the globe and realize globalized brokerage service. The Group will also actively study cross-border asset management, commodity trading, risk management and other businesses in order to satisfy the enormous demand for overseas asset investment and wealth management of its Chinese clients.

Strengthen the integration of traditional operations with internet finance

The Group will study the possibility of setting up an e-commerce branch to promote online product sales and services. We will cooperate with internet financial information service providers and other e-commerce platforms to reach and seek more new clients so as to further increase its market share in the online market. An online asset management product sale system will also be developed as soon as possible so as to broaden its sales channels.

Implement "Key Clients" Service Strategy

Centering on the Group's goal to become a "leading integrated financial service provider focusing on risk management", the Group will further adjust and allocate the Group's internal resources to implement the "Key Clients" service strategy. The resources and professional strengths of each business segment of our Group will be combined as a unified customer service interface to offer comprehensive one-stop risk solutions and asset protection and accumulation proposals. "Big Data" analysis of clients' preference and behavior will be conducted to improve the suitability of its customer service.

III. FINANCIAL STATEMENT ANALYSIS

(1) Profitability Analysis

As of 31 December 2015, the Group achieved better operating results by seizing business opportunities, implementing strategic plans and insisting on innovative development.

As at 31 December 2015, the Group achieved operating income of RMB369,898 thousand, which represented an increase of 14.86% as compared to RMB322,053 thousand at the end of 2014. Net profit attributable to shareholders of the Company amounted to RMB93,583 thousand, which represented an increase of 16.55% as compared to RMB80,291 thousand at the end of 2014. Earnings per share were RMB0.11, which was the same as that in 2014.

In 2015, the increase in the Group's net profit was mainly due to the increase in the profit of the Group's brokerage business as a result of the increase in revenue of the brokerage business.

(2) Asset Structure and Asset Quality

During the Reporting Period, both of the Group's total assets and total liabilities increased significantly. With its market reputation further reinforced, the Group's total assets and total liabilities both increased significantly on the ground that the Group continues to expand its brokerage business, making the accounts payable to brokerage clients significantly increase, while the Group has taken up the proceeds from investors through listing and generates income from operation.

At the end of the Reporting Period, the Group's assets totaled RMB7,433 million, increased by 34.49% as compared to RMB5,527 million at the end of 2014. The Group's liabilities totaled RMB5,455 million, increased by 28.20% as compared to RMB4,255 million at the end of 2014. Net assets attributable to the shareholders of the Company was RMB1,978 million, increased by 55.50% as compared to RMB1,272 million at the end of 2014.

Total assets increased continuously, and asset quality and liquidity were well maintained. At the end of the Reporting Period, the Group's total assets were as follows: as of 31 December 2015, non-current assets were RMB217 million, which represented an increase of 112.75% as compared to RMB102 million at the end of 2014, and current assets were RMB7,216 million, which represented an increase of 32.99% as compared to RMB5,426 million at the end of 2014. During the Reporting Period, adequate provision for impairment losses of bad debts have been made by the Group. There was no indication of material impairment of other assets.

Gearing ratio increased dramatically. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients were RMB242 million, representing an increase of 384% as compared to RMB50 million at the end 2014. The Group's gearing ratio was 13.6%, increased by 9.49 percentage points as compared to 4.11% at the end of 2014. Our debt assets ratio was 12.21%, representing an increase of 212.36% as compared to 3.91% as at the end of 2014 (Both of the assets and liabilities had net of the customers' deposits of futures transactions).

(3) Financing Channels and Ability

During the Reporting Period, the Company funded its operations through proceeds of equity financing. The Company was listed on the Hong Kong Stock Exchange on 7 July 2015, and the proceeds raised were HK\$920 million.

After the listing, the Company can raise other proceeds through issuance and placing of shares, issuance of sub-ordinated bonds and other means approved by the competent authorities according to the market environment and financial situation of the Company.

(4) Cash Flow Analysis

Net cash flow generated from operating activities in 2015 was RMB(33) million, decreased by RMB65 million from RMB32 million in the same period of 2014, representing a year-on-year decrease of 203.13%; net cash flow generated from investing activities in 2015 was RMB(396.58) million, decreased by RMB391.40 million from RMB(5.18) million in the same period of 2014, representing a year-on-year decrease of 7,555.98%; net cash flow generated from financing activities for 2015 was RMB612 million while there was no financing activity in 2014; net cash and cash equivalents increased by RMB156 million from RMB27 million for the same period of 2014 to RMB183 million for 2015, representing a year-on-year increase of 577.78%, mainly due to the increase in net cash flow generated from financing activities.

Management Discussion and Analysis

(5) Operating Income, Profit Analysis

1. Income Statement Items

During the Reporting Period, the Group achieved profit before income tax of RMB93,583 thousand, representing a year-on-year increase of 16.55%. The summary of the financial results is as follows:

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Commission and fee income	619,500	396,493
Commission and fee expense	(471,367)	(272,074)
Net commission and fee income	148,133	124,419
Interest income	172,146	98,146
Interest expense	(26,126)	(1,930)
Net interest income	146,020	96,216
Loss on physical commodities trading	(5,708)	(15,275)
Net investment gains	44,228	78,103
Other income	37,225	38,590
Operating Income	369,898	322,053
Operating expenses	(254,714)	(219,838)
Operating profit	115,184	102,215
Share of losses of investment in an associate	(2,874)	(1,115)
Other gains, net	12,600	4,512
Profit before income tax	124,910	105,612
Income tax expense	(31,327)	(25,321)
Profit for the year	93,583	80,291
Other comprehensive income for the year, net of tax	161	2,549
Total comprehensive income	93,744	82,840
Profit attributable to:		
— Shareholders of the Company	93,583	80,291
— Non-controlling interests	—	—
	93,583	80,291
Total comprehensive income attributable to:		
— Shareholders of the Company	93,744	82,840
— Non-controlling interests	—	—
	93,744	82,840

Management Discussion and Analysis

Income Structure

During the Reporting Period, the Group achieved total income and other revenue of RMB369,898 thousand representing a year-on-year increase of 14.86%, among which RMB148,133 thousand was the net commission and fee income, RMB146,020 thousand was the net interest income and RMB44,228 thousand was the net investment gains. The income structure of the Group is as follows:

Unit: RMB'0,000

Items	2015		2014	
	Amounts	%	Amounts	%
Net commission and fee income	148,133	40.05%	124,419	38.63%
Net interest income	146,020	39.48%	96,216	29.88%
Net investment gains	44,228	11.96%	78,103	24.25%
Other	31,517	8.51%	23,315	7.24%
Total	369,898	100.00%	322,053	100.00%

Net commission and fee income

During the Reporting Period, the constitution of commission and fee income of the Group is as follows:

Unit: RMB'0,000

Items	Year ended 31 December	
	2015	2014
Commission and fee income		
Futures brokerage service	525,152	357,507
Settlement and clearing service income from other futures firms	74,663	30,383
Asset management service	19,405	8,483
Investment consultancy	280	120
	619,500	396,493
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	396,704	241,887
Settlement and clearing service expense to exchange-clearing organizations	74,663	30,187
	471,367	272,074

Management Discussion and Analysis

During the Reporting Period, the Group achieved commission and fee income of RMB619,500 thousand representing a year-on-year increase of 56.24%, which was mainly attributed to the increase in futures brokerage service fee.

The futures brokerage service commission and fee income represented a year-on-year increase of RMB167,645 thousand with an increase of 46.89%, which was mainly attributed to the activity of China's futures market in 2015 and significant increase in transaction amounts.

Net interest income

During the Reporting Period, the Group achieved net interest income of RMB146,020 thousand representing a year-to-year increase of 51.76%. The constitution of net interest income of the Group in 2015 is as follows:

	Unit: RMB'0,000	
	Year ended 31 December	
	2015	2014
Interest income		
Interest income from deposits with banks	144,447	84,467
Interest income from deposits with exchange-clearing organizations	27,699	13,679
	172,146	98,146
Interest expense		
Interest expense to brokerage clients	24,207	—
Interest expense on settlement and clearing services to other futures firms	1,919	1,930
	26,126	1,930

Interest income was increased by RMB74,000 thousand representing a year-to-year increase of 75.40%, which was mainly attributed to the increase of the scale of margin deposits and listing funds.

Interest expense was increased by RMB24,196 thousand representing a year-to-year increase of 1,253.68%, which was mainly attributed to the increase of payment of customer interest.

Management Discussion and Analysis

Net investment gains

During the Reporting Period, the Group achieved net investment gains of RMB44,228 thousand representing a year-to-year decrease of 43.37%.

The constitution of net investment gains of the Group in 2015 is as follows:

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Net realized gains from disposal of available-for sale financial assets	28,048	3,128
Dividends and interest income from available-for-sale financial assets	2,432	30,575
Net realized (losses)/gains from disposal of financial assets at fair value through profit and loss ⁽¹⁾	(370)	18,044
Dividends from financial assets at fair value through profit and loss	139	—
Net realized gains from derivative financial instruments ⁽²⁾	23,210	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	(1,044)	386
— Financial liabilities designated at fair value through profit or loss	(9,389)	—
— Derivative financial instruments	1,202	(355)
	44,228	78,103

(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 subsidiaries and commodity trading activities.

Operating expenses

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Staff costs	95,592	88,556
Commission to brokerage agents	27,102	28,263
Introducing broker commission	16,832	11,608
Depreciation and amortization	8,169	8,527
Impairment losses	237	232
Other operating expenses	106,782	82,652
Total	254,714	219,838

Other operating expenses was increased by RMB24,130 thousand representing an increase of 29.19%, which was mainly attributed to the increase in business taxes of the Company and related expenses of the Listing H Shares.

Management Discussion and Analysis

Staff costs

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Salaries and bonus	73,567	68,120
Pension	8,120	7,508
Other social security	4,943	4,615
Labour union funds and employee education funds	3,309	3,052
Other welfare	5,653	5,261
	95,592	88,556

Depreciation and amortisation

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Depreciation of property and equipment	4,788	5,012
Amortization of other non-current assets	2,351	2,515
Amortization of intangible assets	1,030	1,000
	8,169	8,527

Impairment losses

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Available-for-sale financial assets	—	604
Other receivables	237	(372)
	237	232

Management Discussion and Analysis

Other operating expenses

Unit: RMB'0,000

	Year ended 31 December	
	2015	2014
Office expenses	22,275	18,385
Consulting expenses	19,082	7,483
Marketing and distribution expenses	15,528	11,578
Rentals	12,246	14,088
Business tax and surcharges	11,524	10,121
Futures Investors Protection Fund	7,146	4,049
Information system maintenance fees	5,448	7,495
Listing expense	4,102	—
Property maintenance fee	3,830	3,661
Auditors' remuneration — Audit services	1,880	210
Professional service expenses	1,382	449
Other expenses	2,339	5,133
	106,782	82,652

2. Asset Items

At the end of the Reporting Period, the total assets of the Group were RMB7,433,409 thousand representing a year-to-year increase of 34.49%, among which the cash assets were RMB6,854,857 thousand representing a year-to-year increase of 35.30% and the financial investment assets were RMB326,211 thousand representing a year-to-year increase of 0.71%. The total number of assets of the Group is as follows:

Unit: RMB'0,000

	31 December 2015	31 December 2014
Cash assets	6,854,857	5,066,497
Financial investment assets	326,211	323,914
Other assets	252,341	136,889
Total	7,433,409	5,527,300

Management Discussion and Analysis

Cash assets

At the end of the Reporting Period, the cash assets of the Group were increased by RMB1,788,360 thousand representing a year-to-year increase of 35.30%. The constitution of cash assets of the Group is as follows:

	31 December 2015	31 December 2014
Deposits with exchange-clearing organizations	2,661,676	2,331,191
Bank balances held for brokerage clients	2,996,241	1,986,475
Cash and bank balances	1,196,940	748,831
Total	6,854,857	5,066,497

Financial investment assets

At the end of the Reporting Period, the financial investment assets of the Group were increased by RMB2,297 thousand representing a year-to-year increase of 0.71%. The constitution of financial investment assets of the Group is as follows:

	31 December 2015	31 December 2014
Available-for-sale financial assets	303,354	322,318
Financial assets at fair value through profit or loss	22,857	1,596
Total	326,211	323,914

Available-for-sale financial assets

At the end of the Reporting Period, the available-for-sale financial assets of the Group were decreased by RMB18,964 thousand representing a year-to-year decrease of 5.88%. The constitution of available-for-sale financial assets of the Group is as follows:

	31 December 2015	31 December 2014
Collective asset management schemes	303,354	60,300
Trust schemes	—	161,768
Debt instruments	—	100,250
Total	303,354	322,318

Management Discussion and Analysis

Financial assets at fair value through profit or loss

At the end of the Reporting Period, the financial assets at fair value through profit or loss of the Group were increased by RMB21,261 thousand representing a year-to-year increase of 1332.14%. The constitution of financial assets at fair value through profit or loss of the Group is as follows:

	31 December 2015	31 December 2014
Investment held for trading		
Listed equity securities	19,909	1,596
Listed open-ended funds	2,948	—
Total	22,857	1,596

Other assets

At the end of the Reporting Period, the other assets of the Group were RMB252,341 thousand which were increased by RMB115,452 thousand representing a year-to-year increase of 84.34%. The constitution of other assets of the Group is as follows:

		31 December 2015	31 December 2014
Property and equipment	17	45,125	41,920
Intangible assets	18	6,157	6,137
Investment in an associate	19	5,811	8,685
Other non-current assets	21	3,137	3,795
Available-for-sale financial assets	22	134,310	17,173
Deferred income tax assets	23	1,983	3,767
Refundable deposits	24	20,138	20,157
Physical commodities	25	3,640	15,689
Other current assets	26	30,889	19,566
Derivative financial assets	27	1,151	—
Total		252,341	136,889

Management Discussion and Analysis

3. Liabilities items

At the end of the Reporting Period, the total liabilities of the Group were RMB5,455,048 thousand which were increased by RMB1,200,127 thousand representing a year-to-year increase of 28.21%. As at the end of the Reporting Period, the accounts payable to brokerage clients was RMB5,213,534 thousand representing a year-to-year increase of 23.98%. The details of liabilities of the Group are as follows:

	31 December 2015	31 December 2014
Deferred income tax liabilities	14	—
Other non-current liabilities	2,599	959
Other current liabilities	41,530	35,661
Current income tax liabilities	7,298	13,108
Derivative financial liabilities	1,927	—
Financial liabilities at fair value through profit or loss	188,146	—
Accounts payable to brokerage clients	5,213,534	4,205,193
Total	5,455,048	4,254,921

The financial liabilities at fair value through profit or loss were increased by RMB188,146 thousand year to year, which was mainly for the commencement of operation of its business in 2015.

	31 December 2015	31 December 2014
Interests of holders of consolidated SEs	144,470	—
Payable to clients for cooperative hedging business	43,676	—
	188,146	—

4. Equity Items

At the end of the Reporting Period, the total equity of the Group was RMB1,978,361 thousand representing a year-to-year increase of 55.49%, which was mainly attributed to listing of H shares of the Company. The constitution of equity of the Group is as follows:

	31 December 2015	31 December 2014
Share capital	1,001,900	750,000
Share premium	650,630	290,292
Other reserves	148,266	122,525
Retained earnings	177,565	109,562
Total equity attributable to shareholders of the Company	1,978,361	1,272,379
Non-controlling interests	—	—
Total	1,978,361	1,272,379

5. Results of Segment

Please refer to Note 41 of the notes to the consolidated financial statements of this report.

6. Assets pledge

For the year ended 31 December 2015, there was no pledge on the Company's assets.

7. Risks of exchange rate fluctuations and countering measures

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions is not significant. Therefore, the Group considers that the foreign exchange risk of the Group's operations is immaterial. The Group temporarily does not use any derivative financial instruments to hedge exchange rate risk.

8. Commitments and contingent liabilities

Please refer to Note 39 of the notes to the consolidated financial statements of this report.

Management Discussion and Analysis

IV. EMPLOYEES, REMUNERATION AND TRAINING

As of 31 December 2015, the Company had a total of 468 employees. The breakdown of the composition of the employees is set out in "III. Staff Profile" of Chapter III of this report.

The total remuneration expenses of the Company for 2015 were RMB95.592 million, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2015	2014
Salaries and bonus	73,567	68,120
Pension	8,120	7,508
Other social security	4,943	4,615
Labour union funds and employee education funds	3,309	3,052
Other welfare	5,653	5,261
	95,592	88,556

The five highest paid individuals

For the year ended 31 December 2015, the five highest paid individuals do not include any of the directors or the supervisors (2014: nil). Details of the emoluments for the five highest paid individuals for the year are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2015	2014
Salaries, allowances and other welfares	2,277	1,448
Bonus	2,051	2,278
	4,328	3,726

The emoluments for the five highest paid individuals fell within the following bands:

	Year ended 31 December	
	2015	2014
RMB 400,001 to RMB 600,000	—	1
RMB 600,001 to RMB 800,000	1	2
RMB 800,001 to RMB 1,000,000	4	2
	5	5

The Group has not provided any compensation to these directors, supervisors or the five highest paid individuals as incentive for them to join the Group or reward for leaving the Group.

The Company emphasizes on talent attraction, motivation, training and use, and focuses on the external competitiveness of its remuneration level and the internal fairness of its remuneration system. We implement a remuneration system under which remunerations are determined based on the market levels and the individual performance appraisal results. The remuneration package generally comprises basic salary, allowance, performance bonus, and staff benefits. Under the applicable laws and regulations of the PRC, the Company enters into a labor contract and establishes employment relationship with each of its employees. A labor contract states the provisions relating to labor contract term, scope of work, work location, working hours, rest and vacation, labor remuneration, social insurance, labor protection, labor conditions and prevention and protection from occupational hazards, labor discipline and compliance with the system, staff training, discharge, termination, and renewal of labor contract and economic compensation. Under the applicable laws and regulations of the PRC, the Company purchased various social insurance policies (endowment insurance, medical insurance, unemployment insurance, work related injury insurance and maternity insurance) and established housing funds for its employees, and made social insurance and housing fund contributions in full in accordance with applicable regulations.

For the year ended 31 December 2015, the Company enhanced its training system to complement the transformation of business on the basis of enhancing foundational work and focusing on the research on market demand and commenced training in a timely manner. A total of 68 training sessions on various aspects, covering OTC businesses, stock and options, assets management, new staff training, knowledge and training on new businesses, were held.

V. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

(1) Details on new established branches and its change of site during the Reporting Period

During the Reporting Period, the Company has established Tai'an Branch on 4 December 2015.

The Company has finished the change of site within the same city for Zhengzhou Branch, Ningbo Branch, Guangzhou Branch on 5 January 2015, 21 April 2015 and 22 April 2015, respectively, and the reduce of site area at the original location for Haikou Branch on 27 October 2015.

(2) The effect on the results of the changes in branches and subsidiaries during the Reporting Period

For the year ended 31 December 2015, the Company newly established Tai'an Branch. There was no business in the Tai'an Branch which had no impact on the Company's business.

For the year ended 31 December 2015, the Company newly established Luzheng Information Technology Co., Ltd.. As at 31 December 2015, the accumulated profit of Luzheng Information Technology Co., Ltd. was RMB42,800.

VI. MAJOR INVESTMENT AND FINANCING

1. Equity financing

On 4 January 2015, the 21st meeting of the 1st Board was held to pass the relevant resolution concerning the issuance and listing of overseas listed foreign Shares (H Shares) of the Company by way of voting by correspondence. By the approval document Zheng Jian Xu Ke No. [2015] 934 issued by CSRC, the Company was officially listed on the main board of Hong Kong Stock Exchange on 7 July 2015. 275,000,000 H Shares (excluding overallotment options) were issued under the global offering. The issue price of H Shares is HK\$3.32 per share. On 24 July 2015, the joint global coordinator of the Company exercised partially the over-allotment options in respect of an aggregate of 2,090,000 H Shares which included (i) an additional 1,900,000 H Shares issued by the Company and (ii) 190,000 H Shares transferred from the Domestic Shares sold by the selling Shareholders, Zhongtai Securities, Shandong State-owned Assets Investment Holdings Co., Ltd. and Jinan Energy Investment Co., Ltd., which were listed and dealt with on the main board of Hong Kong Stock Exchange on 7 August 2015.

2. Equity investment

On 22 January 2015, the 22nd meeting of the 1st Board was held to review and approve the “Proposal to Establish an IT Subsidiary” by way of voting by correspondence. The Company established Luzheng Information Technology Co., Ltd. in Jinan with the register capital of RMB50 million. Luzheng Information Technology was established on 15 February 2015 through the industrial and commercial registration. The initial investment of RMB10 million was transferred to Luzheng Information Technology on 27 March 2015. The remaining investments will be gradually input in line with the development of business of Luzheng Information Technology.

VII. REPLACEMENT OF MATERIAL ASSETS, ACQUISITION, DISPOSAL, SPIN-OFF AND REORGANIZATION OF OTHER COMPANIES

For the year ended 31 December 2015, the Company had no any replacement of material assets, acquisition, disposal, spin-off and reorganization of other companies.

VIII. POSSIBLE RISKS, UNCERTAINTIES AND COUNTERING MEASURES

(1) Major risks and uncertainties affecting the Company’s operations and the policies

Major risks affecting the Company’s operation include market risk, credit risk, liquidity risk, compliance risk and operational risk. The risks stated above cause the possibility of bringing uncertainties to the Company’s operation.

1. 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 the Company's 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:

- (1) establishing a systematic investment mechanism, under which our research team provides investment recommendations and our operation teams provide market guidance to our research team;
- (2) our operation teams are required to submit an application to the Company's management before every transaction, with details on possible market risks, consequences and maximum risk tolerance level as well as the nature of the proposed transaction;
- (3) evaluating our risk exposure by quantitative measures, and utilizing risk control measures such as hedging and stoploss to mitigate the damages when the market conditions deviate from our expectations.

2. 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 comes from commodity trading and risk management business and our futures brokerage business.

For credit risks related to our commodity trading and risk management business, the Company established a client credit evaluation system and assess the creditworthiness of our existing and prospective clients based on our onsite investigation and independent third-party investigations, and adjust the credit ratings of our clients on a continuous basis. The Company determines 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, we conduct risk rating on our clients based on their wealth, professional knowledge on futures, trading experiences and risk tolerance, and provide appropriate services to our clients and implement corresponding risk management measures accordingly. Meanwhile, the Company require our clients to maintain higher margin deposits than the minimum deposit required by the futures exchanges in China. Clients are required to replenish their margin deposits within a specific period of time if such margin deposits fall short. Otherwise, the Company will close out the position. At the same time, the futures exchanges in the PRC impose the daily price up and down limit, which effectively limits the risk exposure of our clients and us.

3. Liquidity Risk

Liquidity risk refers to the risk of encountering difficulty in meeting obligations in the ordinary course of business due to lack of funds.

Management Discussion and Analysis

For liquidity risk, the Company

- (1) strengthened the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management;
- (2) established a risk evaluation and monitor system on net capital;
- (3) conducted comprehensive or special stress tests on the risk control indexes on a regular or ad hoc basis and conducted sensitivity analysis before making any significant business decisions which could affect the risk control indexes, such as significant business expansion and large assets acquisition; and
- (4) selected those commodities that are more actively traded for our commodity trading and risk management business, or selected the contracts with the largest or second-largest open interest within similar futures contracts for futures trading.

4. 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, the Company has built up a comprehensive compliance management and organization system; appointed a chief risk officer; established the compliance department and the audit department with full-time compliance management staff; and conducted supervision and control on the business overall compliance through compliance review, compliance training, compliance consultation and internal audit.

