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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the “**Board**”) of LUZHENG FUTURES Company Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016 (the “**Reporting Period**”), together with the comparative annual results of the Group for the year ended 31 December 2015. Unless otherwise stated, all financial data set out in this announcement is denominated in RMB.

FINANCIAL HIGHLIGHTS

- During the Reporting Period, the Group achieved operating income of RMB399 million, which represented an increase of 7.84% as compared to RMB370 million in 2015.
- During the Reporting Period, the Group achieved total profit before income tax of RMB154.926 million, which represented an increase of 24.03% as compared to RMB124.910 million in 2015.
- During the Reporting Period, profit of the Group for the year amounted to RMB112.776 million, which represented an increase of 20.51% as compared to RMB93.583 million in 2015.
- During the Reporting Period, earnings per share attributable to shareholders of the Company were RMB0.11, which was the same as RMB0.11 in 2015.
- The Board recommends to declare the distribution of final dividends of RMB0.048 (including tax) per share for the year ended 31 December 2016 (the “**2016 Final Dividend**”), the total amount of dividends to be distributed is RMB48,091,200.00 (the total amount of dividends distributed was RMB43,081,700.00 for the year ended 31 December 2015). The distribution proposal of the 2016 Final Dividend shall become effective upon the approval of shareholders of the Company at the 2016 annual general meeting (the “**AGM**”) held on 15 June 2017. The Company expects to pay the 2016 Final Dividend on or about 27 July 2017.

Financial Statements

1. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in RMB'000 unless otherwise stated)

		Year ended 31 December	
	Notes	2016	2015
Commission and fee income	3	264,432	619,500
Commission and fee expense	3	<u>(167,528)</u>	<u>(471,367)</u>
Net commission and fee income		96,904	148,133
Interest income	4	169,125	172,146
Interest expense	4	<u>(16,034)</u>	<u>(26,126)</u>
Net interest income		153,091	146,020
Gains/(losses) on physical commodities trading	5	10,643	(5,708)
Net investment gains	6	51,400	44,228
Other income	7	<u>86,877</u>	<u>37,225</u>
Operating income		398,915	369,898
Staff costs		(120,818)	(95,592)
Commission to brokerage agents		(16,912)	(27,102)
Introducing broker commission		(8,162)	(16,832)
Depreciation and amortization		(8,358)	(8,169)
Impairment losses		(1,562)	(237)
Other operating expenses	8	<u>(88,294)</u>	<u>(106,782)</u>
Operating expenses		(244,106)	(254,714)
Operating profit		154,809	115,184
Share of losses of investment in an associate		(1,946)	(2,874)
Other gains, net	9	<u>2,063</u>	<u>12,600</u>
Profit before income tax		154,926	124,910
Income tax expense	10	<u>(42,150)</u>	<u>(31,327)</u>
Profit for the year		112,776	93,583

	<i>Notes</i>	Year ended 31 December	
		2016	2015
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets			
— Changes in fair value		(873)	3,728
— Income tax effect on changes in fair value		219	(932)
— Amounts reclassified to profit or loss upon disposal or impairment		(614)	(2,869)
Currency translation differences		<u>1,741</u>	<u>234</u>
Other comprehensive income for the year, net of tax		<u>473</u>	<u>161</u>
Total comprehensive income		<u><u>113,249</u></u>	<u><u>93,744</u></u>
Profit attributable to:			
— Shareholders of the Company		113,003	93,583
— Non-controlling interests		<u>(227)</u>	<u>—</u>
		<u><u>112,776</u></u>	<u><u>93,583</u></u>
Total comprehensive income attributable to:			
— Shareholders of the Company		113,476	93,744
— Non-controlling interests		<u>(227)</u>	<u>—</u>
		<u><u>113,249</u></u>	<u><u>93,744</u></u>
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)			
Basic/Diluted	<i>11</i>	<u><u>0.11</u></u>	<u><u>0.11</u></u>

2. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(All amounts in RMB'000 unless otherwise stated)