5. Operational Risk

Operational risk refers to the risk resulting from system failure, procedural loopholes or human error.

To minimize the operational risk, the Company

- (1) implements strict operation control mechanisms to reduce the risks of system failure or human error and enhance the efficiency and capability of operational risk management;
- (2) regularly conducts internal audit and evaluates the efficiency and capability of operational risk management; and
- (3) sets aside 5% of our net commission and fee income of our futures brokerage business as risk reserve fund each month.

(2) Countering Measures Adopted

1. Having established a four-level structured risk control and management system

The Company sets up a four-level risk management structure: the first level comprises the Board of Directors and the Board of Supervisors; the second level comprises the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; the third level is the pre-, on-going and post-risk management systems set up by the compliance department and the audit department; and the fourth level is the frontline operational risk management system at the Company's business departments and branches.

2. Consistently improving the corporate governance structure

The Company consistently normalizes the operation of the general meeting to ensure that all Shareholders, especially minority Shareholders, can enjoy equal positions and protect the interest of minority Shareholders. It normalizes and improves the operation of the Board of Directors and gives full play to all Board of Directors committees and independent non-executive Directors. It gives full play to the monitoring role of the Board of Supervisors on the Board of Directors and management.

3. Consistently improving the overall risk management system

The Company sticks to the principle of implementing a risk management system covering all departments of the Company, all business processes and the whole process of each business to consistently improve the ability to identify and prevent risks among all employees, strengthen the awareness of all employees on risks, foster an excellent risks management culture and ensure the realization of the overall target of the Company in risk management.

4. Orderly advancing the conducting of innovative businesses and further improving the risks management mechanism in innovative businesses

The compliance department of the Company has been actively participating in the preparatory process of innovative businesses, including participating in the preparation of all systems and processes, the establishment of the risks management system, and the establishment of the systems, processes, positions and response mechanisms of innovative businesses. It pushes ahead the implementation of all systems, processes and the risk management principles through the appraisal and approval beforehand, the independent supervision during the process and the internal audit of the audit department to conduct risk management throughout the whole process of various innovative businesses.

5. Consistently improving the credit risk management capability in commodity trading and risks management business

With the continuous expansion of the scope of commodity trading and risks management business and the increase of clients under cooperation, the Company will consistently improve due diligence and classified management on clients and implement a system of due diligence and classified management on clients which matches the positioning and business model of the Company. It will promote the principle of "understanding your clients" and consistently improve the credit risk management capability and conduct credit risks appraisal on clients to control the credit risks of clients.

Directors' Report

I. PRINCIPAL BUSINESSES

As of 31 December 2015, the Group was a futures company. There were no changes in key business segments which were futures brokerage, futures asset management, and commodity trading and risk management.

II. RESULTS AND DIVIDENDS

Please refer to Chapter XIV of this report for the details of the Group's results for the year ended 31 December 2015.

The Company intends to propose the distribution of dividends of RMB0.043 (including tax) per share to Shareholders whose names appear on the Company's register of members on 28 June 2016 at the 2015 annual general meeting ("AGM"). The total amount of dividends to be distributed is RMB43,081,700.00 (2014: Nil). The dividends payable are not reflected in the consolidated financial statements of the Group for 2015.

III. BUSINESS REVIEW

Please refer to Chapter IV of this report for the financial summary for the Reporting Period. Please refer to Chapter VI for the details of business review, analysis and discussion of business, future business development and major risks and uncertainties.

IV. DIRECTORS AND DIRECTORS' BIOGRAPHIES

(i) Directors

As of 2015, the Directors of the Company are as follows: executive Directors Mr. Chen Fang (Chairman of the Board), Mr. Liang Zhongwei; non-executive Directors Mr. Lu Xiangyou, Mr. Zhang Yunwei, Mr. Li Chuanyong, Mr. Cui Pengpeng (resigned in February 2015) and Mr. Liu Feng (appointed in February 2015); independent non-executive Directors: Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, Mr. Wei Wei (appointed in June 2015).

During the Reporting Period, the Board was unanimously in compliance with the requirements of the Listing Rules relating to the appointment of at least four independent non-executive Directors (representing at least one-third of the members of the Board) and at least one independent non-executive Director with appropriate professional qualifications or appropriate accounting or related financial management expertise.

There was no relationship among the members of the Board (in particular the chairman and general manager) in the financial, business, family or other material/relevant aspects.

(ii) Directors' biographies

Please refer to the section "I. Briefings of the Directors, Supervisors and Senior Management (I) The Board" in Chapter 9 of this report for details.

V. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Directors entered into service contracts with the Company on 15 June 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 their respective terms. The service contracts may be renewed according to the Articles of Association and applicable laws, rules or regulation.

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of the Directors and Supervisors shall enter into contracts with the Company in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

Save as disclosed above, none of the Directors or Supervisor have entered or proposed to enter service contracts (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

VI. DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which is taken or deemed to have under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

VII. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executives of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Type of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd.	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. ⁽¹⁾	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. ⁽²⁾	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Farallon Capital Management, L.L.C.	H Shares	Investment manager	38,792,967 (long position)	3.87%	14.00%
Roche & Owen Associates (Pte) Limited	H Shares	Interest of controlled corporation	23,352,000 (long position)	2.33%	8.43%
CM International Capital Limited ⁽³⁾	H Shares	Beneficial owner	28,022,000 (long position)	2.80%	10.11%
CM International Capital Limited (中國國際資本有限公司) ⁽³⁾	H Shares	Interest of controlled corporation	28,022,000 (long position)	2.80%	10.11%
China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) ⁽³⁾	H Shares	Interest of controlled corporation	28,022,000 (long position)	2.80%	10.11%
CITIC Capital (Shen Zhen) Asset Management Co., Ltd. ⁽⁴⁾	H Shares	Beneficial owner	18,681,000 (long position)	1.86%	6.74%

Name of Shareholder	Type of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Advisory Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Finance (Cayman) Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Global Services Holdings Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Holdings Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 31 December 2015.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.91% of the equity interest in Zhongtai Securities Co., Ltd. and is the holding company of Zhongtai Securities Co., Ltd.. Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is wholly owned by Shandong Steel Group Co., Ltd.. Therefore, Shandong Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel Group Co., Ltd. for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 28,022,000 (long position) H Shares of the Company. CM International Capital Limited (中民國際資本有限公司) holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) holds 100% of the equity interest in CM International Capital Limited (中民國際資本有限公司). Therefore, China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) and CM International Capital Limited (中民國際資本有限公司) are deemed to be interested in the 28,022,000 (long position) H Shares held by CM International Capital Limited for the purpose of Part XV of the SFO.

Directors' Report

- (4) CITIC Capital (Shen Zhen) Asset Management Co., Ltd. directly holds 18,681,000 (long position) H Shares of the Company. Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) holds 100% of the equity interest in CITIC Capital (Shen Zhen) Asset Management Co., Ltd., and CITIC Capital Advisory Limited holds 100% of the equity interest in Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司); CITIC Capital Finance (Cayman) Limited holds 100% of the equity interest in CITIC Capital Advisory Limited. CITIC Capital Global Services Holdings Limited holds 100% of the equity interest in CITIC Capital Finance (Cayman) Limited, and CITIC Capital Holdings Limited holds 100% of the equity interest in CITIC Capital Global Services Holdings Limited. Therefore, CITIC Capital Holdings Limited, CITIC Capital Global Services Holdings Limited, CITIC Capital Finance (Cayman) Limited, CITIC Capital Advisory Limited and Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) are deemed to be interested in the 18,681,000 (long position) H Shares held by CITIC Capital (Shen Zhen) Asset Management Co., Ltd. for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2015, the Directors of the Company are not aware of any other person (except for a Director, a Supervisor or a chief executive of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

VIII. PENALTY AND RECTIFICATION IMPOSED ON THE COMPANY, DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

For the year ended 31 December 2015, none of the Directors, Supervisors and senior management of the Company has been penalized.

IX. THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

The Company is committed to a good corporate image of integrity, compliance and equality. The Company contributes to a steady and healthy growth of the futures market in China by paying tax in compliance with the law, proactively advocating socio-economic development and improving the futures industry.

The Company offers good career development opportunities to its staff. It provides staff with remuneration, opportunities of promotion, reasonable working hours, vacation, equal opportunities, a diversified and discrimination-free working environment and other compensation and benefits as well as increasing training resources in strict compliance with the Labor Law of People's Republic of China and its labor contracts.

The Company strives to become a prominent corporate citizen and actively fulfill its social responsibility by supporting charities, participating in social services, etc.

In November 2015, the Company established "Luzheng Futures — Qingquan Scholarship" and donated RMB100,000 to help outstanding high-school students from underprivileged families. In addition to the "Luzheng Futures — Qingquan Scholarship", a campaign of "China Futures — Luzheng Cup — Charitable Walk" was held in the same month to draw attention from the public, in particular the futures industry, to underprivileged students, in which donations were made according to the number of steps walked in the campaign. The campaign successfully caught the attention of the public and attracted a total of 175,628 participants during the 9-day period.

In 2015, there was no material environmental or social safety issue involving the Company.

X. THE LISTING AND USE OF PROCEEDS

(1) Issue of Shares and Use of Proceeds Raised

By the approval document Zheng Jian Xu Ke No. [2015] 934 issued by CSRC, the Company was officially listed on the main board of Hong Kong Stock Exchange on 7 July 2015. 275,000,000 H Shares (excluding over-allotment options) were issued under the global offering. The issue price of H Shares is HK\$3.32 per share. On 24 July 2015, the Zhongtai International Capital Limited, Haitong International Securities Company Limited and CCB International Capital Limited exercised partially the over-allotment options in respect of an aggregate of 2,090,000 H Shares which included (i) an additional 1,900,000 H Shares issued by the Company and (ii) 190,000 H Shares transferred from the H Shares sold by the selling Shareholders, Zhongtai Securities, Shandong State-owned Assets Investment Holdings Co., Ltd. and Jinan Energy Investment Co., Ltd., which were listed and dealt with on the main board of Hong Kong Stock Exchange on 7 August 2015.

The net proceeds as prescribed in the Company's prospectus will be used for the purposes and in the amounts set out below:

1. Approximately 35% will be used to increase its net capital, establish "light branches" and recruit experienced asset managers and research personnel for strengthening its futures brokerage business and developing its futures asset management business;
2. Approximately 40% will be used to contribute additional capital to Luzheng Trading for expanding the Company's commodity trading and risk management business so as to achieve economies of scale and improve profitability of such business;
3. Approximately 15% will be used to purchase IT infrastructure and software for upgrading and improving the Company's existing IT systems and to contribute additional capital to Luzheng Information Technology for developing its IT development capabilities; and
4. Approximately 10% will be used for working capital and general corporate purposes.

Proceeds of HK\$920 million raised by the Company, net of the listing expenses, were remitted into China on 16 July 2015 and 5 November 2015 and were all converted into Renminbi.

Directors' Report

(2) Use of raised proceeds in projects intended to be financed

As of 31 December 2015, the aforementioned proceeds raised were utilized for the purposes set out in the Prospectus as follows:

Unit: RMB' 0,000

Title of the project intended to be financed	Whether there were changes in the project	The amount of raised proceeds to be invested during the Reporting Period	The accumulated amount of raised proceeds actually invested	Percentage	Reason for change and notes to the process of the change in the raised proceeds
Establishment of light branches and recruitment of staff	No	—	—	—	
Capital contribution to Luzheng Trading	No	—	—	—	Note ⁽¹⁾
Purchase of IT infrastructure and software	No	—	—	—	
Injection of working capital	No	6,460	6,460	10%	

Note (1) On 4 February 2016, the Company utilized the raised proceeds for contributing RMB100 million to Luzheng Trading.

In order to enhance the efficiency of the utilization of the proceeds, as of 31 December 2015, the Group's remaining proceeds raised, other than the proceeds used as additional working capital, were invested on short-term financial products or deposited into large commercial banks as fixed deposit. The Company intends to utilize the net proceeds raised in the amount and usages as prescribed in the Prospectus in due course in 2016.

XI. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlements of the shareholders of the Company (the "Shareholder(s)") to attend and vote at the 2015 annual general meeting (the "AGM") to be held on 16 June 2016 and their entitlement to the final dividend for 2015, the register of members of the Company will be closed respectively from 17 May 2016 to 16 June 2016, both days inclusive, and from 23 June 2016 to 28 June 2016, both days inclusive, during which no transfers of shares shall be effected. Shareholders whose names appear on the Company's register of members on 16 June 2016 will be entitled to attend and vote at the AGM. Shareholders whose names appear on the Company's register of members on 28 June 2016 will be entitled to receive the final dividend for 2015. In order for holders of H shares of the Company to qualify for attending and voting at

the AGM, transfers of shares must be lodged with H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 16 May 2016. In order for holders of H shares of the Company to qualify for receiving the final dividend for 2015 subject to the approval of shareholders at AGM, transfers of shares must be lodged with H Share registrar to the Company at the aforementioned address, no later than 4:30 p.m. on 22 June 2016.

XII. FINAL DIVIDEND

The Company intends to propose the distribution of dividends of RMB0.043 (including tax) per share to Shareholders whose names appear on the Company's register of members on 28 June 2016 at the AGM. The total amount of dividends to be distributed is RMB43,081,700.00 (2014: Nil). The dividends payable are not reflected in the consolidated financial statements of the Group for 2015. The final dividend for 2015 will be paid by the Company on or about 28 July 2016.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures for Enjoying Treatment Under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Bulletin [2015] No. 60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的通知》(國家稅務總局公告2015年第60號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《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》(國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the dividend to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). For individual holders of H shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H shares in the distribution of the dividend accordingly.

For non-resident enterprise holders of H shares, i.e., any shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominees Limited, other nominees, trustees, or holders of H shares registered in the name of other groups and organisations, the Company will withhold and pay the enterprise income tax at the tax rate of 10% for such holders of H shares pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No.897) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)).

Directors' Report

Should the holders of H Shares of the Company have any doubts in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for the relevant tax impacts in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

XIII. OTHER DISCLOSURES

(1) Permitted Indemnity Provision

During the Reporting Period, the Company has purchased appropriate liability insurance for Directors, Supervisors and senior management to indemnify them for their liabilities arising out of corporate activities.

(2) Management Contract

During the Reporting Period, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

(3) Environment Policies and Performance

The Group constantly carries out internal recycling measures in terms of its consumables (eg. toner cartridge and paper) in order to lessen its impact on consumption of resources and environment resulting from the operating activities. Furthermore, the Company encourages employees to adopt the duplex printing when printing and collect one-side paper for recycling.

The Group implements energy saving measures in its offices, branches and other areas, encouraging its employees to reduce unnecessary use of lighting and air conditioning.

(4) Compliance of Laws and Regulations

The Company strictly abides by the Company Law of the PRC (中國《公司法》), the Regulations on the Administration of Futures Trading (《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》), the Listing Rules, the SFO and the relevant laws and regulations of the PRC and Hong Kong which have a significant impact on the Company.

(5) Relationship with Key Stakeholders

1. Employees

Employees are regarded as the most important and valuable assets for the Group. The Group has established complete system and procedures of human resource management in order to regulate the use of human resources and realistically protect employees' rights and interests. Through compensation and welfare schemes and annual appraisal plans, the

Company has awarded and commended outstanding employees while enhancing employees' vocational capabilities and widening their room for promotion by way of training and others.

Please refer to the section "IV. Employees, Remuneration and Training" in Chapter VI of this annual report.

2. Major customers and suppliers

The Company provides services for the various individual and institutional customers. The Company's large clients include institutional and high-net-worth clients. All clients are located in China, mainly in Shandong. For the year ended 31 December 2015, the revenue from the five largest customers of the Company represented less than 30% of operating cost. As far as the Directors are aware, as of the last practicable date, none of the Directors, Supervisors, their respective close associates or any Shareholders who owned more than 5% of the Company's number of issued shares had any interest in the five largest customers.

Due to the nature of the business, the Company does not have major suppliers.

(6) Competing Business

During the period from the Listing Date to 31 December 2015, none of the Directors of the Company and their associates (as defined in the Listing Rules) is interested in any business which competes, or may compete, directly or indirectly, with the business of the Company and/or its subsidiaries.

(7) Directors' and Supervisors' Material Interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period, no transactions, arrangements or contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or Supervisor of the Company or entities connected with a Director or Supervisors has a material interest, whether directly or indirectly, has been entered into or subsisted during the Reporting Period.

(8) Equity-linked Agreements

No equity-linked agreements were entered into by the Company during the Reporting Period.

(9) Reserves and Reserves Available for Distribution to Shareholders

During the Reporting Period, the changes of the reserves and reserves available for distribution to Shareholders of the Group are set out in Note 33 of the notes to the consolidated financial statements and the consolidated statements of changes in equity in this annual report.

Directors' Report

(10) Pre-Emptive Rights

There is no arrangement of pre-emptive rights in accordance with the laws of the PRC and the requirements of the Articles of the Company.

(11) Directors' and Supervisors' Right to Purchase Shares or Debentures

During the Reporting Period, none of the Directors, Supervisors or their respective spouse or children under 18 years of age acquire rights by means of the acquisition of shares in or debentures of the Company, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors of the Company or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

(12) Property and Equipment

Please refer to the Note 17 of the consolidated financial statements of this report for details of property and equipment of the Group during the Reporting Period.

(13) Public Float

For the year ended 31 December 2015, the public float of the Company was in compliance with the minimum public float requirement of 25% of the Stock Exchange.

By order of the Board

Chen Fang

Chairman

22 March 2016

Report of Supervisory Committee

I. ROUTINE WORK OF SUPERVISORY COMMITTEE IN 2015

In 2015, all members of the Supervisory Committee of the Company acted in good faith and discharged all duties conferred by the Articles of Association in a faithful manner in accordance with the Company Law of the PRC, the Articles of Association of the Company as well as rules and requirements of relevant laws and regulations.

The Supervisory Committee held three meetings in the year:

On February 28, 2015, it convened the sixth meeting of the first session of the Supervisory Committee by way of written resolutions, which approved the “Resolution on the Preparation of the Rules of Procedure of the Supervisory Committee after the Issuance and Listing of the H Shares of LUZHENG FUTURES Company Limited” (《關於制訂魯証期貨股份有限公司H股發行並上市後適用的監事會議事規則的議案》) and the “Resolution on the Adjustment of the Members of the Supervisory Committee of LUZHENG FUTURES Company Limited” (《關於調整魯証期貨股份有限公司監事會組成人員的議案》) by way of poll.

On March 13, 2015, it convened the seventh meeting of the first session of the Supervisory Committee at the domicile of the Company, which approved the “Work Report of the General Manager of LUZHENG FUTURES Company Limited in 2014” (《魯証期貨股份有限公司2014年度總經理工作報告》), the “Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited in 2014” (《魯証期貨股份有限公司2014年度監事會工作報告》), the “Report on the Final Accounts of LUZHENG FUTURES Company Limited in 2014” (《魯証期貨股份有限公司2014年度財務決算報告》), the “Annual Report of LUZHENG FUTURES Company Limited in 2014” (《魯証期貨股份有限公司2014年度報告》) and the “Report on the Final Accounts of LUZHENG FUTURES Company Limited in 2015” (《魯証期貨股份有限公司2015年度財務預算報告》) by way of poll.

On December 21, 2015, it convened the eighth meeting of the first session of the Supervisory Committee by way of written resolutions, which approved the “Work Report of the Chief Risk Officer in the First to Third Quarters of 2015” (《2015年一季度至三季度首席風險官工作報告》) by way of poll.

II. SUPERVISORY OPINIONS ON RELEVANT MATTERS IN 2015

(I) Legal Operation of the Company

In 2015, the Supervisory Committee attended the on-site meetings of the Board and the general meeting of the Company and carried out supervision on the convening, holding, voting procedures of and the matters resolved at the general meeting and the Board of the Company and the implementation of the resolutions of the general meeting by the Board. The Supervisory Committee believes that the Company has established a relatively complete internal management and control system. The information disclosure is timely, accurate and complete and all decisions-making procedures of the meeting of the Board and the general meeting of the Company are legal. The directors and senior management of the Company all tried their best in performing their duties and have not performed any act injuring the interest of the Company or in breach of any laws and regulations.

Report of Supervisory Committee

(II) Inspection on Financial Conditions of the Company

During the Reporting Period, the Supervisory Committee conducted effective supervision and careful inspection on the financial conditions and operation results of the Company in 2015. The Supervisory Committee believes that the financial system of the Company is sound, the internal control system is complete and the financial operation is standardised with excellent financial conditions. The financial reports on the Reporting Period is true and accurate and gives an objective reflection to the financial conditions and operation results of the Company in 2015. PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所 (特殊普通合夥)) issued an unqualified audit report.

(III) Connected Transactions of the Company

All routine connected transactions of the Company in the year are approved and implemented in accordance with legal procedures. The above connected transactions are normal operations to meet the demand of the operation of the Company. The prices of the connected transactions are fair and reasonable and the decision-making procedures are legal and in compliance with regulations. The transaction prices reflected the principles of fairness and equity without injuring the interest of the Company and all Shareholders. Such transactions will give full play to the synergy advantages of the Company and its connected parties and will facilitate improving the comprehensive competitiveness of the Company on the whole.

(IV) Opinions on Self-Assessment Report on Internal Report

The Company has established a relatively complete internal control system based on its own actual conditions in accordance with relevant laws and regulations. The corporate governance, production, operation, information disclosure and other activities are conducted strictly in compliance with rules on internal control. The internal control of the Company is effectively implemented and satisfies the requirements of relevant laws and regulations on the internal control and management of the Company. The self-assessment report on internal control gives a true and objective reflection to the establishment, improvement and operation of the internal control system of the Company.

In summary, the Supervisory Committee conducted supervision on the Company and no abnormal conditions were found in 2015.

By order of the Board of Supervisors

An Tie

Chairman

22 March 2016

Directors, Supervisors, Senior Management and Staff

I. BRIEFINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors: As at the date of this report, the Board of the Company consists of ten Directors, including two executive Directors with Mr. Chen Fang serving as the Chairman of the Board, four non-executive Directors and four independent non-executive Directors.
2. Supervisors: As at the date of this report, the Supervisory Committee of the Company consists of six Supervisors, including two shareholder representative Supervisors, two staff representative Supervisors and two independent Supervisors.
3. Senior management: As at the date of this report, there are seven senior management in the Company, including one general manager, four deputy general managers, one Chief Risk Officer and one secretary of the Board.

Set out below is the brief introduction of our existing Directors, Supervisors and senior management:

(I) The Board

Executive Directors

Mr. Chen Fang (陳方), aged 56, joined the Company in September 2006. At present, he is the Chairman of the Board and an executive Director of the Company, and serves as a vice president of Zhongtai Securities, the 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 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 Zhongtai Securities; served as the general manager of the research and development center, and the general manager and vice president of Beijing business department in succession in Zhongtai Securities since May 2001; served as the chairman of the Board of the Company since September 2006; and served as the chairman of the board of directors of Luzheng Trading from April 2013 to August 2015. 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 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 post graduates 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.

Directors, Supervisors, Senior Management and Staff

Mr. Liang Zhongwei (梁中偉), aged 42, joined the 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 Zhongtai 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 the 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. 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.

Non-executive Directors

Mr. Lu Xiangyou (呂祥友), aged 45, joined the Company in April 2010. At present, he is an on executive Director of the Company, as well as a vice president, the chief compliance officer and the chief risk officer of Zhongtai 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 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 Zhongtai Securities from January 2007 to September 2014; served as the director of the organization department of the party committee of Zhongtai Securities since December 2008; served as the non-executive Director of the Company since April 2010; served as a vice president and the chief compliance officer of Zhongtai Securities since August 2013 and served as the chief risk officer of Zhongtai Securities since December 2013. 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.

Directors, Supervisors, Senior Management and Staff

Mr. Zhang Yunwei (張雲偉), aged 51, joined the Company in September 2006. At present, he is a non-executive Director of the Company, as well as the office manager of Zhongtai 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 of Zhongtai Securities from May 2001 to January 2007; served as the office manager of Zhongtai Securities since September 2004; and served as a non-executive Director of the Company since September 2006; and serve as the secretary of the board of directors of Qilu Equity Trust Trading Center Co., Ltd. since September 2015. 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.

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 Co., Ltd. Mr. Li Chuanyong served in several positions in succession in Yongfeng Group Co., Ltd. from June 2003 to April 2005, including the manager of the steel mill, the deputy general manager and the director of the steel works; served as the deputy general manager of Yongfeng Group Co., Ltd. since April 2005; and served as a non-executive Director of the Company since December 2012. 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.

Mr. Liu Feng (劉峰), aged 43, joined the Company in February 2015. At present, he is a non executive Director of the Company, as well as the deputy general manager of capital operation center of Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司). Mr. Liu Feng served as an office staff member of the silk worm 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 silk worm cocoon unit of Qingdao Hairun Investment Group (青島海潤投資集團) from January 2005 to December 2005; served as the secretary and 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 Shandong State-owned Assets Investment Holdings Co., Ltd. in succession from June 2009 to December 2015 such as the clerical director of comprehensive department, the director of equity operation of capital operation department and the senior business manager and deputy director of capital operation department; served as the deputy general manager of capital operation center of Shandong State-owned Assets Investment Holdings Co., Ltd. since December 2015; and served as a non-executive Director in the Company since February 2015. 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.

Directors, Supervisors, Senior Management and Staff

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 the Company as well as the deputy chairman 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. (五礦實達期貨經紀有限公司) 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 the Company since December 2012; and served as independent director of AVIC Futures Co., Ltd. since December 2014. 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 Occupation Qualification Review Committee for Senior International Business Expertise under the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999.

Mr. Yu Xuehui (于學會), aged 50, joined the Company in January 2008. At present, he is an Independent non-executive Director of the 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 the 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. 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.

Directors, Supervisors, Senior Management and Staff

Mr. Wang Chuanshun (王傳順), aged 50, joined the 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 Hexin Accounting Firm (山東正源和信會計師事務所) 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 in the Company since December 2012. 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, with research orientation of 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.

Mr. Wei Wei (魏巍), aged 40, joined the Company in June 2015. At present, he is an independent non-executive Director of the 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 the Company since June 2015. 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.

Directors, Supervisors, Senior Management and Staff

(II) The Supervisory Committee

Mr. An Tie (安鐵), aged 46, joined the Company in September 2006. At present, he serves as the chairman of the Supervisory Committee of the Company as well as the general manager of the audit department of Zhongtai 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 Zhongtai Securities from May 2001 to December 2004; and served as the general manager of the audit department of Zhongtai Securities since January 2005. 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.

Mr. Zhang Shouhe (張守合), aged 52, joined the Company in December 2012. At present, he is a Supervisor of the Company, as well as the deputy general manager of Jinan Energy Investment Co., Ltd (濟南市能源投資有限公司). 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 Co., Ltd from July 1998 to May 2009; and served as the deputy general manager since June 2009. Mr. Zhang Shouhe obtained the college diploma majoring in industrial enterprise management through the higher education examination program for the selftaught 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.

Mr. Hu Yuyue (胡俞越), aged 55, joined the Company in June 2015. At present, he is an Independent 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 strategic development committee of Zhengzhou Commodity Exchange, a member of the product committee of Shanghai Futures Exchange, a consulting expert of Shanghai Stock Exchange, deputy Director of expert committee of CFLP Bulk Commodity Market and an independent Director of five companies (please refer the below herein 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

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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 Ecommerce 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 since March 2005; and served as the Supervisor of the 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 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 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. 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.

Mr. Mu Yong (牟勇), aged 39, joined the Company in June 2015. At present, he is an Independent 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公司). 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 the Company since June 2015. 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.

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Mr. Li Xisheng (李喜生), aged 47, joined the Company in February 2007. At present, he is an employee representative Supervisor of the 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 Zhongtai Securities from June 2001 to February 2007; served in succession as the business director and the deputy general manager of the Company from February 2007 to February 2015 and served as an employee representative Supervisor of the Company since March 2015. 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.

Mr. Wang Hairan (王海然), aged 37, joined the Company in July 2007. At present, he is an employee representative Supervisor, as well as the manager of the compliance and review department of the 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. Mr. Wang Hairan graduated from Shandong University, WeiHai 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.

(III) Senior Management

Mr. Li Xuekui (李學魁), aged 53, joined the Company in September 2006. At present, he is the general manager of the Company, as well as a standing director of Shandong Futures Association, the chairman of the settlement committee of Shanghai Futures Exchange and a member of the 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 Zhongtai 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 manager; served as the executive deputy general manager of the Company from September 2006 to August 2008; served as the general manager of the 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 date of this annual report. 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.

Mr. Liu Yunzhi (劉運之), aged 46, joined the Company in January 2007. At present, he is the deputy general manager and the chief financial officer of the 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 Zhongtai 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 the deputy general manager of the Company since January 2008; served as a member of Financial Committee of the Dalian Commodity Exchange from May 2010 to May 2015; served as 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 date of this annual report. 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

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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 44, joined the Company in December 2008. At present, she is the deputy general manager of the 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. (大連萬恆期貨有限公司) 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. 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 the Company in November 2006. At present, he is the deputy general manager, as well as the supervisor of information and technology department of the Company and director of Luzheng Information Technology. 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 Zhongtai Securities from May 2001 to November 2006; served in several positions in succession in the Company 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 the Company since July 2010; served as the deputy general manager of the Company since July 2012; and served as an executive director of Luzheng Information Technology since February 2015. 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.

Directors, Supervisors, Senior Management and Staff

Mr. Liu Jianmin (劉建民), aged 46, joined the Company in January 2000. At present, he is the deputy general manager of the 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 the 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 the Company since September 2014. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

Ms. Ji Qihong (季秋紅), aged 43, joined the Company in February 2014. At present, she is the chief risk officer, the general manager of the audit department of and general counsel of the 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 the Company from February 2014 to September 2014; served as the chief risk officer and general manager of the audit department of the Company since September 2014; and served as general counsel of the Company since December 2014. 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.

Directors, Supervisors, Senior Management and Staff

Mr. Meng Tao (孟濤), aged 34, joined the Company in December 2006. At present, he is the secretary of the Board, a joint company secretary, office manager, and the general manager of settlement and financing management department and the general manager of assets management department of the 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 the Company from December 2006 to October 2015, including an employee and the business manager of the planning and finance department, the business manager and deputy manager of the clearing department, the general manager of Wenzhou business department; served as a staff Supervisor of the 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 the Company since April 2012; served as the director of Board office of the Company since October 2015; served as the secretary of the Board of the Company since February 2015 and served as the general manager of the asset management department of the 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 the Company since April 2015. 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.

II. CHANGE OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

In respect of change of Directors of the Company during the Reporting Period, Mr. Cui Pengpeng has ceased to act as a Director of the Company in February 2015, with addition of Mr. Liu Feng and Mr. Wei Wei to the Board serving as non-executive Director of the Company in February 2015 and independent non-executive Director in June 2015, respectively.

In respect of change of Supervisors of the Company during the Reporting Period, Mr. Meng Tao has ceased to act as a staff Supervisor of the Company in February 2015, with addition of Mr. Hu Yuyue and Mr. Mu Yong to the Supervisory Committee serving as independent Supervisors of the Company in June 2015, and addition of Mr. Li Xisheng in March 2015 and Mr. Wang Hairan in June 2015 serving as staff representative Supervisors of the Company.

In respect of change of senior management of the Company during the Reporting Period, Mr. Meng Tao has been appointed by the Company as the secretary of the Board in February 2015, with Mr. Li Xuekui ceasing to take that position in February 2015 accordingly, and Mr. Li Xisheng has ceased to serve as the deputy general manager of the Company in February 2015. Mr. Yu Dongxin has ceased to serve as the deputy general manager of the Company in March 2016.

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Remuneration system and decision-making process of Directors, Supervisors and senior management

The remuneration and appraisal of the Directors shall be proposed by the Remuneration and Appraisal Committee and the Nomination Committee, and reviewed and decided by general meetings; the remuneration of the Supervisors shall be reviewed and decided by general meetings; the remuneration and appraisal of senior management shall be proposed by the Remuneration and Appraisal Committee and the Nomination Committee, and decided by general meetings.

(II) Basis for confirmation of remuneration of Directors, Supervisors and senior management

The remuneration of the internal Directors and Supervisors (staff directors and supervisors) of the Company shall be confirmed according to general meetings of the Company concerning the resolutions of remuneration of the Directors and Supervisors, together with the operation results, duties and responsibilities, work performance and market environment, etc. of the Company.

The remuneration of the external Directors and Supervisors of the Company shall be proposed by the Remuneration and Appraisal Committee according to the industry and market conditions, which proposal has been implemented after approval by the general meetings.

The Remuneration, rewards and punishments of the senior management of the Company shall be resolved by the Board and confirmed by the assessment and award colligation mechanism plan of the Company.

(III) Long-term incentive scheme

There is no implementation of the long-term incentive scheme currently by the Company.

(IV) Remuneration information of Directors, Supervisors and senior management

1. Remuneration information of Directors and Supervisors

Please refer to Note 47 of the consolidated financial statements for details. During the Reporting Period, save for Mr. Wei Wei as an independent non-executive Director of the Company who confirmed to give up the remuneration of Directors, none of Directors and Supervisors gave up or agreed to give up the remuneration of Directors and Supervisors.

Directors, Supervisors, Senior Management and Staff

2. Remuneration information of senior management

Please refer to “9. Other Relevant Matters (viii) Remuneration of Senior Management” of Chapter XI of this report for details.

IV. STAFF AND REMUNERATION

Please refer to “4. Employees, Remuneration and Training” of Chapter VI of this report for details.

Significant Events

I. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Company was not involved in any material litigation or arbitration.

II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

During the Reporting Period, the Company was not engaged in any acquisition, reorganisations or disposals.

III. CONNECTED TRANSACTIONS

(I) Connected transactions

During the period from the Listing Date to 31 December 2015, transactions between the Company and our connected persons constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

(II) Connected persons

During the period from the Listing Date to 31 December 2015, the following entities, with whom the Company has entered into certain transactions in the ordinary and usual course of business, was the Company's connected persons:

- **Zhongtai Securities**

Zhongtai 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 31 December 2015, Zhongtai Securities owned approximately 63.10% of the total issued share capital of the Company and is therefore a Controlling Shareholder and connected person of the Company.

- **Associates of Zhongtai Securities (excluding our Group)**

Associates of Zhongtai Securities (excluding our Group), including the subsidiaries and the companies in which Zhongtai Securities holds 30% or more of the equity interest, for instance Zhongtai Securities (Shanghai) Asset Management Co., Ltd., Wanjia Funds Management Co., Ltd. and Zhongtai International Holdings Limited, are connected persons of the Company by virtue of their being associates of Zhongtai Securities as defined under Chapter 14A of the Listing Rules.

Significant Events

- **Shandong Iron & Steel Group Co., Ltd (山東鋼鐵集團有限公司) (“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 31 December 2015, Shandong Steel owned 100% equity interest in Laiwu Steel. Meanwhile, Laiwu Steel’s interest in our Controlling Shareholder Zhongtai Securities was approximately 45.91% and Laiwu Steel is the holding company of Zhongtai Securities. Shandong Steel is therefore a Controlling Shareholder and connected person of the Company.

- **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, Zhongtai Securities and their respective subsidiaries, are connected persons of the Company 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 the connected persons and the Company, which have been entered into in the ordinary course of business on a continuing basis, will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(III) Non-exempt continuing connected transactions

1. Continuing connected transactions relating to Zhongtai Securities and/or its associates

Financial Services Framework Agreement

In the ordinary and usual course of business, the Company regularly provides specific financial services (as detailed below) to Zhongtai Securities and its associates. On the other hand, Zhongtai Securities and its associates also regularly provide various financial services (as detailed below) to the Company. To comply with the requirements of the Listing Rules, the Company entered into a financial services framework agreement (the “Financial Services Framework Agreement”) with Zhongtai Securities to engage in the following services with Zhongtai Securities and/or its associates in the ordinary and usual course of business. As the highest applicable percentage ratio for the three years ending 31 December 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 upon signature of the Financial Services Framework Agreement, such transactions constitute continuing connected transactions of the 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.

- A. Mutual Provision of IB services: Zhongtai Securities and/or its associates and the Company will mutually provide IB services to each other in the Company's ordinary and usual course of business on a continuing basis;
- B. Purchase of the Asset Management Plans: The Company will purchase the asset management schemes in which Zhongtai Securities and/or its associates act as the manager in the ordinary and usual course of business on a continuing basis; and
- C. Receipt of Securities Brokerage and other Financial Services: Zhongtai Securities and/or its associates will provide securities brokerage and other financial services to the Company in the Company's ordinary and usual course of business on a continuing basis.

The summary of the transactions conducted by Zhongtai Securities or its associates under the Financial Services Framework Agreement as of the end of the Reporting Period is set out in the following table:

Nature of transaction	Amounts for the year ended 31 December 2015 (RMB'000)	Proposed annual caps for the year ended 31 December 2015 (RMB'000)
1. IB Services		
Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Company	16,832	22,000
Commissions charged by us to Zhongtai Securities and/or its associates for provision of IB services by the Company	0	720
2. Purchase of Asset Management Schemes		
Average daily amount invested	63,141	130,000
Asset Management Fees (as defined below) charged by Zhongtai Securities and/or its associates	494	1,310
3. Securities Brokerage and other Financial Services		
Commissions charged by Zhongtai Securities and/or its associates	205	500
Total Commissions charged by Zhongtai Securities and/or its associates to the Company	17,531	23,810
Total Commissions charged by the Company to Zhongtai Securities and/or its associates	0	720

Significant Events

A. IB Services

Principal terms:

IB services between Zhongtai Securities and/or its associates and the Company under the Financial Services Framework Agreement include the following:

Zhongtai Securities and/or its associates' IB services provided to the Company:

In the Company's ordinary and usual course of business, Zhongtai Securities and/or its associates provide IB services to the Company. In particular, Zhongtai Securities and/or its associates introduce potential clients to the Company for the engagement of the Company's futures brokerage business. In addition, Zhongtai Securities and/or its associates will also provide the following services to such clients introduced to the Company: (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. Zhongtai Securities and/or its associates will charge the Company commissions for the provision of such IB services.

The Company's IB services provided to Zhongtai Securities:

Likewise, the Company also provide IB services to Zhongtai Securities, i.e., the Company introduce potential clients to Zhongtai Securities for the engagement of its stock option trading business. In 2015, Zhongtai 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, the Company will also be responsible for conducting comprehensive evaluation of the referred clients. The Company will charge Zhongtai Securities commissions for such provision of IB services.

Reasons for the transaction:

The Company, as a futures firm, and Zhongtai Securities, as a securities company, will achieve sharing of customer resources through mutual provision of IB services. In particular, the Company could effectively obtain access to the relatively abundant customer resources of Zhongtai Securities and/or its associates. Besides, both Zhongtai Securities and the Company could effectively achieve synergies through mutual provision of IB business while enhancing the Company's customer service capabilities as well as expanding the investment channels and product range the Company offers to our own customers. In addition, Zhongtai Securities and/or its associates have been providing IB services to our Group during the Track Record Period and have a deep understanding of the Company's business needs. The Company 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 Zhongtai Securities and/or its associates to the Company would foster the development of the Company's futures business.

Pricing terms:

- (i) the commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company will be 60% of the commission revenue generated from such clients introduced by Zhongtai Securities and/or its associates. Likewise, the commission charged by the Company for the provision of IB services to Zhongtai Securities will also be 60% of the commission revenue generated from such clients introduced by the Company (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 Zhongtai Securities and the Company with reference to the prevailing market commission rates for similar IB businesses and on normal commercial terms, and is consistent with market practice; and
- (iv) the mutual provision of IB services between Zhongtai Securities and/or its associates and the Company, including the Commission Split of 60%, as well as the Company’s proposed annual caps for the years ending 31 December 2015, 2016 and 2017 have been approved by the Shareholders of the Company at our general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

B. Purchase of the Asset Management Schemes

Principal terms:

In the ordinary and usual course of business, the Company participates in asset management schemes in which Zhongtai Securities and/or its associates act as the manager. Zhongtai 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, the Company 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 Zhongtai Securities and/or its associates.

Reasons for the transaction:

Investment in asset management schemes could enhance the 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 the Company’s risk management requirements. In addition, the Company has invested in various asset management schemes managed by Zhongtai Securities and/or its associates during the Track Record Period and thus has developed a better understanding of their investment strategy and performance, which are the key factors the Company considers in selecting asset management schemes.

Significant Events

Pricing terms:

- (i) Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management plan are calculated based on the Company's 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 Zhongtai Securities and/or its associates as the manager is comparable to, or no less favorable than, those charged by Zhongtai 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 the Company participated in; and (c) the Asset Management Fees rate has been determined based on arm's length negotiations between Zhongtai Securities and/or its associates and the Company 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 Zhongtai 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 31 December 2015, 2016 and 2017, have been approved by the Shareholders of the Company at the general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

C. Securities Brokerage and other Financial Services Provided by Zhongtai Securities

Principal terms:

As part of the Company's treasury management activities, Zhongtai Securities and/or its associates provide securities brokerage services to the Company 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 the Company's ordinary course of business, for which Zhongtai Securities and/or its associates charged the Company commissions.

Reasons for the transaction:

In consideration of the enhancement of the Company's capital return by securities investment during our treasury management activities and the Company's lack of necessary qualifications for engaging in securities brokerage business, the Company need to conduct securities brokerage and other financial services through Zhongtai Securities and/or its associates, which has/have the necessary qualifications for engaging such business. In addition, the Company has engaged Zhongtai Securities and/or its associates for securities brokerage and other financial services during the Track Record Period. Zhongtai Securities and/or its associates have developed a good understanding of our needs. This is a key factor the Company considers in selecting a provider of securities brokerage and other financial services.

Pricing policy:

- (i) the commissions charged by Zhongtai 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 Zhongtai Securities and/or its associates and the Company with reference to the prevailing market commission rate for similar business, and is consistent with the market practice;
- (ii) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Company is comparable to, or no less favorable than, those charged by Zhongtai 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 Zhongtai Securities and/or its associates, including the commission rate, as well as the proposed annual caps for the three years ending 31 December 2015, 2016 and 2017, have been approved by our Shareholders at the Company's general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

2. Continuing connected transactions relating to Shandong Steel and/or its associates***Futures Brokerage Services Framework Agreement***

In the ordinary and usual course of business, the Company provides 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, the Company 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 31 December 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 upon signature of the Futures Brokerage Services

Significant Events

Framework Agreement, such transactions will constitute continuing connected transactions of the 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 the ordinary and usual course of business, the Company provides futures brokerage and other related financial services to Shandong Steel and/or its associates. In particular, the Company executes 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 Zhongtai Securities and/or its associates require hedging through futures trading. Given that the Company has extensive experience in the futures industry, Shandong Steel and/or its associates entrusted the Company to provide futures brokerage services to them. Besides, the Company has been continuously providing futures brokerage services to Shandong Steel and/or its associates (including but not limited to Laiwu Steel and Zhongtai 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, the Company believes that we would be able to achieve higher return from our services provided.

Pricing policy:

- (i) although the Company’s 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 the Company 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 31 December 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. Zhongtai Securities, an associate of Shandong Steel, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

The following table set forth the summary of futures commission from the provision of futures brokerage and other relevant financial services by the Company to Shandong Steel and/or its associate up to the end of the Reporting Period under the Futures Brokerage Services Framework Agreement:

Nature of transaction	Amounts for the year ended 31 December 2015 (RMB'000)	Proposed annual caps for the year ended 31 December 2015 (RMB'000)
Futures Commissions	3,244	5,000

3. Our Directors' and Auditors' Confirmation

In respect of the aforesaid continuing connected transactions, the Company confirms that they have been in compliance with the requirements of Chapter 14A of the Listing Rules as amended from time to time or applied for relevant exemption. Our Directors (including our independent non-executive Directors) have reviewed and confirmed that the continuing connected transactions described in the subsection headed "Non-exempt Continuing Connected Transactions" above have been and will continue to be conducted in our ordinary and usual course of business pursuant to the relevant continuing connected transaction agreements, to be entered into, on normal or better commercial terms (as defined in the Listing Rules), are fair and reasonable and in the interest of the 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 the Company and our Shareholders as a whole.

The Board of the Company has received a confirmation letter regarding the aforesaid continuing connected transactions from the auditors of the Company, and the auditors presented the following conclusions in respect of the disclosed continuing connected transactions according to their work, including:

"In respect of the disclosure of the continuing connected transactions:

- (a) Nothing has come to their attention that causes them to believe that such continuing connected transactions as disclosed were not approved by the Board of the Company;
- (b) for the transactions involving the provision of services by the Group, nothing has come to their attention that causes them to believe that such transactions were not entered into, in all material respects, according to the pricing policy of the Group;
- (c) nothing has come to their attention that causes them to believe that such transactions were not entered into, in all material respects, according to the relevant transaction agreements;

Significant Events

- (d) for the purpose of the total amount of every continuing connected transaction as set out in the attached tables (see note below), nothing came to their attention that causes them to believe that the amount of such continuing connected transactions had exceeded the annual cap set by the Company.”

Note: The attached tables refer to the two tables set out in “3. Connected Transactions” of Chapter X of this report.

4. Waivers from the Stock Exchange

In relation to the continuing connected transactions described under the subsection headed “1. Continuing Connected Transactions Relating to Zhongtai Securities and/or its Associates” above (the “Non-exempt Continuing Connected Transactions with Zhongtai 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 31 December 2015, 2016 and 2017 is expected to be more than 5%. Accordingly, the Non-exempt Continuing Connected Transactions with Zhongtai 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 “2. 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 31 December 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 “3. 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 the Company.

Accordingly, the Company has 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 Transactions with Zhongtai 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 31 December 2015, 2016 and 2017 will not exceed the relevant annual caps set forth above. Our independent non-executive Directors and auditors of the Company have reviewed whether the Non-exempt Continuing Connected Transactions with Zhongtai 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 have been disclosed in the previous section “3. Our Directors’ and Auditors’ Confirmation”, 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 date of this report on the continuing connected transactions referred to in this section, the Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

The details of the related party transactions of the Group are set out in Note 40 of the notes to the consolidated financial statements of this report.

Save for the connected transactions and continuing connected transactions disclosed in this report, there is no related party transaction constituting notifiable connected transactions or continuing connected transactions or connected transactions or continuing connected transactions to be approved by independent Shareholders under Chapter 14A of the Listing Rules.

IV. MAJOR CONTRACTS AND THEIR PERFORMANCE

On 14 January 2015, the general manager's council of LUZHENG FUTURES Company Limited passed the "Proposal on Purchase of Shandong International Trust – Hengtai Securities Investment No.4 Collected Fund Trust Scheme" (《關於購買山東信託 — 恒泰證券投資4號集合資金信託計劃的方案》) (Lu Qi Gu Zong Ji [2015] No. 1), to approve the purchase of the "Shandong International Trust – Hengtai Securities Investment No.4 Collected Fund Trust Scheme" (《山東信託 — 恒泰證券投資4號集合資金信託計劃》) issued by Shandong International Trust Co., Ltd. with an investment amount of RMB95.00 million.