	<i>Notes</i>	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment		42,239	45,125
Intangible assets		7,787	6,157
Investment in an associate		28,743	5,811
Other non-current assets		1,862	3,137
Available-for-sale financial assets		16,514	134,310
Deferred income tax assets		5,823	1,983
Refundable deposits		25,516	20,138
		<hr/>	<hr/>
Total non-current assets		128,484	216,661
		<hr/>	<hr/>
Current assets			
Physical commodities		72,560	3,640
Other current assets	13	136,825	30,889
Available-for-sale financial assets		533,718	303,354
Derivative financial assets		609	1,151
Financial assets at fair value through profit or loss		269,706	22,857
Financial assets held under resale agreements		12,199	—
Deposits with exchange-clearing organizations		2,196,722	2,661,676
Bank balances held for clients		3,855,245	2,996,241
Cash and bank balances		998,225	1,196,940
		<hr/>	<hr/>
Total current assets		8,075,809	7,216,748
		<hr/>	<hr/>
Total assets		8,204,293	7,433,409
		<hr/> <hr/>	<hr/> <hr/>

	<i>Notes</i>	31 December 2016	31 December 2015
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Other reserves		176,354	148,266
Retained earnings		219,871	177,565
		<hr/>	<hr/>
Total equity attributable to shareholders of the Company		2,048,755	1,978,361
Non-controlling interests		29,773	—
		<hr/>	<hr/>
Total equity		2,078,528	1,978,361
		<hr/>	<hr/>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		76	14
Other non-current liabilities		1,783	2,599
		<hr/>	<hr/>
Total non-current liabilities		1,859	2,613
		<hr/>	<hr/>
Current liabilities			
Other current liabilities		76,505	41,530
Current income tax liabilities		23,555	7,298
Derivative financial liabilities		606	1,927
Financial liabilities at fair value through profit or loss		300,539	188,146
Accounts payable to brokerage clients		5,722,701	5,213,534
		<hr/>	<hr/>
Total current liabilities		6,123,906	5,452,435
		<hr/>	<hr/>
Total liabilities		6,125,765	5,455,048
		<hr/>	<hr/>
Total equity and liabilities		8,204,293	7,433,409
		<hr/> <hr/>	<hr/> <hr/>

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

LUZHENG FUTURES Company Limited (魯証期貨股份有限公司) is incorporated in Shandong Province, the People's Republic of China (the "PRC" or "China") as a joint stock financial institution.

The Company, originally named as Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), was set up upon approval from the China Securities Regulatory Commission (the "CSRC") in April 1995 as a limited liability company with an initial registered capital of RMB10.2 million. The Company increased its registered capital to RMB50 million after three additional capital contributions and was renamed as Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司) in February 2007. The Company subsequently increased its registered capital to RMB200 million and further changed its name to Luzheng Futures Co., Ltd. (魯証期貨有限公司) in December 2007. After a series of share transfers and capital increases, the Company increased its registered capital to RMB640 million by September 2012. Upon approval by relevant government authorities, the Company was converted from a limited liability company into a joint-stock company in December 2012. After the conversion, the registered 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 (the "Hong Kong Stock Exchange") 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 Group is principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, futures asset management, commodity trading, registration and settlement service and other business activities as permitted by the CSRC.

The consolidated financial statements were authorised for issue by the Board on 22 March 2017.

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 and financial liabilities (including derivative instruments) at fair value through profit or loss, 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 Group continues to adopt the going concern basis in preparing its consolidated financial statements.