On 8 May 2015, the general manager's council of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Luzheng Huiquanwencheng Tranche 1 Asset Management Scheme for Multiple Specific Clients" (《關於購買魯証匯泉文成1期特定多客戶資產管理計劃的請示》) (Lu Qi Gu Zong Ji [2015] No. 9), to approve the purchase of the "Luzheng Huiquanwencheng Tranche 1 Asset Management Scheme for Multiple Specific Clients" (《魯証匯泉文成1期特定多客戶資產管理計劃》) issued by LUZHENG FUTURES Company Limited with an investment amount of RMB5.00 million.

On 9 June 2015, the general manager's council of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Shandong International Trust – Hengxiang No.1 Collected Fund Trust Scheme" (《關於購買山東信託 • 恒祥1號集合資金信託計劃的請示》) (Lu Qi Gu Zong Ji [2015] No. 12), to approve the purchase of the "Shandong International Trust – Hengxiang No.1 Collected Fund Trust Scheme" (《山東信託 • 恒祥1號集合資金信託計劃》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司) ("Shandong International Trust") with an investment amount of RMB50.00 million.

Significant Events

On 30 June 2015, the general manager's council of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Qilu Jintashan No.2 Yield-enhanced Anti-inflationary Collected Asset Management Scheme" (《關於購買齊魯金泰山2號抗通脹強化收益集合資產管理計劃的請示》) and the "Approval-seeking Report on Purchase of Shandong International Trust — Yinongjiayuan Loans Collected Fund Trust Scheme" (《關於購買山東信託 — 億農佳園貸款集合資金信託計劃的請示》) (Lu Qi Gu Zong Ji [2015] No. 13), to approve the purchase of the "Qilu Jintashan No.2 Yield-enhanced Anti-inflationary Collected Asset Management Scheme" (《齊魯金泰山2號抗通脹強化收益集合資產管理計劃》) issued by Zhongtai Securities (Shanghai) Asset Management Co., Ltd. (中泰證券(上海)資產管理有限公司) with an investment amount of RMB20.00 million and the purchase of the Shandong International Trust — Yinongjiayuan Loans Collected Fund Trust Scheme" (《山東信託 — 億農佳園貸款集合資金信託計劃》) issued by Shandong International Trust with an investment amount of RMB30.00 million.

On 7 August 2015, the general manager's council of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Luzheng Huiquanwencheng Stable Series Tranche 1 Asset Management Scheme for Multiple Specific Clients" (《關於購買魯証匯泉文成穩健1期特定多客戶資產管理計劃的請示》) (Lu Qi Gu Zong Ji [2015] No. 16), to approve the purchase of the "Luzheng Huiquanwencheng Stable Series Tranche 1 Asset Management Scheme for Multiple Specific Clients" (《魯証匯泉文成穩健1期特定多客戶資產管理計劃》) issued by LUZHENG FUTURES Company Limited with an investment amount of RMB15.00 million.

On 16 September 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Qilu 21-Day Stable Series Collected Asset Management Scheme" (《關於購買齊魯穩固21天集合資產管理計劃的請示》)(Lu Qi Gu Zi Tou Ji [2015] No. 1), to approve the purchase of the "Qilu 21-Day Stable Series Collected Asset Management Scheme" (《齊魯穩固21天集合資產管理計劃》) issued by Zhongtai Securities (Shanghai) Asset Management Co., Ltd. (中泰證券(上海)資產管理有限公司) with an investment amount of RMB90.00 million.

On 23 September 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Ping An Fortune • Zewo 2-X Series Private Investment Fund" (《關於購買平安財富•澤沃2-X系列私募投資基金的請示》)(Lu Qi Gu Zi Tou Ji [2015] No. 2), to approve the purchase of the "Zewo No. 2-0016 Private Investment Fund" (《澤沃2-0016號私募投資基金》) issued by Shenzhen Si Dao Ke Investment Limited (深圳市思道科投資有限公司) with an investment amount of RMB50.00 million.

On 29 September 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the "Approval-seeking Report on Purchase of Luzheng Huiquanwencheng Tranche 3 Asset Management Scheme for Multiple Specific Clients" (《關於購買魯証匯泉文成3期特定多客戶資產管理計劃的請示》) and the "Approval-seeking Report on Purchase of Dingfeng Tranche 5 Alternative Strategy Fund" (《關於購買鼎鋒另類策略5期基金的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 3), to approve the purchase of the "Luzheng Huiquanwencheng Tranche 3 Asset Management Scheme for Multiple Specific Clients" (《魯証匯泉文成3期特定多客戶資產管理計劃》) issued by LUZHENG FUTURES Company Limited with an investment amount of RMB7.00 million and the purchase of the "Dingfeng Tranche 5 Alternative Strategy Fund" (《鼎鋒另類策略5期基金》) issued by Ningbo Ding Feng Hai Chuan Investment Management Center LLP (寧波鼎鋒海川投資管理中心(有限合夥)) with an investment amount of RMB20.00 million.

On 28 October 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Approval-seeking Report on Purchase of Shandong International Trust • Chang An No.5 (Hebang) Collected Fund Trust Scheme” (《關於購買山東信託•長安5號(和邦生物)集合資金信託計劃的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 4), to approve the purchase of the “Shandong International Trust • Chang An No.5 (Hebang) Collected Fund Trust Scheme” (《山東信託•長安5號(和邦生物)集合資金信託計劃》) issued by Shandong International Trust with an investment amount of RMB50.00 million.

On 30 October 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Approval-seeking Report on Purchase of Luzheng Huiquanwencheng Tranche 8 Asset Management Scheme for Multiple Specific Clients” (《關於購買魯証匯泉文成8期特定多客戶資產管理計劃的請示》) and the “Approval-seeking Report on Purchase of Ping An Fortune • Zewo 2-X Series Private Investment Fund” (《關於購買平安財富•澤沃2-X系列私募投資基金的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 5), to approve the purchase of the “Luzheng Huiquanwencheng Tranche 8 Asset Management Scheme for Multiple Specific Clients” (《魯証匯泉文成8期特定多客戶資產管理計劃》) issued by LUZHENG FUTURES Company Limited with an investment amount of RMB11.70 million and the purchase of the “Zewo No. 2-0016 Private Investment Fund” (《澤沃2-0016號私募投資基金》) issued by Shenzhen Si Dao Ke Investment Limited (深圳市思道科投資有限公司) with an investment amount of RMB50.00 million.

On 18 November 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Approval-seeking Report on Purchase of Luzheng Huiquanwencheng Tranche 6 Asset Management Scheme for Multiple Specific Clients” (《關於購買魯証匯泉文成6期特定多客戶資產管理計劃的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 7), to approve the purchase of the “Luzheng Huiquanwencheng Tranche 6 Asset Management Scheme for Multiple Specific Clients” (《魯証匯泉文成6期特定多客戶資產管理計劃》) issued by LUZHENG FUTURES Company Limited with an investment amount of RMB20.00 million.

On 26 November 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Approval-seeking Report on Purchase of JT Asset Management — CM Network No. 1 Asset Management Scheme” (《關於購買九泰基金 — 中磁視訊1號資產管理計劃的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 8), to approve the purchase of the “JT Asset Management — CM Network No. 1 Asset Management Scheme” (《九泰基金 — 中磁視訊1號資產管理計劃》) issued by JT Asset Management Co., Ltd. (九泰基金管理有限公司) with an investment amount of RMB10.00 million.

On 2 December 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Approval-seeking Report on Purchase of Luzheng Huiquanwencheng Tranche 6 Asset Management Scheme for Multiple Specific Clients” (《關於購買魯証匯泉文成6期特定多客戶資產管理計劃的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 9), to approve the purchase of the “Luzheng Huiquanwencheng Tranche 6 Asset Management Scheme for Multiple Specific Clients” (《魯証匯泉文成6期特定多客戶資產管理計劃》) issued by LUZHENG FUTURES Company Limited with an investment amount of RMB8.00 million.

Significant Events

On 11 December 2015, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the Approval-seeking Report on Purchase of GTJA Allianz – Pansheng Recurring Income No. 6 Asset Management Scheme (《關於購買國聯安 – 盤晟穩盈6號資產管理計劃的請示》) (Lu Qi Gu Zi Tou Ji [2015] No. 10), to approve the purchase of the GTJA Allianz – Pansheng Recurring Income No. 6 Asset Management Scheme for Multiple Specific Clients (《國聯安 – 盤晟穩盈6號特定多客戶資產管理計劃》) issued by GTJA Allianz Fund Management Limited Company (國聯安基金管理有限公司) with an investment amount of RMB60.00 million.

V. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period between the Listing Date and 31 December 2015.

VI. UNDERTAKINGS OF THE COMPANY AND CONTROLLING SHAREHOLDERS AND THEIR PERFORMANCE

(I) Undertakings of the Company and their performance

During the Reporting Period, the Company had not committed itself to any significant undertakings.

(II) Undertakings of Controlling Shareholders and their performance

To avoid any actual or potential competition between the businesses of Zhongtai Securities, Laiwu Steel and Shandong Steel and the Company, our Controlling Shareholders undertook on 15 June 2015 (the “Non-Competition Undertaking”) that, subject to certain exceptions and save as disclosed in the section under “Relationship with Controlling Shareholders – Our Relationship with Qilu Securities” of the Company's Prospectus, our 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 the Company (“Restrained Businesses”) within the period that (a) the H Shares of the Company 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 the Company or are deemed to be the Controlling Shareholders of our Group (“Restrained Period”).

The Company has received confirmation from the Controlling Shareholders that during the period from the Listing Date to 31 December 2015, they had been in compliance with all the undertakings made under the Non-Competition Undertaking as well as all its requirements (including but not limited to the options for new business opportunities, pre-emptive rights, option for purchase and other matters).

The independent non-executive Directors of the Company have reviewed the compliance with the Non-Competition Undertaking of the Controlling Shareholders during the period from the Listing Date to 31 December 2015, and signed an annual confirmation letter concerning the Controlling Shareholders being in compliance with the Non-Competition Undertaking. The summary of the respective confirmation letter is as follows:

“We hereby confirm that:

We have reviewed the compliance with the Non-Competition Undertaking (the “Non-Competition Undertaking”) dated 15 June 2015 granted by Zhongtai Securities Co., Ltd., (previously known as Qilu Securities Co., Ltd.), Laiwu Steel Group Co., Ltd. and Shandong Iron & Steel Group Co., Ltd. (collectively referred as “Covenants”) to the Company;

We did not find that the Covenants were in breach of the undertakings made under the Non-Competition Undertaking as well as all its requirements(, including but not limited to the options for new business opportunities, pre-emptive rights and option for purchase, etc.); and

We agree that the Company can disclose the content of this letter, including adding the content of this letter into the 2015 annual report of the Company.”

Save as disclosed above, during the period from the Listing Date to 31 December 2015, none of the independent non-executive Directors of the Company made any decision concerning whether to exercise new business opportunities, pre-emptive rights, option for purchase, etc..

VII. APPOINTMENT AND DISMISSAL OF AUDITORS

Change of auditors of the Company in the past three years

In order to complete the Listing of the Company and provide services for investors, the Company would not appoint the original auditor Shinewing Certified Public Accountants LLP after expiration (the auditor of the Company in 2013). For maintaining the consistency and completeness of the audit work of the Company, after the review and approval of the 2015 First Extraordinary General Meeting convened on 13 March 2015, the Company confirmed to appoint PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the auditors in 2015 for the annual financial reports prepared in accordance with International Financial Reporting Standards and China Accounting Standards for Business Enterprises respectively, and further appointed the said auditors as the external auditors in 2016. Save for disclosed above, there was no change and removal of auditors by the Company in the past three years.

Significant Events

Auditors' Remuneration

Pursuant to the authorization of the 2015 First Extraordinary General Meeting convened on 5 January 2015, the remuneration of the auditors was RMB2.48 million in total, which was reviewed and passed by the 24th meeting of the first session of the Board convened on 13 March 2015. Among them, the statutory audit fees in 2014 prepared in accordance with China Accounting Standards for Business Enterprises were RMB0.2 million and the fees related to the auditor's reports from 2012 to 2014 and providing services of H Share Offering were RMB2.28 million.

As of 31 December 2015, the remuneration of the Group's auditors was RMB1.88 million in total. Among them, the statutory audit fees of the Company in 2015 prepared in accordance with China Accounting Standards for Business Enterprises, the statutory audit fees of Luzheng Trading in 2015, the statutory audit fees of Luzheng Information Technology in 2015, the statutory audit fees of the Company in 2015 prepared in accordance with International Financial Reporting Standards, the semi-annual review service fees and capital verification fees in relation to H Share were RMB0.27 million, RMB0.07 million, RMB0.01 million, RMB0.93 million, RMB0.5 million and RMB0.1 million respectively.

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

The Company has been committed to improve its corporate governance level, and views it as an integral part of creating value for its shareholders. A modern corporate governance structure, comprising of the general meeting, the board of Directors, the Supervisory Committee and the senior management of the Company, has been established by reference to the code provisions set out in the Corporate Governance Code (the “CG Code”), which operates independently under effective balance. Riding on this structure, each operating unit is enabled to perform their respective duties under respective terms of reference, which ensures standardized operation of the Company. The CG Code has been also adopted by the Company as the reference for its own corporate governance.

Throughout the period from the Listing Date to 31 December 2015, the Company has been in strict compliance with all the code provisions under the CG Code, and also met the requirements of the majority of the recommended best practices thereof.

During the Reporting Period, the Company convened 27 meetings in total, of which 7 were general meetings, 13 were Board meetings, 3 were Supervisory Committee meetings, 1 was Nomination Committee meeting and 3 were Audit Committee meetings.

II. GENERAL MEETINGS

During the Reporting Period, the Company convened 7 general meetings, the details and resolutions of which are as follows:

1. The 2015 First Extraordinary General Meeting of LUZHENG FUTURES Company Limited

On 5 January 2015, the Company convened the 2015 first extraordinary general meeting by way of correspondence, at which the “Resolution on the Appointment of Accounting Firm” was considered and passed.

2. The 2015 Second Extraordinary General Meeting of LUZHENG FUTURES Company Limited

On 20 January 2015, the Company convened the 2015 second extraordinary general meeting with physical presence, at which:

- (1) The “Resolution on the Issue of Overseas Listed Foreign Shares (H shares) by LUZHENG FUTURES Company Limited and its Listing” was considered and passed;
- (2) The “Resolution on the Conversion of LUZHENG FUTURES Company Limited into an Overseas Subscription Company Limited by Shares” was considered and passed;
- (3) The “Resolution on Issues Relating to the Transfer/Reduction of the State-owned Shares in Relation to the Issue of H Shares by LUZHENG FUTURES Company Limited and its Listing” was considered and passed; and

Corporate Governance Report

- (4) The “Resolution on the Authorization to the Board of Directors and/or its Authorized Persons in Handling the Issue of H Shares and the Listing at its/their sole discretion by the General Meeting” was considered and passed.

3. The 2015 Third Extraordinary General Meeting of LUZHENG FUTURES Company Limited

On 6 February 2015, the Company convened the 2015 Third extraordinary general meeting by way of correspondence, at which the “Resolution on the Adjustment on the Directors of LUZHENG FUTURES Company Limited” was considered and passed.

4. The 2015 Fourth Extraordinary General Meeting of LUZHENG FUTURES Company Limited

On 16 March 2015, the Company convened the 2015 fourth extraordinary general meeting with physical presence, at which:

- (1) The “Resolution on Determining the Issue Size of Overseas Listed Foreign Shares (H Shares)” was considered and passed;
- (2) The “Resolution on the Use of Proceeds from the H Share Issue and the Listing and the Investment Plans” was considered and passed;
- (3) The “Resolution on the Distribution Plan for Accumulated Profits Generated Before the Listing of H Shares” was considered and passed;
- (4) The “Resolution on the Formulation of the Articles of Association of LUZHENG FUTURES Company Limited Applicable After the Issuance and Listing of its H Shares” was considered and passed;
- (5) The “Resolution on the Formulation of the Terms of Reference for the Shareholder Meetings of LUZHENG FUTURES Company Limited Applicable After the Issuance and Listing of its H Shares” was considered and passed;
- (6) The “Resolution on the Formulation of the Terms of Reference for the Board Meetings of LUZHENG FUTURES Company Limited Applicable After the Issuance and Listing of its H Shares” was considered and passed;
- (7) The “Resolution on the Formulation of the Terms of Reference for the Supervisory Committee Meetings of LUZHENG FUTURES Company Limited Applicable After the Issuance and Listing of its H Shares” was considered and passed;
- (8) The “Resolution on the Formulation of the Connected Transactions Management System of LUZHENG FUTURES Company Limited Applicable After the Issuance and Listing of its H Shares” was considered and passed;
- (9) The “Resolution on the Co-option of Independent Directors” was considered and passed; and
- (10) The “Resolution on the Adjustment on the Composition of the Supervisory Committee of LUZHENG FUTURES Company Limited” was considered and passed.

5. The 2014 Annual General Meeting of LUZHENG FUTURES Company Limited

On 3 April 2015, the Company convened the 2014 annual general meeting with physical presence, at which:

- (1) The “2014 Work Reports of the Board of Directors of LUZHENG FUTURES Company Limited” was considered and passed;
- (2) The “2014 Work Reports of the Supervisory Committee of LUZHENG FUTURES Company Limited” was considered and passed;
- (3) The “2014 Final Accounts of LUZHENG FUTURES Company Limited” was considered and passed;
- (4) The “2014 Profits Distribution Plan of LUZHENG FUTURES Company Limited” was considered and passed;
- (5) The “2014 Annual Report of LUZHENG FUTURES Company Limited” was considered and passed;
- (6) The “2015 Financial Budget Report of LUZHENG FUTURES Company Limited” was considered and passed;
- (7) The “Resolution on Review of the Connected Transactions Conducted in the Ordinary Course of Business in 2014 and the 2015 Financial Budget of LUZHENG FUTURES Company Limited” was considered and passed; and
- (8) The “Resolution on Planning to Sign a Framework Agreement in relation to Connected Transactions among Connected Parties including Shandong Iron & Steel Group Co., Ltd and LUZHENG FUTURES Company Limited” was considered and passed.

6. The 2015 Fifth Extraordinary General Meeting of LUZHENG FUTURES Company Limited

On 28 April 2015, the Company convened the 2015 Fifth extraordinary general meeting by way of correspondence, at which the “Resolution on the Formulation of Three-Year Capital Replenishment Plan (2015-2017) of LUZHENG FUTURES Company Limited” was considered and passed.

7. The 2015 Sixth Extraordinary General Meeting of LUZHENG FUTURES Company Limited

On 30 June 2015, the Company convened the 2015 Sixth extraordinary general meeting by way of correspondence, at which:

- (1) The “Resolution on Annulling the Internal Management System Related to A Share Listing of LUZHENG FUTURES Company Limited” was considered and passed; and
- (2) The “Resolution on the Formulation of Investment and Finance Management System of LUZHENG FUTURES Company Limited Applicable After the Listing of its H Shares” was considered and passed.

III. PERFORMANCE OF THE DIRECTORS

(1) Summary of the performance of the Directors

The Directors shall perform their duties in accordance with the Articles of Association, in the best interest of the Company and the Shareholders, report to the General Meeting, execute the resolutions of the General Meeting and be accountable to the General Meeting.

For the profiles of the Directors as at the date of this report, please refer to “1. the Board” in Chapter IX “Briefings of the Directors, Supervisors and Senior Management” in this report. None of the Directors or members of the senior management has any relation (including financial, business, family and other material or relevant relations) with the other Directors or members of the senior management. The composition of the Board is suitable and every Director is equipped with profound knowledge, experience and expertise in respect of the business operation and development of the Company. All the Directors understand their collective and individual duties to the Shareholders.

(2) Attendance of the Directors at Board Meetings and General Meetings

Pursuant to the Articles of Association, at least four regular Board meetings shall be convened and held by the Chairman each year. At least 14 days prior notice shall be given for each regular Board meeting. The notice shall stipulate the meeting date and venue, timeframe, reasons, agenda and date of the notice to convene the meeting.

One half of the Directors shall form a quorum of a Board meeting. Unless otherwise stipulated by the Articles of Association, all resolutions of the Board shall be passed by over half of all of the Directors. The Board meetings shall be attended by the Director in person. If a Director is unable to attend, he/she may authorize another Director in writing to attend the Board meeting for him/her. If a Director is related to the entity involved in the matter to be resolved by a Board meeting, he/her shall not vote on the resolution for himself/herself or for any other Director. The relevant Board meeting may proceed with the present of half of the unrelated Directors and the resolution of that Board meeting shall be passed by over half of the unrelated Directors. If number of unrelated Directors present at the Board meeting shall be less than three, the matter shall be considered and decided by the General Meeting. In principle, Board meetings shall be held at the registered address of the Company, but they can also be held by way of teleconference or similar means of communication.

Attendance of the Directors at Board meetings and General Meetings are as follows:

Name of Directors	Independent non-executive Directors	No. of Board meetings attended during the year	Attendance at Board meetings				Attendance at General Meetings	
			Attended in person	Attended by other means of communication	Attended by proxy	Absent	Two consecutive absents	No. of General Meetings Attended
CHEN Fang	no	13	5	8	0	0	no	7
LIANG Zhongwei	no	13	4	8	1	0	no	0
LU Xiangyou	no	13	4	8	1	0	no	0
ZHANG Yunwei	no	13	5	8	0	0	no	0
LI Chuanyong	no	13	3	8	2	0	no	2
Cui Pengpeng (resigned in February 2015)	no	2	0	2	0	0	no	0
LIU Feng (appointed in February 2015)	no	11	4	6	1	0	no	6
GAO Zhu	yes	13	4	8	1	0	no	0
YU Xuehui	yes	13	5	8	0	0	no	0
WANG Chuanshun	yes	13	5	8	0	0	no	0
WEI Wei (appointed in June 2015)	yes	6	1	4	1	0	no	0
No. of Board meetings held during the year								13
In which: conducted in person								5
conducted by other means of communication								8
No. of General Meetings held during the year								7

All Directors voted for all the resolutions of the Board meetings. None of the Directors voted against or abstained from voting on any resolutions.

Corporate Governance Report

(3) Board of Director's meeting and resolutions during the Reporting Period

During the Reporting Period, the Board convened a total of 13 board meetings and approved the following resolutions:

1. *The 21st meeting of the 1st Board of LUZHENG FUTURES Company Limited*

On 4 January 2015, the 21st meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the "Proposal on the Issuance and Listing of Overseas Listed Foreign Shares (H Shares) of LUZHENG FUTURES Company Limited" (《關於魯証期貨股份有限公司發行境外上市外資股(H股)並上市的議案》);
- (2) reviewed and approved the "Proposal to Convert LUZHENG FUTURES Company Limited into an Overseas Subscription Joint Stock Company with Limited Liability" (《關於魯証期貨股份有限公司轉為境外募集股份有限公司的議案》);
- (3) reviewed and approved the "Proposal on Matters Relating to the Conversion/Disposal of State-owned Shares Under the Current Issuance and Listing of H Shares of LUZHENG FUTURES Company Limited" (《關於魯証期貨股份有限公司本次發行H股並上市涉及的國有股轉/減持相關事宜的議案》);
- (4) reviewed and approved the "Proposal on the Authorization by the General Meeting's Authorization to the Board and/or Authorized Person of the Board to Handle the Current Issuance and Listing of H Shares in Its/His/Hers Discretion" (《關於提請股東大會授權董事會及/或董事會授權人士全權處理本次發行H股並上市的有關事宜的議案》); and
- (5) reviewed and approved the "Proposal to Convene the Third Extraordinary General Meeting of the Company in 2015" (《關於召開公司2015年第三次臨時股東大會的議案》).

2. *The 22nd meeting of the 1st Board of LUZHENG FUTURES Company Limited*

On 22 January 2015, the 22nd meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the "Proposal to Change the Directors of the Company" (《關於調整公司董事的議案》);
- (2) reviewed and approved the "Proposal to Establish an IT Subsidiary" (《關於設立信息技術附屬公司的議案》);
- (3) reviewed and approved the "Proposal to Change the Registered Address of the Guangzhou Branch" (《關於變更廣州營業部註冊登記地的議案》);

- (4) reviewed and approved the “Proposal to Change the Registered Address of the Ningbo Branch” (《關於變更寧波營業部註冊登記地的議案》); and
- (5) reviewed and approved the “Proposal to Convene the Third Extraordinary General Meeting of the Company in 2015” (《關於召開公司二〇一五年第三次臨時股東大會的議案》).

3. The 23rd meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 26 February 2015, the 23rd meeting of the 1st Board was held to approve the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal to Confirm the Size of the Current Issuance of Overseas Listed Foreign Shares (H Shares)” (《關於確定本次發行境外上市外資股(H股)發行規模的議案》);
- (2) reviewed and approved the “Proposal on the Use and Applications of the Proceeds from the Current Issuance and Listing of H Shares” (《關於本次發行H股並上市募集資金使用及投向計畫的議案》);
- (3) reviewed and approved the “Proposal on the Distribution of Retained Profits Prior to the Listing of the H Shares” (《關於H股上市前滾存利潤分配方案的議案》);
- (4) reviewed and approved the “Proposal to Prepare the Articles of Association to be Applied after the Issuance and Listing of H Shares of LUZHENG FUTURES Company Limited” (《關於制訂魯証期貨股份有限公司H股發行並上市後適用的公司章程的議案》);
- (5) reviewed and approved the “Proposal to Prepare the Terms of Reference of the General Meeting to be Applied after the Issuance and Listing of H Shares of LUZHENG FUTURES Company Limited” (《關於制訂魯証期貨股份有限公司H股發行並上市後適用的股東大會議事規則的議案》);
- (6) reviewed and approved the “Proposal to Prepare the Terms of Reference of the Board to be Applied after the Issuance and Listing of H Shares of LUZHENG FUTURES Company Limited” (《關於制訂魯証期貨股份有限公司H股發行並上市後適用的董事會議事規則的議案》);
- (7) reviewed and approved the “Proposal to the Formulation of the Connected Transaction Management System to be Applied after the Issuance and Listing of H Shares of LUZHENG FUTURES Company Limited” (《關於制訂魯証期貨股份有限公司H股發行並上市後適用的關連交易管理制度的議案》);

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- (8) reviewed and approved the “Proposal on the Addition of Independent Directors” (《關於增選獨立董事的議案》);
- (9) reviewed and approved the “Proposal to Change the Secretary of the Board of Directors of the Company” (《關於調整公司董事會秘書的議案》);
- (10) reviewed and approved the “Proposal on the Retirement of Mr. Li Xi as the Deputy General Manager of the Company” (《關於李喜生先生不再擔任公司副總經理職務的議案》); and
- (11) reviewed and approved the “Proposal to Convene the Fourth Extraordinary General Meeting of the Company in 2015” (《關於召開魯証期貨股份有限公司2015年第四次臨時股東大會的議案》).

4. The 24th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 13 March 2015, the 24th meeting of the 1st Board was held to approve the following resolutions by way of voting in person:

- (1) reviewed and approved the “Directors’ Report of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度董事會工作報告》);
- (2) reviewed and approved the “General Manager’s Report of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度總經理工作報告》);
- (3) reviewed and approved the “Audited Financial Report of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度財務決算報告》);
- (4) reviewed and approved the “Proposal on the Distribution of Profits of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度利潤分配預案》);
- (5) reviewed and approved the “Annual Report of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度報告》);
- (6) reviewed and approved the “Budget of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年度財務預算報告》);
- (7) reviewed and approved the “Proposal on the 2014-Findings on and 2015-Budget of the Connected Transaction in the Ordinary Course of Business of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司日常關聯交易2014年度總結及2015年度預算的議案》);

- (8) reviewed and approved the “Proposal on the Framework Agreement of Connected Transactions Contemplated with Shandong Iron & Steel Group Co., Ltd., Qilu Securities Co., Ltd. and Other Connected Parties” (《關於與山東鋼鐵集團有限公司、齊魯證券有限公司等關連方擬簽署各項關連交易框架協議的議案》);
- (9) reviewed and approved the “Proposal on the Risk Management Indicators Report as at 31 December 2014” (《關於報告2014年12月31日風險監管指標情況的議案》);
- (10) reviewed and approved the “Proposal to Confirm the Audit Fee of the Accountant Firm” (《關於確定會計師事務所審計費用的議案》); and
- (11) reviewed and approved the “Proposal to Convene the Annual General Meeting of the Company for 2014” (《關於召開魯證期貨股份有限公司2014年度股東大會的議案》).

5. The 25th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 3 April 2015, the 25th meeting of the 1st Board was held to approve the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal to Submit the Listing Application to The Stock Exchange of Hong Kong Limited for Listing” (《關於向香港聯合交易所有限公司遞交上市申請的議案》);
- (2) reviewed and approved the “Proposal to Apply to the Registrar of Companies of Hong Kong for Registration of the Company as a non-Hong Kong Company” (《關於公司向香港公司註冊處申請註冊為非香港公司的議案》);
- (3) reviewed and approved the “Proposal to Appoint the Agents of the Current Overseas Issuance” (《關於聘任本次境外發行中介機構的議案》);
- (4) reviewed and approved the “Proposal to Appoint the Joint Company Secretaries, Authorized Representatives and Attorneys of the Company” (《關於委任聯席公司秘書、公司授權代表及公司代理人的議案》); and
- (5) reviewed and approved the “Proposal to Prepare the Terms of Reference of the Special Committees of the Board of Directors to be Applied after the Issuance and Listing of H Shares of LUZHENG FUTURES Company Limited” (《關於制訂魯證期貨股份有限公司H股發行並上市後適用的董事會專門委員會議事規則的議案》).

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6. The 26th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 13 April 2015, the 26th meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the “Proposal to Formulate the Three-Year Capital Replenishment Plan of LUZHENG FUTURES Company Limited (2015-2017)” (《關於制訂<魯証期貨股份有限公司資本補充三年規劃(2015-2017)>的議案》); and
- (2) reviewed and approved the “Proposal to Convene the Fifth Extraordinary General Meeting of the Company in 2015” (《關於召開公司2015年第五次臨時股東大會的議案》).

7. The 27th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 17 April 2015, the 27th meeting of the 1st Board was held to review and approve the “Proposal to Formulate the Comprehensive Risk Management System of LUZHENG FUTURES Company Limited (Trial)” (《關於制訂<魯証期貨股份有限公司全面風險管理制度(試行)>的議案》) by way of voting by correspondence.

8. The 28th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 15 June 2015, the 28th meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the “Proposal on the Prospectus and Relevant Document in relation to the H Shares of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司H股招股書及相關文件的議案》);
- (2) reviewed and approved the “Proposal on the Arrangement of the Global Offering of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司全球發售安排的議案》);
- (3) reviewed and approved the “Proposal to Terminate the Internal Management System in Relation to the Listing of A Shares of the Company” (《關於廢止與公司A股上市有關的內部管理制度的議案》);
- (4) reviewed and approved the “Proposal to Formulate the Internal Management System in Relation to the Listing of H Shares of the Company” (《關於制定與公司H股上市有關的內部管理制度的議案》); and
- (5) reviewed and approved the “Proposal to Convene the Sixth Extraordinary General Meeting of the Company in 2015” (《關於召開公司2015年第六次臨時股東大會的議案》).

9. The 29th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 24 August 2015, the 29th meeting of the 1st Board was held to approve the following resolutions by way of voting in person:

- (1) reviewed and approved the “Interim Consolidated Financial Statements of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期綜合財務報表》);
- (2) reviewed and approved the “Interim Results Announcement of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期業績公告》);
- (3) reviewed and approved the “Interim Report of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期報告》);
- (4) reviewed and approved the “Proposal on the Interim Distribution of Profits of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期利潤分配預案》); and
- (5) reviewed and approved the “Proposal to Change the Registered Address of the Haikou Branch” (《關於變更海口營業部註冊登記地的議案》).

10. The 30th meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 10 September 2015, the 30th meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the “Proposal to Change the Registered Capital of the Company Pursuant to the Authorization of the General Meeting” (《關於根據股東大會授權變更公司註冊資本的議案》); and
- (2) reviewed and approved the “Proposal to Amend Certain Terms of the Articles of Association Pursuant to the Authorization of the General Meeting” (《關於根據股東大會授權修改公司章程部分條款的議案》).

11. The 31st meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 10 October 2015, the 31st meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the “Proposal to Enter into the <Framework Agreement on Asset Management> with Zhongtai Securities Co., Ltd.” (《關於與中泰證券股份有限公司簽署<資產管理服務框架協議>的議案》); and
- (2) reviewed and approved the “Proposal to Establish the Taian Branch” (《關於設立泰安營業部的議案》).

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12. The 32nd meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 2 December 2015, the 32nd meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the “Proposal to Establish the Shanghai Branch” (《關於設立上海分公司的議案》);
- (2) reviewed and approved the “Proposal to Change the Registered Address of the Shanghai Branch” (《關於變更上海營業部註冊登記地的議案》);
- (3) reviewed and approved the “Proposal to Establish the Wuxi Branch” (《關於設立無錫營業部的議案》); and
- (4) reviewed and approved the “Proposal to Appoint the Accountant Firm” (《關於聘請會計師事務所的議案》).

13. The 33rd meeting of the 1st Board of LUZHENG FUTURES Company Limited

On 31 December 2015, the 33rd meeting of the 1st Board was held to approve the following resolutions by way of voting by correspondence:

- (1) reviewed and approved the “Proposal to Amend the Terms of Reference of the Risk Control Committee” (《關於修訂<風險控制委員會議事規則>的議案》);
- (2) reviewed and approved the “Proposal to Change the Registered Address of the Weifang Branch” (《關於變更濰坊營業部註冊登記地的議案》).

(4) Training for Directors

The Company place high importance on continual training of Directors to ensure that they have appropriate understanding of the operations and business of the Company and duties of a director under the relevant legal and regulatory requirements of CSRC and the Hong Kong Stock Exchange, Hong Kong laws and regulations and the Articles of Association. During the Reporting Period, the Directors have attended regular training organized by local authorities and fulfilled the requirements of continual training. Besides these, the Company has also established a multi-level information exchange system and platform to enhance information sharing and exchanges among Directors, Supervisors and senior management and the Directors' ability to fulfill their duties. Besides these, details of the Directors' training during the Reporting Period are as follows:

Name of Directors	Date	Duration	Organizer	Content	Location
CHEN Fang	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
LIANG Zhongwei	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
LU Xiangyou	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
ZHANG Yunwei	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan

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Name of Directors	Date	Duration	Organizer	Content	Location
LI Chuanyong	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
LIU Feng	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
GAO Zhu	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
YU Xuehui	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
WANG Chuanshun	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan
WEI Wei	2 April 2015	2 hours	Clifford Chance	Training for Directors, Supervisors and Senior Management of Hong Kong Listed Companies	Jinan
	3 April 2015	2 hours	Clifford Chance	Seminar on Memorandum of Directors' Responsibility and Related Regulations	Jinan

(5) Appointment, Reappointment and Removal of Directors

The Articles of Association contains provisions on the appointment, reappointment and removal of Directors. Pursuant to the Articles of Association, directors shall be elected at a shareholders' general meeting with a term of office of three years. Upon the expiration of the term of office, a director shall be eligible to offer himself for reelection and reappointment. Subject to the number of Directors permitted by the Articles of Association, candidates for directors shall be nominated by shareholders individually or jointly holding three percent or more of the Company's issued shares with voting rights, and shall be elected at a shareholders' general meeting or (in the case of staff directors) shall be approved at a meeting of staff representatives. Any person appointed by the board of directors to fill up a casual vacancy or as an addition to the board of directors shall hold office only until the next annual general meeting of the Company, and shall then be eligible for re-election.

IV. WORK PERFORMANCE OF BOARD OF DIRECTORS AND SPECIAL COMMITTEES

(1) Composition of the Board of Directors and Main Responsibilities during the Reporting Period

Currently, the Board comprises of 10 directors: Mr. CHEN Fang as chairman and executive Director, Mr. LIANG Zhongwei as executive Director, Mr. LU Xiangyou, Mr. ZHANG Yunwei, Mr. LI Chuanyong and Mr. LIU Feng as non-executive Directors, and Mr. GAO Zhu, Mr. YU Xuehui, Mr. WANG Chuanshun and Mr. WEI Wei as independent non-executive Directors.

The board of Directors shall be accountable to the shareholders' general meeting and exercise the following functions and powers:

- (1) to convene the shareholders' general meetings and report its work to the shareholders' general meetings;
- (2) to implement the resolutions of the shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans, specific annual business objectives and financing plans other than the issuance of corporate debentures or other securities and listings;
- (4) to formulate the Company's annual financial budgets and final accounts;
- (5) to formulate the Company's profit distribution plan and the plan for making up losses;
- (6) to formulate proposals for the increase or reduction of the Company's registered capital and the issuance of corporate debentures;

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- (7) to formulate proposals for the major acquisition and repurchase of the Company's shares or the merger, demerger, dissolution or change of corporate form of the Company;
- (8) to determine on the establishment of the Company's internal management structure and on the establishment or closing of the Company's sub-branches or representative offices;
- (9) to elect a chairman and vice-chairman of the board of Directors of the Company;
- (10) to appoint or dismiss the general manager, secretary to the board of Directors and chief risk officer, and to fix their remuneration, bonus and punishment;
- (11) pursuant to the general manager's nominations to appoint or dismiss deputy general managers, financial controller and other senior management officers of the Company and fix their remuneration, bonus and punishment;
- (12) to formulate the Company's basic management system;
- (13) to formulate proposals for amendment to the Articles of Association;
- (14) to manage the information disclosure of the Company;
- (15) to determine the establishment of special committees under the board of Directors and to appoint or dismiss the chairmen of these committees;
- (16) to propose to Shareholders' general meetings for the appointment or replacement of the auditors of the Company;
- (17) to hear the regular or non-regular work reports from the general manager of the Company or senior management officers appointed by the general manager and to approve the work reports of the general manager;
- (18) to consider and decide on the security depository system for customer margins to ensure that the depositing of customer margins is in compliance with the requirements for the protection of customer assets as well as the safe depositing and monitoring of futures margins;
- (19) to consider and decide on the Company's risk control system and internal control system;
- (20) to decide on the risk investment, acquisition and disposal of assets, pledge of assets, external guarantees, trust asset management and connected transactions of the Company within the authorization of the Shareholders' general meeting;
- (21) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange where the Company's shares are listed, Shareholders' general meetings and the Articles of Association.

The Board shall also be responsible for corporate governance functions including:

- (1) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- (2) reviewing and monitoring the training and continuous professional development of directors and senior management;
- (3) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) developing, reviewing and monitoring the code of conduct and compliance manual applicable to staff and Directors;
and
- (5) reviewing the Company's compliance with the Code and disclosure in the corporate governance report.

(I) Duties concerning corporate governance of the Board

The Company shall formulate corporate governance policies in strict compliance with the Listing Rules and the principles set out in the CG Code.

During the Reporting Period, the Board of the Company formulated, reviewed and enhanced the corporate governance policies and practices of the Company, formulated and enhanced a series of systems of rules, which included the Articles of Association, Terms of Reference for General Meeting of LUZHENG FUTURES Company Limited (《魯証期貨股份有限公司股東大會議事規則》), Terms of Reference for Board Meeting of LUZHENG FUTURES Company Limited (《魯証期貨股份有限公司董事會議事規則》), Terms of Reference for Meeting of Special Committees of the Board of LUZHENG FUTURES Company Limited (《魯証期貨股份有限公司董事會專門委員會議事規則》), The Management System for Connected Transactions of LUZHENG FUTURES Company Limited (《魯証期貨股份有限公司關連交易管理制度》) and The Internal Management System of LUZHENG FUTURES Company Limited (《魯証期貨股份有限公司內部管理制度》). It also reviewed and supervised the training of the Directors and the senior management to ensure their continuous professional development; reviewed and supervised the system established by the Company according to the laws and the related requirements from the securities regulatory institutions in Hong Kong and its compliance, and made relevant disclosure; formulated, reviewed and supervised the code of conduct and the relevant compliance manual of the Company's employees and Directors; reviewed the Company's compliance with the CG Code and the disclosure of the Corporate Governance Report.

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(II) Duties of the Board of Directors and the Senior Management

The powers and duties of the Board and the senior management are clearly set out in the Articles of Association, which provides for an adequate check and balance mechanism to ensure good corporate governance and internal control.

The duties of the Board includes determining the business and investment plans of the Company, determining the establishment of internal management organizations, establishing the basic administrative systems of the Company, making decisions on other significant businesses and administrative matters of the Company and supervising the senior management.

The senior management of the Company, under the leadership of the general manager, implements the resolutions of the Board and manages the daily operation of the Company.

(3) Composition of Special Committees, their main duties and work performance

The Board of Directors established 5 committees: Strategic Development Committee, Nomination Committee, Remuneration and Appraisal Committee, Audit Committee and Risk Control Committee.

1. The Strategic Development Committee comprises 5 members: Mr. CHEN Fang as an executive Director, Mr. GAO Zhu and Mr. YU Xuehui as the independent non-executive Directors, and Mr. LIU Feng and Mr. LI Chuanyong as the non-executive directors. Mr. CHEN Fang as an executive director is currently the chairman of the Strategic Development Committee. The main duties of the Strategic Development Committee of the Company are as follows:
 - (1) to stay informed of and understand the general development conditions of the Company;
 - (2) to study and understand domestic and overseas industrial developments and relevant national policies;
 - (3) to study and formulate medium and long-term development strategies, plans and proposals of the Company, and make recommendations on and evaluate and monitor the implementation of the medium and long-term strategic goals of the Company;
 - (4) to review the medium and long-term development goals and plans of the operation and management segments of the Company;
 - (5) to review and make recommendations on the annual operation and investment plans of the Company;
 - (6) to study and make recommendations on proposals to increase or decrease the Company's registered capital and the merger, division, dissolution or change of formation of the Company;

- (7) to study and make recommendations on matters requiring Board's review and approval, such as material investment, financing, provision of guarantee, capital changes, asset reorganization and asset disposal of the Company;
 - (8) to study and make recommendations on proposals to development new market, business and products by the Company;
 - (9) to study and make recommendations on material structural reorganization and adjustment of the Company;
 - (10) to study, discuss and make recommendations on other material matters affecting the Company; and
 - (11) other duties as assigned by the Board.
2. The Nomination Committee comprises 5 members: Mr. GAO Zhu, Mr. YU Xuehui and Mr. WANG Chuanshun as the independent non-executive Directors, Mr. LIANG Zhongwei as an executive Director and Mr. ZHANG Yunwei as a non-executive director. Mr. GAO Zhu as an independent non-executive Director is currently the chairman of the Nomination Committee. The main duties of Nomination Committee of the Company are as follows:
- (1) to study the standards and procedures for selection of directors and senior management staff, and make recommendations to the Board;
 - (2) the Committee shall study the structure, number of members and composition (including the skills, knowledge and experience of Directors) of the Board at least once a year, and make recommendations concerning changes to the Board arising from strategic changes of the Company, and the Committee has formulated a policy on diversity of members of the Board;
 - (3) to make recommendations to the Board in respect of candidates for Directors and senior management staff and examine their qualifications, and make recommendations to the Board in respect of the appointment or reappointment of Directors and the succession plans of Directors (in particular the chairman of the Board and the president);
 - (4) to evaluate the independence of the independent non-executive Directors; and
 - (5) other duties as assigned by the Board.

During the Reporting Period, the Nomination Committee has performed the above duties, formulated the related policy on nominating the directors, determined the process and procedures for the selection of directors candidates and the recommendation standards. Please refer to "Policy on Board Diversity" under this Corporate Governance Report for the details on the board diversity policy.

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3. The Remuneration and Appraisal Committee comprises 5 members: Mr. YU Xuehui, Mr. GAO Zhu and Mr. WANG Chuanshun as the independent non-executive Directors, Mr. LU Xiangyou as a non-executive Director and Mr. LIANG Zhongwei as an executive Director. Mr. YU Xuehui as an independent non-executive director is currently the chairman of the Remuneration and Appraisal Committee. The main duties of the Remuneration and Appraisal Committee of the Company are as follows:

- (1) to provide suggestions to the Board in respect of the appraisal standards and the overall remuneration policies and structure for the Directors and senior management staff of the Company, and the establishment of formal and transparent procedures for the formulation of such remuneration policies;
- (2) to conduct review and approval on the proposed remuneration of the operational level based on the corporate operating objectives. The Committee shall consider factors including the remuneration paid by comparable companies, the time commitment and the scope of duties of Directors, the employment conditions of other positions within the Company and whether the remuneration shall be based on results performance;
- (3) to provide the Board with suggestions on or determine the remuneration of individual executive Directors and senior management staff, including non-monetary benefits, pension and compensation (including compensation for the loss or termination of office or appointment) relying on authorization granted;
- (4) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension and compensation payments (including any compensation payable for loss or termination of their office or appointment);
- (5) to provide the Board with suggestions regarding the remuneration of non-executive Directors;
- (6) to provide the Board with suggestions on the relevant compensation paid by the Company to executive Directors and senior management staff in respect of their loss or termination of office or appointment, and the compensation arrangements regarding the dismissal or removal of Directors due to misconduct (and to ensure that such arrangements comply with the terms of their service contracts, or otherwise, such compensation shall be reasonable and appropriate);
- (7) to ensure that a Director shall not participate in determining his/her own remuneration;
- (8) to conduct review and supervision in relation to the implementation of the remuneration system of the Company;
and
- (9) other duties as assigned by the Board.

As at the date of this Report, the Remuneration and Appraisal Committee has performed the above duties, established the policy for the remuneration of Directors, evaluated the performance of the Directors and approved the terms of the service contract of the Directors and Supervisors, and provided suggestion on the remuneration of individual executive directors and senior management staff to the Board.

4. The Audit Committee comprises 5 members: Mr. WANG Chuanshun, Mr. GAO Zhu and Mr. YU Xuehui as the independent non-executive Directors, Mr. LU Xiangyou and Mr. LIU Feng as the non-executive Directors. Mr. WANG Chuanshun as an independent non-executive Director is currently the chairman of the Audit Committee. The main duties of the Audit Committee of the Company are as follows:

- (1) to provide suggestions to the Board concerning the appointment, reappointment or change of external auditors, and handle issues relating to the resignation or dismissal of such external auditors and make suggestions for the appointment contracts and audit fees of relevant external auditors; to evaluate the work of external auditors, and supervise the independence and objectivity of external auditors, and the effectiveness, quality and results of work procedures of external auditors.

The Committee shall discuss with the external auditor regarding the nature and scope of the audit and the relevant reporting obligations before the commencement of auditing work.

The Committee shall develop and implement policies on the engagement of an external auditor for non-auditing services. For this purpose, any entity that is under common control, ownership or management with the audit firm, any third party that is reasonably informed of all relevant information or any entity that is reasonably deemed as part of the domestic or international businesses of the audit firm shall be regarded as an external auditor. The Committee shall report to the Board on any matters in respect of which it considers that action or improvement is needed and make recommendations as to the measures to be taken.