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 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation — Amendments to International Accounting Standard ("IAS") 16 and IAS 38
- Annual improvements to IFRSs 2012 – 2014 cycle
- Disclosure initiative — Amendments to IAS 1

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

2.2 *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 2016 and have not been applied in preparing these consolidated financial statements. None of these standards, amendments and interpretations 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'

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available; and
- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

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. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, 'Revenue from Contracts with Customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue from the sale of goods and provision of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- IT consulting services — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue;
- Accounting for the customer loyalty programme — IFRS 15 requires that the total consideration received must be allocated to the points and goods based on relative stand-alone selling prices rather than based on the residual value method; this could result in different amounts being allocated to the goods sold and delay the recognition of a portion of the revenue;
- Accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15; and
- Rights of return — IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases'

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB23,846 thousand. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Net commission and fee income

stated in RMB'000	Year ended 31 December	
	2016	2015
Commission and fee income		
Futures brokerage service	246,737	525,152
Settlement and clearing service income from other futures firms	3,321	74,663
Asset management service	14,351	19,405
Investment consultancy service	23	280
	<u>264,432</u>	<u>619,500</u>
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	164,207	396,704
Settlement and clearing service expense to exchange-clearing organizations	3,321	74,663
	<u>167,528</u>	<u>471,367</u>

4. Net interest income

stated in RMB'000	Year ended 31 December	
	2016	2015
Interest income		
Interest income from deposits with banks	158,792	144,447
Interest income from deposits with exchange-clearing organizations	8,993	27,699
Interest income from financial assets held under resale agreements	1,340	—
	<u>169,125</u>	<u>172,146</u>
Interest expense		
Interest expense to brokerage clients	14,383	24,207
Interest expense on settlement and clearing services to other futures firms	1,651	1,919
	<u>16,034</u>	<u>26,126</u>

5. Gains/(losses) on physical commodities trading

stated in RMB'000	Year ended 31 December	
	2016	2015
Sales proceeds	814,927	194,333
Costs of purchases	<u>(804,284)</u>	<u>(200,041)</u>
	<u>10,643</u>	<u>(5,708)</u>

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.

6. Net investment gains

stated in RMB'000	Year ended 31 December	
	2016	2015
Net realized gains from disposal of available-for sale financial assets	3,795	28,048
Dividends and interest income from available-for-sale financial assets	20,793	2,432
Net realized losses from disposal of financial assets at fair value through profit or loss ⁽¹⁾	(1,774)	(370)
Dividends income from financial assets at fair value through profit or loss	2,833	139
Net realized gains from derivative financial instruments ⁽²⁾	20,805	23,210
Unrealized fair value change of financial instruments at fair value through profit or loss		
— Financial assets at fair value through profit or loss	1,079	(1,044)
— Financial liabilities at fair value through profit or loss	2,039	(8,160)
— Derivative financial instruments	1,830	(27)
	51,400	44,228
	51,400	44,228

(1) This item consists of losses from investment in exchange traded stocks, funds and other financial instruments at fair value through profit or loss.

(2) This item represents gains from futures, exchange options and over-the-counter (“OTC”) derivatives transactions related to subsidiaries and commodity trading activities.

7. Other income

stated in RMB'000	Year ended 31 December	
	2016	2015
Refunds of trading fees ⁽¹⁾	81,126	36,612
Cooperative hedging fees	1,942	152
Training service fees	1,512	—
Software service fees	1,282	461
Other	1,015	—
	86,877	37,225
	86,877	37,225

(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.

8. Other operating expenses

stated in RMB'000	Year ended 31 December	
	2016	2015
Office expenses	23,537	22,275
Marketing and distribution expenses	15,283	15,528
Consulting expenses	12,810	19,082
Rentals	10,782	12,246
Information system maintenance fees	6,909	5,448
Professional service expenses	4,771	1,382
Business tax and surcharges	3,823	11,524
Property maintenance fee	3,799	3,830
Futures Investors Protection Fund	2,034	7,146
Auditors' remuneration — Audit services	1,650	1,880
Listing expense	—	4,102
Other expenses	2,896	2,339
	<u>88,294</u>	<u>106,782</u>

9. Other gains, net

stated in RMB'000	Year ended 31 December	
	2016	2015
Government grants	2,999	2,540
Subsidies received from futures exchanges ⁽¹⁾	295	1,545
Loss from disposal of long-term non-financial assets	(66)	(8)
Donation	(1,001)	(100)
Foreign exchange (losses)/gains	(334)	8,176
Others	170	447
	<u>2,063</u>	<u>12,600</u>

(1) This item mainly consists of subsidies from futures exchanges for investors education, conference and research, etc.