- (2) to supervise the internal audit system of the Company and its implementation.
- (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 internal auditing department of the Company.
- (4) to review the financial information of the Company and its disclosure: The Committee shall monitor the legitimacy and integrity of the financial statements, annual reports and accounts, interim reports and quarterly reports (if any), and review significant judgements relating to the financial reporting contained therein. For this purpose, when reviewing the financial statements and reports of the annual reports and accounts, interim reports and quarterly reports (if any) of the Company to be submitted to the Board, the Committee shall focus particularly on the following issues:
 - a. any changes in the accounting policies and practices;
 - b. areas which involve significant judgements;
 - c. significant adjustments according to the results of audit;

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- d. assumptions on the ongoing operations of the Company and any qualified opinions;
- e. compliance with accounting standards; and
- f. compliance with the listing rules and other legal requirements of the place of listing in relation to financial reporting;

In respect of the above, members of the Committee shall communicate with the Board, the senior management staff and qualified accountants of the Company. The Committee shall meet at least twice a year with the auditors of the Company. The Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and shall give due consideration to any matters that have been raised by the qualified accountants, compliance officers or auditors of the Company.

- (5) to review and supervise the effective implementation of the financial reporting system, internal control system and risk management system of the Company, including:
 - a. to review and examine the financial control, internal control and risk management system of the Company;
 - b. to discuss the internal control system with the management about the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting and financial reporting function of the Company so as to ensure the management has performed its duty to establish an effective internal control system;
 - c. to review major findings on internal control matters and the responses of management on its own initiative or as delegated by the Board;
 - d. to ensure co-ordination and communication between the internal and external auditors where an internal audit function exists in the Company; to ensure the internal audit function is provided with adequate resources and has appropriate standing in the Company; and to review and monitor its effectiveness;
 - e. to review the financial and accounting policies and practices of the Company;
 - f. to review the auditing descriptions from the external auditor to the management, any significant queries raised by the auditor to the management regarding the accounting records, financial accounts or supervision systems as well as responses of the management;

- g. to ensure timely responses of the Board to the issues in the auditing descriptions raised by the external auditor;
 - h. to report to the Board in respect of the issues set out in this article; and
 - i. to consider other issues raised by the Board.
- (6) to evaluate and discuss the following arrangements formulated by the Company: whistleblowing system for employees of the Company to report on any potential misconducts regarding the financial reporting, internal control and other aspects of the Company; to ensure that the Company has put in place appropriate arrangements to carry out fair and independent investigation and follow-up actions for such issues; to arrange a suitable personnel as a key representative between the Company and the external auditor and to supervise their relationship.
- (7) to audit and supervise connected transactions and evaluate their appropriateness.
- (8) other duties as assigned by the Board.

During the Reporting Period, the Audit Committee has performed the above duties, reviewed the half and full year results of the Company and the interim report and annual report of the Company.

5. The Risk Control Committee comprises 3 members: Mr. YU Xuehui and Mr. GAO Zhu as the independent non-executive Directors and Mr. ZHANG Yunwei as a non-executive Director. Mr. YU Xuehui as an independent non-executive Director is currently the chairman of the Risk Control Committee. The main duties of the Risk Control Committee of the Company are as follows:
- (1) to study and assess the risk exposures of the Company;
 - (2) to study and assess the risk control of the Company;
 - (3) to suggest improvements to the risk and internal control systems of the Company;
 - (4) to monitor legality and compliance of the basic management system, decision-making process and risk control system of the Company; and
 - (5) other duties as assigned by the Board.

During the Reporting Period, the Risk Control Committee has performed the above duties, and reviewed the effectiveness of the risk management and internal control system and the internal audit function.

(4) Special Committees' Meetings

On 20 January 2015, the 2nd meeting of the 1st Nomination Committee of the 1st Board of LUZHENG FUTURES Company Limited was held to review and approve the “Proposal on the Change of Directors of the Company” (《關於調整公司董事的議案》) by way of voting by correspondence.

On 13 March 2015, the 3rd meeting of the Audit Committee of the 1st Board of LUZHENG FUTURES Company Limited reviewed and approved the “Audited Financial Report of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度財務決算報告》), the “Annual Report of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度報告》), the “Proposal on the Distribution of Profits of LUZHENG FUTURES Company Limited for 2014” (《魯証期貨股份有限公司2014年度利潤分配預案》), the “Budget Report of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年度財務預算報告》) and the “Proposal on the Connected Transaction in the Ordinary Course of Business in 2014 and the Budget in 2015 of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司日常關聯交易2014年度總結及2015年度預算的議案》) by way of voting in person.

On 24 August 2015, the 4th meeting of the Audit Committee of the 1st Board of LUZHENG FUTURES Company Limited reviewed and approved the “Interim Consolidated Financial Statements of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期綜合財務報表》), the “Interim Results Announcement of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期業績公告》) and the “Interim Report of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年中期報告》) by way of voting in person.

On 30 November 2015, the 5th meeting of the Audit Committee of the 1st Board of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal to Appoint the Accountant Firm” (《關於聘請會計師事務所的議案》) by way of voting by correspondence.

During the Reporting Period, the Company did not hold any meeting of the Remuneration and Appraisal Committee. The 1st Remuneration and Appraisal Committee of the 1st Board held the 1st meeting on 22 March 2016 and reviewed and approved the “Proposal on the Allowances of Directors and Supervisors” (《董事、監事津貼標準的議案》) by way of voting in person.

During the Reporting Period, the Company did not hold any meeting of the Risk Control Committee. On 22 March 2016, the 1st meeting of the Risk Control Committee of the 1st Board of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal to Report the Regulatory Risk Index in 2015” (《關於報告2015年度風險監管指標的議案》) by way of voting in person.

Attendance of the members of the Nomination Committee at the meetings during the Reporting Period is as follows:

Name	Number of meetings attended/Number of meetings held
Gao Zhu (Chairman of the Nomination Committee)	1/1
Yu Xuehui	1/1
Wang Chuanshun	1/1
Liang Zhongwei	1/1
Zhang Yunwei	1/1

Attendance of the members of the Audit Committee at the meetings during the Reporting Period is as follows:

Name	Number of meetings attended/Number of meetings held
Wang Chuanshun (Chairman of the Audit Committee)	3/3
Gao Zhu	3/3
Yu Xuehui	3/3
Lu Xiangyou	3/3
Liu Feng	2/3

Attendance of the members of the Remuneration and Appraisal Committee at the meetings during the period from 1 January 2016 to the date of this report is as follows:

Name	Number of meetings attended/Number of meetings held
Yu Xuehui (Chairman of the Remuneration and Appraisal Committee)	1/1
Gao Zhu	1/1
Wang Chuanshun	1/1
Lu Xiangyou	1/1
Liang Zhongwei	1/1

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Attendance of the members of the Risk Control Committee at the meetings during the period from 1 January 2016 to the date of this report is as follows:

Name	Number of meetings attended/Number of meetings held
Yu Xuehui (Chairman of the Risk Control Committee)	1/1
Gao Zhu	1/1
Zhang Yunwei	0/1

Note: Mr. Zhang Yunwei as a non-executive director designated Mr. Gao Zhu as an independent non-executive director to attend the meeting.

During the Reporting Period, no meetings of the Strategic Development Committee were held.

V. THE ROLES AND DIVISION OF LABOUR OF CHAIRMAN AND GENERAL MANAGER

The roles of the chairman of the Board and the general manager are separate in order to ensure the independence and accountability of their respective responsibilities and the balanced distribution of rights and authorities. Currently, Mr. Chen Fang and Mr. Li Xuekui hold the positions of the chairman of the Board of the Company and the general manager, respectively, and their responsibilities and authorities are clearly divided and shown in the Articles of Association.

Mr. Chen Fang, the chairman of the Board, is mainly responsible for:

1. Presiding over general meetings and convening and presiding over the Board meetings;
2. Supervising and inspecting the implementation of the resolutions of the Board of Directors and being briefed on relevant reports;
3. Supervising and organizing the formulation of rules and regulations on the operation of the Board of Directors, and coordinating the operation of the Board of Directors;
4. Signing the securities certificates issued by the Company;
5. Signing the documents of the Board of Directors and other documents that shall be signed by the Company's legal representative;
6. Exercising the functions and powers of the legal representative;

7. In the occurrence of force majeure and major emergency events, such as extraordinarily serious natural disasters, renders the Board of Directors unable to convene a meeting in due course, exercising a special right to deal with the Company's affairs in compliance with the law and in the Company's interests, and reporting the same to the Board of Directors and Shareholders thereafter; and
8. Exercising any other functions and powers specified in laws, regulations or the Articles of Association or conferred by the Board of Directors.

Mr. Li Xuekui, the general manager, is mainly responsible for:

1. Presiding over the production, operation and management of the Company, and report to the Board of Directors on his work;
2. Arranging the implementation of the resolutions of the Board of Directors;
3. Arranging the implementation of the Company's annual business, investment and financing plans formulated by the Board of Directors;
4. Proposing plans for the establishment of the Company's internal management office;
5. Proposing plans for the establishment of branch companies, business division and other branches of the Company;
6. Formulating the Company's basic management system;
7. Developing the Company's specific rules and regulations;
8. Proposing to the Board of Directors for the appointment or removal of the deputy general managers and financial controller, and provide suggestions on remuneration;
9. Appointing or removing the management officers (other than those required to be appointed or removed by the Board of Directors), and determining their appraisal, remuneration, bonus and punishment;
10. Reviewing the wages, benefits and incentive scheme of the Company's employees, and deciding on the employment and dismissal of employees of the Company;
11. Determining matters such as the Company's investment, financing, contracts and transactions to the extent authorized by the Articles of Association and the Board of Directors; and
12. Other functions and powers authorized by the Articles of Association or the Board of Directors.

VI. SECURITIES TRANSACTIONS BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by all the Directors and Supervisors. In addition, the Company has also established guidelines for dealing in securities of the Company by its senior management on terms which are not less favorable than the Model Code. Specific enquiries have been made by the Company with all the Directors and Supervisors in respect of their compliance with the Model Code, and each of them has confirmed that he/she has complied with the required standards under the Model Code throughout the period from the Listing Date to 31 December 2015. Furthermore, specific enquiries have been also conducted with the senior management regarding to their compliance with the aforementioned guidelines, and no non-compliance has been noticed.

VII. PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has appointed a sufficient number of independent non-executive Directors with appropriate professional qualifications, or appropriate accounting or relevant financial management expertise in accordance with Rules 3.10(1) and (2) of the Listing Rules. As of the end of the Reporting Period, the Company appointed a total of four independent non-executive Directors, including Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, and Mr. Wei Wei.

The Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considered all independent non-executive Directors to be in compliance with the independence requirements as set out in the Listing Rules.

The independent non-executive Directors are elected by the general meeting and are eligible for re-election and re-appointment upon the expiration of the term of office which is 3 years.

VIII. BOARD'S SUPERVISION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board of the Company continued to supervise the Company's risk management and internal control system. As at the date of this report, the Risk Control Committee under the Board of the Company has reviewed the risk management and internal control system of the Company and the subsidiaries during the Reporting Period once. The Company considered that the risk management and internal control system was effective and adequate.

IX. OTHER RELEVANT MATTERS

(i) Auditors and remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as auditors of the Company for the financial statements prepared by the Company in accordance with International Financial Reporting Standards and Accounting Standards for Business Enterprises of PRC for the year ended 31 December 2015, respectively. During the period covered by this Report, there was no occurrence of disagreement from the Board to the opinions of selection and appointment of external auditor from the Audit Committee. For details of the auditors' remuneration, Please refer to "VII. Appointment and Dismissal of Auditors" in Chapter X of this Report.

(ii) Directors' and auditor's responsibility for the financial statements

The Board acknowledged its responsibility of preparing the consolidated financial statements of the annual report for the year ended 31 December 2015 of the Group.

The Board is responsible for the clear and fair assessment report for annual reports, interim reports, price-sensitive information and other disclosures according to the Listing Rules and other regulatory rules. The senior management has provided the Board with all necessary explanations and information for the Board to make an informed assessment of the Group's financial data and position and for the Board's consideration and approval.

The Company has not encountered with any significant uncertainties or situations that might cause material doubt to the ability of continuous operation of the Company. In addition, the Company has arranged appropriate insurance coverage for potential legal actions and liabilities against the Directors, the Supervisors and the senior management.

Please refer to "Independent Auditors' Report" in Chapter XIII of this annual report for the responsibility declaration of the auditor of the Company concerning the consolidated financial statements.

(iii) Company secretary

Mr. Meng Tao and Ms. Ng Wing Shan are joint company secretaries of the Company. Ms. Ng Wing Shan (assistant vice president of SW Corporate Services Group Limited) is one of our joint company secretaries. Mr. Meng Tao, the joint company secretary and the secretary of the Board, is the main contact person of the Company with Ms. Ng. Pursuant to Rule 3.29 of the Listing Rules, as at 31 December 2015, Mr. Meng Tao and Ms. Ng Wing Shan had attended more than 15 hours of relevant professional training.

(iv) Rights of shareholders

The general meeting is the supreme authority of the Company. The Shareholders exercise their rights through the general meeting. The Company convenes the general meetings in strict compliance with the relevant requirements to ensure that

Corporate Governance Report

all Shareholders, especially minority Shareholders, can enjoy equal positions and fully exercise their rights. The Company maintains a healthy and steady development in an orderly way under the restraints of the Articles of Association, and the interests of the Company and its Shareholders are effectively protected.

The Company highly respects the opinions and suggestions of Shareholders and maintains open channels of communication to Shareholders in order to meet their reasonable requirements. Meanwhile, the Company releases its announcements, financial data and other relevant information on its website www.luzhengqh.com, which serves as a channel promoting effective communication with Shareholders. Shareholders can make enquiries by email or by investor special line or write directly to the office address of the Company, which will be dealt with appropriately in a timely manner. Please refer to “1. Company Profile” in Chapter III for the above detailed contact information.

The Board welcomes suggestions from Shareholders, and encourages Shareholders to attend general meetings to directly express misgivings to the Board and the senior management. Usually, the Chairman of the Board and the chairmen of respective special committees and the senior management would attend annual general meetings and other general meetings to answer questions put forward by Shareholders.

Shareholders may convene an extraordinary general meeting within two months pursuant to the procedures specified in the Articles of Association when: (1) the number of Directors is less than the number required by the Company Law or two-thirds of the number of Directors specified in the Articles of Association; (2) unrecovered losses of the Company amount to one third of the total amount of its share capital; (3) when Shareholder(s) who individually or jointly hold(s) ten percent or more or more of the Company’s issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting; (4) the Board considers necessary or upon the request of the Supervisory Committee; or (5) other circumstances required by laws, administrative regulations, departmental rules or the Articles of Association.

The Company convenes a general meeting in respect of the shareholders, holding 3% or more of the shares carrying voting rights of the Company, having the right to propose a provisional proposal in writing to the Company 10 days before convening the general meeting. The Company shall place the provisional proposal which falls within the functions and powers of general meetings on the agenda for the said meeting.

Please refer to Articles 63, 65 and 90 of Chapter VIII of the Articles of Association for specific details. The Articles of Association has been published on the websites of the Hong Kong Stock Exchange and the Company.

(v) Investor Relations

Standardized and specialized investor relationship management is not only a listed company’s statutory responsibility, but also an effective means of managing the company’s market value. The Board attaches great importance to the management of investor relations and strengthens communication services with investors through various platforms, such as special lines set up specially for investors, E-mail, customer service hotlines of the Company, the Company’s website, teleconferences, on-site reception, meeting-and-greeting of investors and roadshow etc.

(vi) Policy on Board Diversity

The Company is of the view that the diversity of the Board members will promote the growth of the results of the Company, enhance corporate governance and the Company's reputation, as well as attract and retain talents in the Board.

In order to meet and enforce the requirements regarding board diversity in the Listing Rules and ensure a more reasonable composition of the Board, the Company adheres to diversity policy on the election of Directors, including taking into consideration the professional qualification and experience, cultural and educational background, sex, age and popularity of Directors. The Company also considers determining the best composition of the members of the Board according to its scope of business and its particular needs from time to time.

The Nomination Committee of the Company reviews and assesses the formation of the Board and make recommendations on the new Directors of the Company to be appointed. The Nomination Committee suggests reasonable goals concerning the diversity of the members of the Board each year and make recommendations to the Board concerning the goals.

(vii) Alterations to the Articles of Association

On 7 August 2015, the Company amended the Article of Association, which took effect on the same day, due to the change in registered capital as a result of the partial exercise of the over-allotment options. Save as the disclosed above, the Company did not make any significant changes to the Articles of Association between the Listing Date and the year ended 31 December 2015.

(viii) Remuneration paid to members of Senior Management

The remuneration paid to members of senior management by bands for the year ended 31 December 2015 is set out below:

Remuneration bands	Year ended 31 December 2015 Number
RMB200,001 to RMB400,000	2
RMB400,001 to RMB600,000	4
RMB600,001 to RMB800,000	2
	8

(ix) Terms of Office of Non-executive Directors

The non-executive Directors of the Company are elected at the AGM whose terms of office are 3 years, and can be renewed during re-election and re-appointment.

Internal Control

I. ESTABLISHMENT OF INTERNAL CONTROL AND CONDITION OF CONTROL

During the Reporting Period, the Company fully implemented the rules on internal control according to the requirements of “The Basic Rules on Enterprise Internal Control” and the relevant implementation guidelines and, pursuant to “The Basic Rules on Enterprise Internal Control”, taking into consideration of the circumstances of the Company.

1. The objective of the establishment of internal control

To prevent operational risks and ethical risks, reasonably ensure the operation and management of the Company in compliance with laws and regulations, the effective implementation of internal rules and system, the safety and integrity of the clients’ and the Company’s assets, the truth and completeness of the financial statements and the relevant information, enhance the effectiveness and results of the operation and promote the achievement of development strategies through establishing its internal control system.

2. The establishment of internal control

The Company established an internal control system that covers various levels including the Board, the Board of Supervisor, the management and all staff, various stages, namely decision, execution and monitoring, and various businesses and management affairs of the Company and the subsidiaries pursuant to the regulatory requirements while taken into consideration of actual circumstances.

During the Reporting Period, the Company strove to complete the establishment of fundamental structure of a comprehensive risk management system and kept strengthening the establishment of the internal control system that covered traditional brokerage business and new businesses. For the year ended 31 December 2015, the Company further enhanced the adaptability of the internal control system of the Company, streamlined the flow of operation and management, optimize the structure of the corporation through adding and amending various rules, so as to promote the upgrade and transformation of the Company’s internal control system from monitoring-oriented to comprehensive-risk-management-oriented.

3. Monitoring by the internal control system

The Company established an internal control management model that covers pre-events, ongoing events and post events so as to ensure that various operation and management activities are undertaken in accordance with laws and regulations. The internal monitoring system of the Company comprised the Board of Supervisors, the Board, the Audit Committee of the Board, the audit department and the compliance department. The compliance department emphasized on the pre-event and on-going event monitoring function of compliance management. The audit department, led by a chief risk officer and accountable to the Audit Committee of the Board, emphasizes on the performance of internal independent audit and assessment, which is post-event monitoring. The Company monitored and checked the establishment and implementation of the internal control system of the Company through performing internal control and compliance inspection.

During the Reporting Period, the Company carried out the following internal audit works through the combination of on-site inspection and non-on-site inspection, general investigation and sample checks: firstly, the department performed 28 internal audit works including special audits and resignation audits pursuant to the regulatory requirements and the Company's requirements on internal control. The scope of audit covered various businesses and important management procedures, including the operation of the asset management business of the Company, the management of the clients' margin deposits and proprietary capital, the management of the compliance operation of the business department, the internal control and management of the risk management subsidiary, the management of the information technology of the Company, the resignation audit of the person in charge of the business department and the person in charge of the subsidiary. Secondly, during auditing, the department paid close attention to the regulatory requirements issued by the regulatory department and the amended and additional rules of the Company, incorporated various new requirements into the scope of audit and indicated the problems to the department being audited in a timely manner and supervised and urged the relevant department to strictly rectify the problems. The department effectively contributed to the further enhancement of the internal control system of the Company and the further strengthening of the execution capability of the internal control system. Thirdly, the department changed the auditing mindset. With risk-oriented audit as its core and system-based audit as its support, the department shifted the focus from regular audit to compliance risk control audit which, when combined with the internal control systems of the Company helped to comprehensively organize and manage the key risks of each major business division. The department would, after checking the procedure control at each risk point as well as examining the effects of the implementation of internal control system and the weakness and potential risks.

II. CONCLUSION OF THE ASSESSMENT OF INTERNAL CONTROL

For the year ended 31 December 2015, the internal control system of the Company covered all of the businesses and departments of the Company, as well as the pre-event, on-going event and post-event decision-making, execution and monitoring. A standardized and effective management system was formed. Upon assessment, it was concluded that each internal control system of the Company can be effectively executed and the objective of the Company's compliance management was achieved. There were no potential material risks.

Independent Auditor's Report



羅兵咸永道

Independent Auditor's Report

To the shareholders of LUZHENG FUTURES Company Limited

(incorporated in People's Republic of China with limited liability)

We have audited the consolidated financial statements of LUZHENG FUTURES Company Limited ("the Company") and its subsidiaries set out on pages 130 to 228, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2016

Consolidated Statements of Comprehensive Income

For The Year Ended 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2015	2014
Commission and fee income	5	619,500	396,493
Commission and fee expense	5	(471,367)	(272,074)
Net commission and fee income		148,133	124,419
Interest income	6	172,146	98,146
Interest expense	6	(26,126)	(1,930)
Net interest income		146,020	96,216
Losses on physical commodities trading	7	(5,708)	(15,275)
Net investment gains	8	44,228	78,103
Other income	9	37,225	38,590
Operating income		369,898	322,053
Staff costs	10	(95,592)	(88,556)
Commission to brokerage agents		(27,102)	(28,263)
Introducing broker commission		(16,832)	(11,608)
Depreciation and amortization	11	(8,169)	(8,527)
Impairment losses	12	(237)	(232)
Other operating expenses	13	(106,782)	(82,652)
Operating expenses		(254,714)	(219,838)
Operating profit		115,184	102,215
Share of losses of investment in an associate	20	(2,874)	(1,115)
Other gains, net	14	12,600	4,512
Profit before income tax		124,910	105,612
Income tax expense	15	(31,327)	(25,321)
Profit for the year		93,583	80,291

Consolidated Statements of Comprehensive Income

For The Year Ended 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2015	2014
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value	33	3,728	3,221
– Income tax effect on changes in fair value	33	(932)	(805)
– Amounts reclassified to profit or loss upon disposal or impairment	33	(2,869)	133
Currency translation differences		234	—
Other comprehensive income for the year, net of tax		161	2,549
Total comprehensive income		93,744	82,840
Profit attributable to:			
– Shareholders of the Company		93,583	80,291
– Non-controlling interests		—	—
		93,583	80,291
Total comprehensive income attributable to:			
– Shareholders of the Company		93,744	82,840
– Non-controlling interests		—	—
		93,744	82,840
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)			
Basic/Diluted	16	0.11	0.11

Consolidated Statements of Financial Position

As at 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property and equipment	17	45,125	41,920
Intangible assets	18	6,157	6,137
Investment in an associate	19	5,811	8,685
Other non-current assets	21	3,137	3,795
Available-for-sale financial assets	22	134,310	17,173
Deferred income tax assets	23	1,983	3,767
Refundable deposits	24	20,138	20,157
Total non-current assets		216,661	101,634
Current assets			
Physical commodities	25	3,640	15,689
Other current assets	26	30,889	19,566
Available-for-sale financial assets	22	303,354	322,318
Derivative financial assets	27	1,151	—
Financial assets at fair value through profit or loss	28	22,857	1,596
Deposits with exchange-clearing organizations	29	2,661,676	2,331,191
Bank balances held for brokerage clients	30	2,996,241	1,986,475
Cash and bank balances	31	1,196,940	748,831
Total current assets		7,216,748	5,425,666
Total assets		7,433,409	5,527,300
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	32	1,001,900	750,000
Share premium	33	650,630	290,292
Other reserves	33	148,266	122,525
Retained earnings		177,565	109,562
Total equity attributable to shareholders of the Company		1,978,361	1,272,379
Non-controlling interests		—	—
Total equity		1,978,361	1,272,379

Consolidated Statements of Financial Position

As at 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2015	31 December 2014
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	23	14	—
Other non-current liabilities		2,599	959
Total non-current liabilities		2,613	959
Current liabilities			
Other current liabilities	34	41,530	35,661
Current income tax liabilities		7,298	13,108
Derivative financial liabilities	27	1,927	—
Financial liabilities at fair value through profit or loss	35	188,146	—
Accounts payable to brokerage clients	36	5,213,534	4,205,193
Total current liabilities		5,452,435	4,253,962
Total liabilities		5,455,048	4,254,921
Total equity and liabilities		7,433,409	5,527,300

Consolidated Statements of Changes in Equity

For the Year Ended 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company				Total equity
	Share capital (Note 32)	Share premium (Note 33)	Other reserves (Note 33)	Retained earnings	
Balance at 1 January 2015	750,000	290,292	122,525	109,562	1,272,379
Profit for the year	—	—	—	93,583	93,583
Other comprehensive income for the year	—	—	161	—	161
Total comprehensive income	—	—	161	93,583	93,744
Issuance of ordinary shares, net	251,900	360,338	—	—	612,238
Net appropriation to reserves	—	—	25,580	(25,580)	—
Balance at 31 December 2015	1,001,900	650,630	148,266	177,565	1,978,361

	Attributable to shareholders of the Company				Total equity
	Share capital (Note 32)	Share premium (Note 33)	Other reserves (Note 33)	Retained earnings	
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

For the Year Ended 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2015	2014
Cash flows from operating activities		
Profit before income tax	124,910	105,612
Adjustments for:		
Depreciation and amortization	8,169	8,527
Impairment losses	237	232
Net losses on disposal of property and equipment and intangible assets	8	14
Foreign exchange gains	(8,176)	—
Realized gains from disposal of available-for-sale financial assets	(28,048)	(3,128)
Dividends and interest income from available-for-sale financial assets and term deposits	(2,432)	(55,041)
Share of losses of investment in an associate	2,874	1,115
	97,542	57,331
Net decrease/(increase) in operating assets:		
Net increase in bank balances held for brokerage clients	(1,009,766)	(881,453)
Net increase in deposits with exchange-clearing organizations	(267,367)	(741,217)
Net increase in financial assets at fair value through profit and loss and derivative financial assets	(22,413)	(1,596)
Net increase in other assets	(13,233)	(1,141)
Net decrease/(increase) in physical commodities	12,049	(6,998)
	(1,300,730)	(1,632,405)
Net increase in operating liabilities:		
Net increase in accounts payable to brokerage clients	1,008,340	1,622,887
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	190,073	—
Net increase in other liabilities	7,511	4,221
	1,205,924	1,627,108
Income tax paid	(35,339)	(20,229)
Net cash (outflow)/inflow from operating activities	(32,603)	31,805

Consolidated Statements of Cash Flows

For the Year Ended 31 December 2015

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2015	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	2,432	55,041
Purchases of property and equipment, intangible assets and other long-term assets	(9,460)	(2,227)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	408	5
Payment for purchases of available-for-sale financial assets and term deposits	(1,117,650)	(805,000)
Proceeds on maturity and disposal of available-for-sale financial assets and term deposits	727,686	756,801
Net cash outflow from investing activities	(396,584)	(5,180)
Cash flows from financing activities		
Net proceeds from issuance of ordinary shares	612,238	—
Net cash inflow from financing activities	612,238	—
Net increase in cash and cash equivalents	183,051	26,625
Cash and cash equivalents at beginning of year	367,429	340,804
Effect of exchange rate changes on cash and cash equivalents	8,176	—
Cash and cash equivalents at end of year (Note 37)	558,656	367,429

Notes to the Consolidated Financial Statements

(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 COMPANY LIMITED (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).

The Company completed its initial public offering on The Stock Exchange of Hong Kong Limited on 7 July 2015. The share capital of the Company was increased to RMB1,001.90 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.

The consolidated financial statements were authorised for issue by the Board on 22 March 2016.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRS”). The consolidated financial statements 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 consolidated financial statements 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 consolidated financial statements are disclosed in Note 3.2.

The Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.1 New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to IFRSs-2010–2012 Cycle, on IFRS 8, 'Operating segments', IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' and IAS 24, 'Related party disclosures'.

Amendments from annual improvements to IFRSs-2011–2013 Cycle, on IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement' and IAS 40, 'Investment property'.

The adoption of the improvements made in the 2010–2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

2.2 New Hong Kong Companies Ordinance

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.3 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.3 New standards and interpretations not yet adopted (Continued)

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 at the same time. The Group is yet to assess IFRS 16's impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 all of its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.2 Consolidation (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.4 Associates (Continued)

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

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 statements are presented in Renminbi (RMB), which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.6 Foreign currency translation (Continued)

(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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(1) *Recognition and de-recognition of financial instruments (Continued)*

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 and collective assets management schemes for the purpose of selling in the near term are classified as financial assets held for trading. Equity securities, funds, debt securities and collective asset management schemes 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

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) Classification and measurement (Continued)

(a) Financial assets at fair value through profit or loss (Continued)

- (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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) Classification and measurement (Continued)

(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) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss have two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee).

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) Classification and measurement (Continued)

(d) Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis;
- (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in the statement of comprehensive income. Gains or losses arising from changes in the fair value of financial liabilities at fair value through profit or loss are recognised in profit or loss through net investment gains/losses.

The interests of SEs that are consolidated by but not attributable to the Group and payable to clients for cooperative hedging business are designated at fair value through profit or loss, as they are managed, evaluated and reported internally on a fair value basis.

(e) 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) *Classification and measurement (Continued)*

(e) *Other financial liabilities (Continued)*

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(5) Impairment of financial assets (Continued)

(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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(5) Impairment of financial assets (Continued)

(a) Financial assets carried at amortized cost (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(5) *Impairment of financial assets (Continued)*

(a) *Financial assets carried at amortized cost (Continued)*

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(5) Impairment of financial assets (Continued)

(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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(5) Impairment of financial assets (Continued)

(b) Available-for-sale financial assets (Continued)

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 available-for-sale 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 investment team of finance 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(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 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

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:

	Estimated useful lives	Estimated residual rates	Annual depreciation rates
Buildings	30 years	3%	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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.10 Property and equipment (Continued)

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 as set out in 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.13 Impairment of long-term non-financial assets (Continued)

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 year, 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

3.1.15 Revenue recognition

(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 securities 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) 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.
- (4) Refund by the futures exchanges is recognized upon receipt.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.1 Summary of significant accounting policies (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates (Continued)

3.2 Summary of significant accounting estimates and judgments (Continued)

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.

Based on their judgment, the directors of the Company have assessed the combination of the three elements listed above and concluded that the SEs with the following features are controlled by the Group and should be included for consolidation:

A classified asset management scheme comprises two unit classes where the external investors hold the lower risk units that generate an expected rate of return, while the Group holds the entirety of the higher risk units that enjoy the residue interests of the asset management scheme. The holder of the higher risk units provides credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. Moreover, the Group cannot withdraw its holdings within the operating period of the scheme. It is concluded that the Group is a principal of the schemes with the above features since inception.

A non-classified asset management scheme comprises a single unit class where the Group holds a part of the units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

4 Taxation

The principal taxes to which the Group is subject are listed below:

	Tax basis	Tax rate
Corporate income tax/Profit tax	Taxable profit	25%/16.5%
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	
	2015	2014
Commission and fee income		
Futures brokerage service	525,152	357,507
Settlement and clearing service income from other futures firms	74,663	30,383
Asset management service	19,405	8,483
Investment consultancy	280	120
	619,500	396,493
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	396,704	241,887
Settlement and clearing service expense to exchange-clearing organizations	74,663	30,187
	471,367	272,074

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

6 Net interest income

	Year ended 31 December	
	2015	2014
Interest income		
Interest income from deposits with banks	144,447	84,467
Interest income from deposits with exchange-clearing organizations	27,699	13,679
	172,146	98,146
Interest expense		
Interest expense to brokerage clients	24,207	—
Interest expense on settlement and clearing services to other futures firms	1,919	1,930
	26,126	1,930

7 Losses on physical commodities trading

	Year ended 31 December	
	2015	2014
Sales proceeds	194,333	306,839
Costs of purchases	(200,041)	(322,114)
	(5,708)	(15,275)

A subsidiary of the Company 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

8 Net investment gains

	Year ended 31 December	
	2015	2014
Net realized gains from disposal of available-for-sale financial assets	28,048	3,128
Dividends and interest income from available-for-sale financial assets	2,432	30,575
Net realized (losses)/gains from disposal of financial assets at fair value through profit and loss ⁽¹⁾	(370)	18,044
Dividends from financial assets at fair value through profit and loss	139	—
Net realized gains from derivative financial instruments ⁽²⁾	23,210	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	(1,044)	386
— Financial liabilities designated at fair value through profit or loss	(9,389)	—
— Derivative financial instruments	1,202	(355)
	44,228	78,103

(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 and financial futures.

9 Other income

	Year ended 31 December	
	2015	2014
Refunds of trading fees ⁽¹⁾	36,612	38,590
Other	613	—
	37,225	38,590

(1) To improve the sustainable 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

10 Staff costs

	Year ended 31 December	
	2015	2014
Salaries and bonus	73,567	68,120
Pension	8,120	7,508
Other social security	4,943	4,615
Labour union funds and employee education funds	3,309	3,052
Other welfare	5,653	5,261
	95,592	88,556

(1) The five highest paid individuals

For the year ended 31 December 2015, the five highest paid individuals do not include any of the directors or the supervisors (2014: nil). Details of the emoluments for the five highest paid individuals for the year is as follows:

	Year ended 31 December	
	2015	2014
Salaries, allowances and other welfares	2,277	1,448
Bonus	2,051	2,278
	4,328	3,726

The emoluments of the five highest paid individuals fell within the following bands:

	Year ended 31 December	
	2015	2014
RMB400,001 to RMB600,000	—	1
RMB600,001 to RMB800,000	1	2
RMB800,001 to RMB1,000,000	4	2
	5	5

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.

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(All amounts in RMB'000 unless otherwise stated)

11 Depreciation and amortization

	Year ended 31 December	
	2015	2014
Depreciation of property and equipment	4,788	5,012
Amortization of other non-current assets	2,351	2,515
Amortization of intangible assets	1,030	1,000
	8,169	8,527

12 Impairment losses

	Year ended 31 December	
	2015	2014
Available-for-sale financial assets	—	604
Other receivables	237	(372)
	237	232

13 Other operating expenses

	Year ended 31 December	
	2015	2014
Office expenses	22,275	18,385
Consulting expenses	19,082	7,483
Marketing and distribution expenses	15,528	11,578
Rentals	12,246	14,088
Business tax and surcharges	11,524	10,121
Futures Investors Protection Fund	7,146	4,049
Information system maintenance fees	5,448	7,495
Listing expense	4,102	—
Property maintenance fee	3,830	3,661
Auditors' remuneration — Audit services	1,880	210
Professional service expenses	1,382	449
Other expenses	2,339	5,133
	106,782	82,652

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(All amounts in RMB'000 unless otherwise stated)

14 Other gains, net

	Year ended 31 December	
	2015	2014
Foreign exchange gains	8,176	—
Government grants ⁽¹⁾	2,540	3,161
Subsidies received from futures exchanges ⁽²⁾	1,545	1,175
Loss from disposal of long-term non-financial assets	(8)	(14)
Others	347	190
	12,600	4,512

(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	
	2015	2014
Current tax	29,504	24,849
Deferred tax (Note 23)	1,823	472
	31,327	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.

Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

15 Income tax expense (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate applicable to profits in the respective countries. The major reconciliation items are as follows:

	Year ended 31 December	
	2015	2014
Profit before income tax	124,910	105,612
Tax calculated at applicable tax rates applicable to profits in the respective area	31,467	26,403
Items deducted for tax purposes but not subtracted to arrive at taxable income	(2,045)	(1,746)
Items not deductible for tax purposes	1,905	664
	31,327	25,321

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.

	Year ended 31 December	
	2015	2014
Profit attributable to shareholders of the Company (in RMB thousands)	93,583	80,291
Weighted average number of ordinary shares in issue (in thousands)	854,958	750,000
Basic earnings per share (in RMB)	0.11	0.11

16.2 Diluted earnings per share

For the year ended 31 December 2015, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share (2014: same).

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

17 Property and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2015	40,073	8,983	23,414	72,470
Additions	—	2,028	6,380	8,408
Disposals	—	(1,350)	(312)	(1,662)
31 December 2015	40,073	9,661	29,482	79,216
Accumulated depreciation				
1 January 2015	(5,045)	(6,316)	(19,189)	(30,550)
Additions	(1,298)	(996)	(2,494)	(4,788)
Disposals	—	1,012	235	1,247
31 December 2015	(6,343)	(6,300)	(21,448)	(34,091)
Carrying amount				
31 December 2015	33,730	3,361	8,034	45,125
Cost				
1 January 2014	40,073	8,545	22,037	70,655
Additions	—	438	1,699	2,137
Disposals	—	—	(322)	(322)
31 December 2014	40,073	8,983	23,414	72,470
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	(5,045)	(6,316)	(19,189)	(30,550)
Carrying amount				
31 December 2014	35,028	2,667	4,225	41,920

For the year ended 31 December 2015, net gain from disposal of property and equipment amounted to RMB8 thousand (2014: net loss of RMB14 thousand).

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

18 Intangible assets

	31 December 2015	31 December 2014
Net Book Value		
Computer software	6,157	6,137

	Year ended 31 December	
	2015	2014
Cost		
At 1 January	9,937	9,846
Additions	1,051	91
Disposals	(319)	—
At 31 December	10,669	9,937
Accumulated amortization		
At 1 January	(3,800)	(2,800)
Charges	(1,030)	(1,000)
Disposals	318	—
At 31 December	(4,512)	(3,800)
Carrying amount		
At 31 December	6,157	6,137

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(All amounts in RMB'000 unless otherwise stated)

19 Investment in an associate

The Group invested RMB9.8 million in an associate named Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司) (“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.

Upon completion of the equity restructuring of Rizhao BOT in 22 May 2015, the Group’s equity holding in Rizhao BOT is diluted from 49% to 29.5%, and committed an additional capital injection of RMB24,878 thousand. As at 31 December 2015, the Group has not made payment for the disproportionate capital increase yet. The Group accounts for the associate using equity method.

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:

	Year ended 31 December	
	2015	2014
At 1 January	8,685	—
Capital injection	—	9,800
Share of losses for the year	(2,874)	(1,115)
At 31 December	5,811	8,685
Summarized Financial Information		
Opening net assets	17,725	—
Capital contributions	73,648	20,000
Losses for the year	(8,489)	(2,275)
Other comprehensive income	—	—
Closing net assets	82,884	17,725
Interest in the associate and carrying value	5,811	8,685

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

20 Investments in subsidiaries and consolidated structured entities

20.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specially stated, the Group's interests in these subsidiaries were all ordinary shares, and the percentage of ownership held by the Group represented the voting rights of the Group.

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Interest held	Directly/ Indirectly	Principal activities
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%	Directly	Commodity trading, OTC derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB10,000,000/ RMB50,000,000	100%	Directly	Information Technology Services, Software Development
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong	21 November 2013	Limited company	HKD12,218,963.83/ HKD30,270,000	100%	Indirectly	Commodity trading, OTC derivatives trading

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

20 Investments in subsidiaries and consolidated structured entities (Continued)

20.2 Consolidated structured entities

As at 31 December 2015, total assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

	Net assets	Initial investment	Maximum exposure
Investments in consolidated SEs by the Group:			
Huiquan Wenchen No.1	32,966	5,000	6,645
Huiquan Wenchen No.2	30,413	10,000	9,910
Huiquan Wenchen No.3	60,874	7,000	7,105
Huiquan Wenchen No.6	60,143	28,000	28,028
Huiquan Wenchen No.8	30,907	11,700	11,665
Huiquan Wenchen Wenjian No.1	31,787	18,100	18,766
	247,090	79,800	82,119

All of the above consolidated SEs are collective asset management schemes where the Company has been involved as manager.

21 Other non-current assets

	31 December 2015	31 December 2014
Leasehold improvement	2,939	3,545
Long-term prepaid expenses	198	250
	3,137	3,795

Leasehold improvements of the Group are amortized over the expected beneficial periods.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

21 Other non-current assets (Continued)

Changes in leasehold improvement are analyzed as follows:

	Year ended 31 December	
	2015	2014
At 1 January	3,545	3,166
Additions	1,536	2,707
Amortization	(2,142)	(2,328)
At 31 December	2,939	3,545

22 Available-for-sale financial assets

	31 December 2015	31 December 2014
Non-current – Unlisted		
At fair value		
Trust schemes (Note 43.2(2))	132,910	—
Collective asset management schemes (Notes 42.3.1 and 43.2(1))	—	15,773
At cost		
Investments in exchange memberships ⁽¹⁾	1,400	1,400
	134,310	17,173
Current – Unlisted		
At fair value		
Collective asset management schemes (Notes 42.3.1 and 43.2(1))	303,354	60,300
Trust schemes (Note 43.2(2))	—	161,768
Debt instruments	—	100,250
	303,354	322,318
	437,664	339,491

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.

As at 31 December 2015, no securities of the Group were placed as collateral (2014: same).

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(All amounts in RMB'000 unless otherwise stated)

23 Deferred income tax assets and liabilities

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.

(1) The net movements on the deferred income tax assets are as follows:

	Year ended 31 December	
	2015	2014
Balance at beginning of year	3,767	5,089
Income statement charge (Note 15)	(1,809)	(472)
Tax charge relating to components of other comprehensive income (Note 33)	25	(850)
Balance at end of year	1,983	3,767

(2) The net movements on the deferred income tax liabilities are as follows:

	Year ended 31 December	
	2015	2014
Balance at beginning of year	—	—
Income statement charge (Note 15)	14	—
Tax charge relating to components of other comprehensive income (Note 33)	—	—
Balance at end of year	14	—

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(All amounts in RMB'000 unless otherwise stated)

23 Deferred income tax assets and liabilities (Continued)

(2) Gross movements in deferred income tax assets and liabilities

The gross movements in deferred income tax assets during the year are as follows:

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Impairment loss from available-for- sale financial assets	Changes in fair value of available-for- sale financial assets	Interest payable	Deductible tax loss	Others	Total
As at 1 January 2014	4	5,563	(106)	18	—	712	6,191
Income statement charge	89	(2,006)	—	(9)	—	1,382	(544)
Tax charge relating to components of other comprehensive income	—	—	435	—	—	—	435
As at 31 December 2014	93	3,557	329	9	—	2,094	6,082
Income statement charge	283	(1,991)	—	1,388	1,277	(1,908)	(951)
Tax charge relating to components of other comprehensive income	—	—	(329)	—	—	—	(329)
As at 31 December 2015	376	1,566	—	1,397	1,277	186	4,802

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23 Deferred income tax assets and liabilities (Continued)

(2) Gross movements in deferred income tax assets and liabilities (Continued)

The gross movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest receivable from deposits	Changes in fair value of available-for-sale financial assets	Other	Total
As at 1 January 2014	—	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	96	934	1,285	—	2,315
Income statement charge	(96)	373	—	595	872
Tax charge relating to components of other comprehensive income	—	—	(354)	—	(354)
As at 31 December 2015	—	1,307	931	595	2,833

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deductible tax losses of Luzheng Trading amount to RMB5,028 thousands (2014:nil), which expire in 2020. Deductible tax losses of Zhongtai Hui Rong amount to RMB119 thousands (2014:nil).

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(All amounts in RMB'000 unless otherwise stated)

23 Deferred income tax assets and liabilities (Continued)

(3) Offsetting of deferred income tax assets and liabilities:

	31 December 2015	31 December 2014
Deferred income tax assets	(2,819)	(2,315)
Deferred income tax liabilities	(2,819)	(2,315)

Net amount of deferred income tax assets and liabilities after offsetting:

	31 December 2015	31 December 2014
Deferred income tax assets	1,983	3,767
Deferred income tax liabilities	14	—

24 Refundable deposits

	31 December 2015	31 December 2014
Security deposit placed with the China Financial Futures Exchange (the "CFFE")	20,138	20,157

25 Physical commodities

	31 December 2015	31 December 2014
Trading commodities	3,640	22,446
Less: Impairment	—	(6,757)
	3,640	15,689

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(All amounts in RMB'000 unless otherwise stated)

26 Other current assets

	31 December 2015	31 December 2014
Deposit for derivative trading	11,164	—
Prepayments	7,293	5,465
Interest receivable from deposits	5,226	3,734
Deposit for physical commodity trading	3,547	6,658
Accounts receivable ⁽¹⁾	771	1,324
Other receivables	2,888	2,385
	30,889	19,566

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2015		31 December 2014	
	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	771	—	1,324	—

27 Derivative financial instruments

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
Futures contracts ⁽¹⁾	—	—	—	—
OTC Options ⁽²⁾	1,151	1,927	—	—
	1,151	1,927	—	—

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

27 Derivative financial instruments (Continued)

(1) Futures contracts

	31 December 2015		31 December 2014	
	Contractual value	Fair value	Contractual value	Fair value
Commodities futures	300,271	(599)	46,346	(369)
Stock index futures	1,439	(3)	1,073	(1)
Less: Cash paid as settlement		602		370
Net position		—		—

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in "deposits with exchange-clearing organizations" as at 31 December 2015 (2014: same).

(2) OTC options

The intrinsic value of the outstanding OTC options at 31 December 2015 amounted to RMB1,068 thousand (2014: RMB145 thousand), of which the underlying assets were commodities futures contract (2014: same).

28 Financial assets at fair value through profit or loss

	31 December 2015	31 December 2014
Investment held for trading		
Listed equity securities	19,909	1,596
Listed open-ended funds	2,948	—
	22,857	1,596

As at 31 December 2015, all the listed equity securities and open-ended funds were listed outside Hong Kong and none of them were placed as collateral (2014: same).

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29 Deposits with exchange-clearing organizations

	31 December 2015	31 December 2014
Clients' margin deposits	1,608,898	1,670,891
Clients' unrestricted deposits	878,062	548,702
Proprietary clearing settlement funds	174,716	111,598
	2,661,676	2,331,191
Represented by		
Deposits with DCE	493,302	389,279
Deposits with SHFE	571,918	431,694
Deposits with ZCE	184,407	249,131
Deposits with CFFE	1,412,049	1,261,087
	2,661,676	2,331,191

30 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 CSRC regulations.

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31 Cash and bank balances

	31 December 2015	31 December 2014
Cash	81	61
Term deposit with banks	834,000	485,000
Demand deposit with banks	325,277	263,765
Deposit with securities and futures brokers	37,582	5
	1,196,940	748,831

The Group's term deposits and demand deposits are mainly deposited with joint-stock commercial banks and major city commercial banks in China.

32 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:

	31 December 2015	31 December 2014
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	750,000
H shares	277,090	—
	1,001,900	750,000
Share capital		
Domestic shares	724,810	750,000
H shares	277,090	—
	1,001,900	750,000

On 7 July 2015, the Company issued 250,000,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with its global offering.