10. Income tax expense

stated in RMB'000	Year ended 31 December	
	2016	2015
Current tax	45,316	29,504
Deferred tax	(3,166)	1,823
	<u>42,150</u>	<u>31,327</u>

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.

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	
	2016	2015
Profit before income tax	<u>154,926</u>	124,910
Tax calculated at applicable tax rates applicable to profits in the respective area	40,540	31,467
Items deducted for tax purposes but not subtracted to arrive at taxable income	—	(2,045)
Items not deductible for tax purposes	<u>1,610</u>	1,905
	<u>42,150</u>	<u>31,327</u>

11. Earnings per share

11.1 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	
	2016	2015
Profit attributable to shareholders of the Company (in RMB thousands)	113,003	93,583
Weighted average number of ordinary shares in issue (in thousands)	<u>1,001,900</u>	854,958
Basic earnings per share (in RMB)	<u>0.11</u>	<u>0.11</u>

11.2 Diluted earnings per share

For the year ended 31 December 2016, there were no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share (2015: same).

12. 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 part of 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.

The dividend paid in 2016 was RMB43,082 thousand (2015: nil). A final dividend in respect of the year ended 31 December 2016 of RMB0.048 per share (including tax), amounting to a total dividend of RMB48,091,200, is to be proposed at the AGM on 15 June 2017. These financial statements do not reflect this final dividend payable.

13. Other current assets

stated in RMB'000	31 December 2016	31 December 2015
Accounts receivable ⁽¹⁾	56,034	771
Prepayments	71,806	10,840
Interest receivable	6,325	5,226
Other receivables	2,660	2,888
Deposit for derivative trading	—	11,164
	<u>136,825</u>	<u>30,889</u>

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

stated in RMB'000	31 December 2016		31 December 2015	
	Amount	Impairment allowance	Amount	Impairment allowance
1 year or below	<u>56,434</u>	<u>(400)</u>	<u>771</u>	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

I. Economic and Futures Market Analysis during the Reporting Period

(1) *Economic Conditions*

In 2016, the global economy stabilized amid remained turmoil, but continued to face regional differentiation and the imbalance of economic recovery remained. Some countries with fiscal policy flexibility have begun to increase fiscal deficits moderately and stimulate economic growth through raising government investment and facilitating the construction of infrastructure. The job market in the United States was recovering steadily with strong endogenous power for economic growth, and both the Purchasing Managers' Index and Producer Price Index of the manufacturing sector bottomed out and rebounded, which indicated the economy began to stabilize and recover; the Euro Zone focused on improving the environment of labor market and services sector and encouraging technological innovation, which achieved a modest economic recovery; Japan further promoted structural reforms in order to release pressure on labor shortage, the economy therefore began to recover slowly; emerging market economies rebounded slightly as they experienced external shocks and increasing exchange rate fluctuations which led to significant vulnerability of the financial market. It was noteworthy that the high frequency of the "Black Swan" political incidents in 2016, including the Brexit and the US general election, which posed a challenge to the global trading landscape. It is expected that the global economy will be affected by such incidents in 2017. The risk of economic stall will be intensified and the recovery environment of the global economy would be worsen if there is a recession backwards in economic globalization.

The domestic economy stabilized and rebounded in 2016. The economic reform achieved remarkable results. Facing with the complicated domestic and international economic situations, the government has made efforts to strengthen the supply-side structural reform, to address overcapacity, to reduce inventory, to deleverage, to lower costs and to booster areas at weakness, as well as to moderately carry out the demand expansion policy. With the cooperation of a series of policies, all of the economic indicators bottomed out and rebounded while the operating efficiency of enterprises improved significantly and the economic performance became gradually better. Together with ensuring the smooth performance of the economy, the domestic economic structure was further optimized and the structural adjustments achieved results. Energy consumption in economic units continued to decline, manufacturing technology was upgraded and a group of high-tech enterprises began to emerge. As the proportion of the consumption and services industry grew continually, they began to play a key role in leading the economy, which showed that the endogenous power for economic growth became substantially stronger.