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32 Share capital (Continued)

On 24 July 2015, the Company issued 1,900,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with the over-allotment.

The excess of RMB360,338 thousand over the par value of RMB251,900 thousand for the 251,900 thousand ordinary shares issued, net of the relevant incremental costs of RMB47,425 thousand directly contributed to the newly-issued shares, was credited to “share premium”.

In accordance with relevant requirements, certain shareholders of the state-owned shares of the Company have transferred an aggregate of 25,190 thousand ordinary shares of the Company to the National Social Security Fund of the PRC.

33 Share premium and reserves

	Share premium	Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for-sale financial assets revaluation reserve ⁽³⁾	Currency translation differences	Total
As at 31 December 2013	290,292	7,128	91,272	320	—	389,012
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	290,292	14,263	105,393	2,869	—	412,817
Capital contributions received (Note 32)	360,338	—	—	—	—	360,338
Amounts recognized in						
other comprehensive income	—	—	—	(73)	—	(73)
Appropriation to surplus reserve	—	8,700	—	—	—	8,700
Appropriation to general risk reserve	—	—	8,700	—	—	8,700
Appropriation to futures risk reserve	—	—	8,280	—	—	8,280
Utilization of futures risk reserve	—	—	(100)	—	—	(100)
Currency translation differences	—	—	—	—	234	234
As at 31 December 2015	650,630	22,963	122,273	2,796	234	798,896

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(All amounts in RMB'000 unless otherwise stated)

33 Share premium and reserves (Continued)

(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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

33 Share premium and reserves (Continued)

(3) Available-for-sale financial assets revaluation reserve

Fair value changes of available-for-sale financial assets for other comprehensive income are as below:

	Year ended 31 December 2015		
	Pre-tax amount	Income tax effect (Note 23)	After-tax net amount
Balance at beginning of year	3,825	(956)	2,869
Changes in fair value of available-for-sale financial assets	3,728	(932)	2,796
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	(3,825)	956	(2,869)
Balance at end of year	3,728	(932)	2,796

	Year ended 31 December 2014		
	Pre-tax amount	Income tax effect (Note 23)	After-tax net amount
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	3,825	(956)	2,869

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(All amounts in RMB'000 unless otherwise stated)

34 Other current liabilities

	31 December 2015	31 December 2014
Salaries, bonus, allowance and benefits payables ⁽¹⁾	24,587	25,089
Interest payable	5,589	38
Advance for physical commodity trading	1,050	2,274
Margin deposits received on OTC options	1,420	—
Payable to Futures Investor Protection Fund	544	1,270
Other payables	8,340	6,990
	41,530	35,661

(1) Salaries, bonus, allowance and benefits payables

	1 January 2015	Current year charge	Current year payment	31 December 2015
Salaries and bonus	21,434	73,567	(75,517)	19,484
Other welfare	15	5,653	(5,648)	20
Other social securities	86	13,063	(13,083)	66
Labour union funds and employee education funds	3,554	3,309	(1,846)	5,017
	25,089	95,592	(96,094)	24,587

	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
	16,367	88,556	(79,834)	25,089

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(All amounts in RMB'000 unless otherwise stated)

35 Financial liabilities at fair value through profit or loss

	31 December 2015	31 December 2014
Interests of holders of consolidated SEs	144,470	—
Payable to clients for cooperative hedging business	43,676	—
	188,146	—

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.

	31 December 2015	31 December 2014
Cash and bank balances (Note 31)	1,196,940	748,831
Proprietary deposit with exchange-clearing organizations (Note 29)	174,716	111,598
Less:		
Term deposit with original maturity over three months	(805,000)	(485,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(8,000)	(8,000)
	558,656	367,429

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

38 Dividends

Under the “Company Law” of the PRC and the Company’s Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (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.

A dividend in respect of the year ended 31 December 2015 of RMB0.035 per share, amounting to a total dividend of RMB35,066.50 thousand, is to be proposed at the annual general meeting (2014: Nil). These financial statements do not reflect this dividend payable.

39 Commitments and contingent liabilities

(1) Capital commitments

Other than disclosed in Note 19, as at 31 December 2015, the Group was not involved in any material capital commitments (2014: same).

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

39 Commitments and contingent liabilities (Continued)

(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:

	31 December 2015	31 December 2014
Within 1 year	9,249	9,306
1 to 3 years	8,069	13,397
Over 3 years	11,646	14,158
	28,964	36,861

(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 2015, 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 (2014: same).

40 Related party transactions

40.1 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

40 Related party transactions (Continued)

40.1 Related parties (Continued)

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2015:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. (originally known as Qilu Securities Co., Ltd., "Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Financial International Limited. ("Zhongtai 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 Zhongtai 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 Zhongtai 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

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

40 Related party transactions (Continued)

40.2 Related party transactions and balances

40.2.1 The Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2015	2014
Income from providing futures brokerage service	3,236	869
Interest Expense	699	—
Introducing broker commission ⁽¹⁾	16,832	11,608
Commission payable for stocks trading	205	81
Rentals payable	693	912

(1) Introducing broker commission expense relates to commission paid to Zhongtai 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

	31 December	31 December
	2015	2014
Accounts payable to brokerage clients	30,964	289,434
Deposit with securities brokers	5,391	4
Other current liabilities		
— Introducing broker commission payable	710	2,001
— Other payable	43	42
— Rental payable	—	65
Other receivable		
— Rental prepayment	108	75

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

40 Related party transactions (Continued)

40.2 Related party transactions and balances (Continued)

40.2.2 Related parties other than the Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2015	2014
Income from providing futures brokerage service	9	52
Purchase of collective asset management schemes managed by Qilu Asset Management		
— Jintaishan No.1	20,000	—
— Wengu 21 Days	93,851	—
Purchase of collective asset management scheme managed by Wanjia Funds		
— Wanjia Funds — Luzheng Futures — Tongxin	—	30,000
Sponsor fee		
— Zhongtai International	2,621	—
Consulting fee		
— Qilu Asset Management	886	—
— Zhongtai International	187	—
Proceeds from disposal of fund managed by Wanjia Funds		
— Wanjia Funds — Luzheng Futures — Tongxin	29,699	—
Proceeds from disposal of collective asset management schemes managed by Qilu Asset Management		
— Jintaishan No.1	22,242	12,011
— Qilu Huiquan B	8,674	—
— Jinhui Hanyucheng No.1	—	21,603
Dividends from collective asset management schemes managed by Qilu Asset Management		
— Jintaishan No.1	—	1,096
Income from providing consulting services		
— Qilu Consulting	—	120
Interest income from bank deposit		
— Laishang Bank	9,780	8,297
Cost of purchase of physical commodities		
— Yongfeng Trade	—	8,061

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

40 Related party transactions (continued)

40.2 Related party transactions and balances (Continued)

40.2.2 Related parties other than the Company's direct controlling shareholder (Continued)

Balance at the end of year

		31 December 2015	31 December 2014
Accounts payable to brokerage clients:		28,440	45,231
Cash and bank balance — Laishang Bank		279,780	145,001
Collective asset management scheme managed by Wanjia Funds			
— Wanjia Funds — Luzheng Futures	Available-for-sale	40	28,684
— Tongxin	financial assets		
Collective asset management schemes managed by Qilu Asset Management			
— Wengu 21 Days	Available-for-sale	93,851	—
	financial assets		
— Jintaishan No.1 & No.2	Available-for-sale	18,605	15,773
	financial assets		
— Qilu Huiquan B	Available-for-sale	—	8,782
	financial assets		
Other payable			
— Rizhao Trade		90	—
Consulting fee payable			
— Qilu Asset Management		6	—

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

40 Related party transactions (Continued)

40.2 Related party transactions and balances (Continued)

40.2.3 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, board of supervisors and other members of the senior management.

	Year ended 31 December	
	2015	2014
Key management compensation	3,823	3,998

There is no loan or advance to key management during the financial years ended 31 December 2015 and 2014.

41 Segment analysis

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- 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 year.

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.

LUZHENG FUTURES Company Limited

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

41 Segment analysis (Continued)

	Year ended 31 December 2015					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	
Net commission and fee income						
– external	128,736	–	19,117	280	–	148,133
– internal	251	–	1,001	–	(1,252)	–
Net interest income						
– external	111,718	110	42	34,150	–	146,020
Loss on physical commodities trading						
– external	–	(5,708)	–	–	–	(5,708)
Net investment gains						
– external	–	19,138	3,854	21,236	–	44,228
– internal	–	(242)	–	(9)	251	–
Other income						
– external	36,608	152	3	462	–	37,225
Total operating income	277,313	13,450	24,017	56,119	(1,001)	369,898
Total operating expenses	(158,562)	(13,411)	(18,997)	(64,745)	1,001	(254,714)
Share of losses of investment in an associate	–	(2,874)	–	–	–	(2,874)
Other gains, net	–	109	–	12,491	–	12,600
Profit/(Loss) before income tax	118,751	(2,726)	5,020	3,865	–	124,910
Total assets	5,697,308	176,345	146,282	1,822,760	(409,286)	7,433,409
Total liabilities	5,518,756	48,948	144,543	12,087	(269,286)	5,455,048
Supplemental information						
Depreciation and amortization	2,752	518	34	4,865	–	8,169
Impairment provision	85	152	–	–	–	237
Capital expenditure	9,787	11	–	1,432	–	11,230

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

41 Segment analysis (Continued)

	Year ended 31 December 2014					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	
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	—	17	—	215	—	232
Capital expenditure	1,936	350	—	2,973	—	5,259

42 Financial risk management

42.1 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, assess, 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.1 Risk management policies and structure (Continued)

(2) Policies and structure for the Company (Continued)

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 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 of Luzheng Trading, a major subsidiary of the Group

Luzheng Trading'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.

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(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.1 Risk management policies and structure (Continued)

(3) Policies and structure of Luzheng Trading, a major subsidiary of the Group (Continued)

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.

42.2 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 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 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.2 Credit risk (Continued)

The Group'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 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 usually requires 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's credit exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group 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 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 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 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 2015, the fair values of such collateral were RMB52,003 thousand (2014: RMB69,864 thousand).

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(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.2 Credit risk (Continued)

(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:

	31 December 2015	31 December 2014
Refundable deposits	20,138	20,157
Other current assets	20,049	5,220
Available-for-sale financial assets	132,910	212,018
Deposits with exchange-clearing organizations	2,661,676	2,331,191
Bank balances held for brokerage clients	2,996,241	1,986,475
Bank balances	1,196,859	748,770
	7,027,873	5,303,831

(2) Credit risk from brokerage service

Client Risk Ratio	31 December 2015		31 December 2014	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,333,947	4,876,665	1,338,778	3,862,229
80%–100%	302,976	333,283	313,855	333,593
Above 100%	3,972	3,586	18,258	17,382
	1,640,895	5,213,534	1,670,891	4,213,204
Coverage ratio		318		252%

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.3 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.

42.3.1 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. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

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 mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

Price risk in connection with futures contracts arising from the Group's cooperative hedging business is mostly offset by the financial liabilities payable to clients for that business, as the investment gain or loss on those derivatives are largely borne by clients.

As at 31 December 2015, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, listed open-ended funds, interests of holders of consolidated SEs, payable to clients or cooperative hedging business.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.3 Market risk (Continued)

42.3.1 Price risk (Continued)

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, funds, derivatives 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.

	Year ended 31 December	
	2015	2014
Profit before income tax		
Increase by 5%	10,007	2,451
Decrease by 5%	(10,007)	(2,451)

	Year ended 31 December	
	2015	2014
Other comprehensive income before income tax		
Increase by 5%	15,168	6,304
Decrease by 5%	(15,168)	(6,304)

42.3.2 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 deposits, bank balances held for brokerage clients, deposits with exchange-clearing organizations and available-for-sale trust schemes. 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.3 Market risk (Continued)

42.3.2 Interest rate risk (Continued)

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):

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Non- interest bearing	Total
As at 31 December 2015						
Refundable deposits	20,138	—	—	—	—	20,138
Other current assets	—	—	—	—	20,049	20,049
Available-for-sale financial assets	—	—	—	132,910	304,754	437,664
Derivative financial assets	—	—	—	—	1,151	1,151
Financial assets at fair value through profit or loss	—	—	—	—	22,857	22,857
Deposits with exchange-clearing organizations	1,052,778	—	—	—	1,608,898	2,661,676
Bank balances held for brokerage clients	2,996,241	—	—	—	—	2,996,241
Cash and Bank balances	391,940	—	805,000	—	—	1,196,940
Sub-total	4,461,097	—	805,000	132,910	1,956,709	7,356,716
Other current liabilities	—	—	—	—	(16,319)	(16,319)
Accounts payable to brokerage clients	(1,506,927)	—	—	—	(3,706,607)	(5,213,534)
Derivative financial liabilities	—	—	—	—	(1,927)	(1,927)
Financial liabilities at fair value through profit or loss	—	—	—	—	(188,146)	(188,146)
Other non-current liabilities	—	—	—	—	(2,599)	(2,599)
Sub-total	(1,506,927)	—	—	—	(3,915,598)	(5,422,525)
Interest rate sensitivity gap	2,954,170	—	805,000	132,910	(1,957,889)	1,934,191

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.3 Market risk (Continued)

42.3.2 Interest rate risk (Continued)

	Within 1 month	1-3 months	3 months to 1 year	Non- interest bearing	Total
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

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.3 Market risk (Continued)

42.3.2 Interest rate risk (Continued)

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 decreases 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.

	Year ended 31 December	
	2015	2014
Net interest income		
Increases by 50bps	15,794	14,849
Decreases by 50bps	(15,794)	(14,849)

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 depots moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.3 Market risk (Continued)

42.3.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, with only insignificant revenue from foreign currency transactions. The Group considers that its currency risk is immaterial.

42.4 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 Group'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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.4 Liquidity risk (Continued)

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 head-room as determined by the above-mentioned forecasts. As at 31 December 2015, the Group held cash and cash equivalents of approximately RMB559 million that are expected to readily generate cash inflows for managing liquidity risk (2014: RMB367 million).

The tables below present the cash flows payable by the Group 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.

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2015						
Non-derivative cash flow						
Accounts payable to brokerage clients	5,213,534	—	—	—	—	5,213,534
Other current liabilities	12,046	3,563	—	710	—	16,319
Financial liabilities at fair value through profit or loss	—	—	—	188,146	—	188,146
Other non-current liabilities	—	—	—	—	2,599	2,599
	5,225,580	3,563	—	188,856	2,599	5,420,598
Derivative cash flow						
Derivative financial instruments settled on a gross basis						
(a) total inflow	1,141	—	—	—	—	1,141
(b) total outflow	(1,062)	—	—	—	—	(1,062)

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(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.4 Liquidity risk (Continued)

	On demand	Within 1 month	1-3 months	3 months to 1 year	Total
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
	4,205,231	3,323	—	2,044	4,210,598
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)

42.5 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

42 Financial risk management (Continued)

42.5 Capital management (Continued)

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

43 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.

43.1 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.

43.2 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).

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

43 Fair value of financial assets and liabilities (Continued)

43.2 Financial instruments measured at fair value (Continued)

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2015 and 2014.

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Listed equity securities	19,910	—	—	19,910
— Listed open-ended funds	2,948	—	—	2,948
Derivative financial assets				
— OTC Options	—	1,151	—	1,151
Available-for-sale financial assets				
— Collective asset management schemes ⁽¹⁾	—	303,354	—	303,354
— Trust schemes ⁽²⁾	—	—	132,910	132,910
	22,858	304,505	132,910	460,273
Financial liabilities at fair value through profit or loss	—	(188,146)	—	(188,146)
Derivative financial liabilities	—	(1,927)	—	(1,927)
	—	(190,073)	—	(190,073)

As at 31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Listed equity securities	1,596	—	—	1,596
Available-for-sale financial assets				
— Collective asset management schemes	—	76,073	—	76,073
— Trust schemes	—	—	161,768	161,768
— Debt instruments	—	—	100,250	100,250
	1,596	76,073	262,018	339,687

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

43 Fair value of financial assets and liabilities (Continued)

43.2 Financial instrument measured at fair value (Continued)

- (1) As at 31 December 2015, collective asset management schemes that are classified as level 2 in fair value hierarchy are issued and managed by Qilu Asset Management, Wanjia Funds, other non-related financial institutions, as well as unregulated private fund managers, 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 42.3.1.
- (2) As at 31 December 2015, 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. 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 reflect 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 42.3.2.

For the year ended 31 December 2015, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (2014: same).

(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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

43 Fair value of financial assets and liabilities (Continued)

43.2 Financial instrument measured at fair value (Continued)

(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 2015 and 2014, the Group'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 exchange-listed open-ended funds, fair value is determined based on the closing price of the listed funds 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.
- (3) For collective asset management schemes and trust schemes, fair value is determined based on the net asset value as at the reporting date.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

43 Fair value of financial assets and liabilities (Continued)

43.2 Financial instrument measured at fair value (Continued)

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the years ended 31 December 2015 and 2014.

	Available-for-sale financial assets
Balance at 1 January 2015	262,018
Increase	132,910
Decrease	(262,018)
Balance at 31 December 2015	132,910
Total gains or losses for the year included in profit or loss for assets held at end of year, under "Net investment gains"	3,539
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	—

	Available-for-sale financial assets
Balance at 1 January 2014	214,913
Increase	262,018
Decrease	(214,913)
Balance at 31 December 2014	262,018
Total gains or losses for the year included in profit or loss for assets held at end of year, under "Net investment gains"	10,788
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	—

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

43 Fair value of financial assets and liabilities (Continued)

43.2 Financial instrument measured at fair value (Continued)

(d) Financial instruments in Level 3 (Continued)

Financial assets	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

44 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2015					
	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	—	(870)	(870)	870	—

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 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

45 Unconsolidated structured entities

Unconsolidated 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 2015 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:

	31 December 2015	31 December 2014
Available-for-sale financial assets	436,264	237,841
Financial assets at fair value through profit or loss	2,948	—
	439,212	237,841

For the years ended 31 December 2015 and 2014, the income from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December 2015	2014
Net investment gains	29,850	39,057

As at 31 December 2015, 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 (2014: same).

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(All amounts in RMB'000 unless otherwise stated)

46 Statements of financial position and reserve movement of the Company

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property and equipment		43,919	41,655
Intangible assets		5,915	6,116
Investment in subsidiaries		196,700	120,000
Other non-current assets		2,969	3,207
Available-for-sale financial assets		134,310	17,173
Deferred income tax assets		1,243	3,081
Refundable deposits		20,138	20,157
Total non-current assets		405,194	211,389
Current assets			
Other current assets		12,848	11,258
Available-for-sale financial assets		299,654	290,702
Financial assets at fair value through profit or loss		8,996	—
Deposits with exchange-clearing organizations		2,661,676	2,331,191
Bank balances held for brokerage clients		2,996,241	1,986,475
Cash and bank balances		1,124,860	696,792
Total current assets		7,104,275	5,316,418
Total assets		7,509,469	5,527,807

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

46 Statements of financial position and reserve movement of the Company (Continued)

	Notes	31 December 2015	31 December 2014
Equity and liabilities			
Share capital		1,001,900	750,000
Share premium		650,630	290,292
Reserves	Note (a)	148,032	118,669
Retained earnings	Note (a)	178,621	109,021
Total equity		1,979,183	1,267,982
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		—	—
Other non-current liabilities		2,599	959
Total non-current liabilities		2,599	959
Current liabilities			
Other current liabilities		37,560	34,796
Current income tax liabilities		7,312	10,866
Accounts payable to brokerage clients		5,482,815	4,213,204
Total current liabilities		5,527,687	4,258,866
Total liabilities		5,530,286	4,259,825
Total equity and liabilities		7,509,469	5,527,807

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

46 Statements of financial position and reserve movement of the Company (Continued)

Note (a) Reserve movement of the Company

	Retained earnings	Other reserves
Balance at 1 January 2014	50,448	98,914
Profit for the year	79,829	—
Other comprehensive income for the year	—	(1,501)
Total comprehensive income	79,829	(1,501)
Net appropriation to reserves	(21,256)	21,256
Balance at 31 December 2014	109,021	118,669
Balance at 1 January 2015	109,021	118,669
Profit for the year	95,180	—
Other comprehensive income for the year	—	3,783
Total comprehensive income	95,180	3,783
Net appropriation to reserves	(25,580)	25,580
Balance at 31 December 2015	178,621	148,032

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(All amounts in RMB'000 unless otherwise stated)

47 Benefits and interests of directors

The emoluments of the directors and supervisors of the Company paid by the Group for the years ended 31 December 2015 and 2014 are set out below:

Name	Year ended 31 December 2015				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Chen Fang ⁽¹⁾	—	—	—	—	—
Liang Zhongwei	173	54	58	49	334
Non-executive Directors					
Lv Xiangyou ⁽²⁾	—	—	—	—	—
Zhang Yunwei ⁽²⁾	—	—	—	—	—
Li Chuanyong ⁽²⁾	—	—	—	—	—
Cui Pengpeng ^{(2) (3)}	—	—	—	—	—
Liu Feng ⁽²⁾	—	—	—	—	—
Yu Xuehui	—	100	—	—	100
Wang Chuanshun	—	100	—	—	100
Gao Zhu	—	100	—	—	100
Wei Wei ⁽⁴⁾	—	—	—	—	—
Supervisors					
An Tie ⁽²⁾	—	—	—	—	—
Zhang Shouhe ⁽²⁾	—	—	—	—	—
Meng Tao ⁽⁵⁾	42	8	6	—	56
Hu Yuyue ⁽⁶⁾	—	42	—	—	42
Mou Yong ⁽⁷⁾	—	42	—	—	42
Li Xisheng ⁽⁸⁾	124	54	59	—	237
Wang Hairan ⁽⁹⁾	145	42	37	49	273
	484	542	160	98	1,284

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

47 Benefits and interests of directors (Continued)

Name	Year ended 31 December 2014				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Chen Fang ⁽¹⁾	—	—	—	—	—
Liang Zhongwei	168	32	32	54	286
Non-executive Directors					
Lv Xiangyou ⁽²⁾	—	—	—	—	—
Zhang Yunwei ⁽²⁾	—	—	—	—	—
Li Chuanyong ⁽²⁾	—	—	—	—	—
Cui Pengpeng ^{(2) (3)}	—	—	—	—	—
Yu Xuehui	—	100	—	—	100
Wang Chuanshun	—	100	—	—	100
Gao Zhu	—	100	—	—	100
Supervisors					
An Tie ⁽²⁾	—	—	—	—	—
Zhang Shouhe ⁽²⁾	—	—	—	—	—
Meng Tao ⁽⁵⁾	130	28	23	167	348
Liu Feng ⁽²⁾	—	—	—	—	—
	298	360	55	221	934

Notes to the Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

47 Benefits and interests of directors (Continued)

- (1) Chen Fang was appointed by Zhongtai Securities and his emolument was paid by Zhongtai Securities, and no allocation of the emoluments between the shareholder and the Group has been made during the year.
- (2) Those non-executive directors and supervisors were appointed by shareholders and their emoluments were paid by shareholders for the years ended 31 December 2015 and 2014.
- (3) Cui Pengpeng ceased to be non-executive director effective from February 2015.
- (4) Wei Wei was elected to be non-executive director effective from June 2015.
- (5) Meng Tao ceased to be supervisor effective from February 2015.
- (6) Hu Yuyue was elected to be supervisor effective from June 2015.
- (7) Mou Yong was elected to be supervisor effective from June 2015.
- (8) Li Xisheng was elected to be supervisor effective from March 2015.
- (9) Wang Hairan was elected to be supervisor effective from June 2015.