(2) *Futures Market Analysis*

In 2016, trading volume of the Chinese futures was 4.138 billion lots, representing an increase of 15.65% as compared to 2015, while trading amount of such futures market recorded a significant decrease of 64.7% as compared to 2015 due to the impact of ongoing regulatory controls over stock index futures. Benefitted from the supply-side reform, the implementation of the fiscal policy and the increasing efforts on environmental remediation, the performance of bulk commodity in 2016 hit a record high since 2010 and became a spotlight in the global financial market. In 2016, the Wenhua CCI rose 34.54% throughout the year, of which the performances of trading products such as ferrous metals and coal were the most eye-catching, whereas coking coal increased by 139.5%, iron ore increased by 68.7% and steel increased by 60.4%. Prices of chemical products also grew sharply due to cost-driven factors and environmental protection, leading the prices of most varieties back to the levels two years ago. Prices of non-ferrous metals resulted in a weak increase, which was attributed to the impact of the international market, but zinc and aluminum performed quite well because of the decline in the supply side. For agricultural products, the yield of major agricultural products decreased due to the influence of extreme El Niño weather, prices of oil, meal and sugar increased quite dramatically. Only the price of corn showed a sharp decrease in 2016 resulting from the oversupply.

II. Discussion and Analysis of the Company's Development Plans, Results and Prospects

As at 31 December 2016, the Company was rated by the CSRC as a Class A (Level A) futures firm, which makes it rated by the CSRC as a Class A futures firm for eight consecutive years. The Company was also named as the “Best Futures Firm in China (中國最佳期貨公司)” for the fourth time by the Futures Daily (期貨日報) and the Securities Times (證券時報), 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)”.

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

(1) *Futures Brokerage*

Market Analysis:

During the Reporting Period, the Chinese futures market underwent a year of volatility and fast development. “Futures + Insurance” was recorded into the No. 1 Central Document; sugar and soybean meal futures were approved; the classification and rating of futures companies has changed; prices of bulk commodity, represented by black varieties, successively surged twice and trading volume of certain varieties increased quickly under the supply-side reform. Boosted by the active commodity futures transactions, trading volume of the national futures market amounted to 4.138 billion lots, representing an increase of 15.65% as compared to 2015, which once again set a new record. Under the impact of the ongoing control measures on stock index futures, trading amount of the national futures market fell significantly by 64.7% as compared to 2015.

Development Plans and Results:

The Company seized various opportunities, strived to prepare for all tasks according to the core plans of “one upgrade, two improvements, and three strengthenings” formulated at the beginning of 2016 and achieved good results.

First of all, the Company strived to promote transformation of brokerage business and to improve management efficiency, optimize resources allocation as well as enhance capability in customer services. The Company has optimized its departmental structure adjustment and established the headquarter of operation management by consolidating the duties of the risk control department, clearing department, settlement department, business introduction department, and customer services department, etc..

Secondly, the Company further enhanced its abilities to serve major clients, particularly industrial clients. During the Reporting Period, the Company optimized its client base by strengthening its focus on serving institutional and professional clients. On the one hand, the Company has established the major clients’ service team to integrate resources efficiently and enhance the ability to support businesses of the operation department; on the other hand, for the development of its industrial client base, the Company conducted site visit to carry out business on settlement, warehouse receipts and other future and cash trading together with its branches. The number of institutional clients of the Company’s futures brokerage business increased from 2,065 as at 31 December 2015 to 2,414 as at 31 December 2016, while the equity of institutional clients increased from RMB2.789 billion as at 31 December 2015 to RMB3.383 billion as at 31 December 2016.

Thirdly, the Company continued to strengthen the operation management and establishment of its branches and further enhanced the layout of the presence of operation centers. It aimed at fully consolidating its regional resources and hence promoting regional business development and improving regional management efficiency and business competitiveness. The Company has also optimized and promulgated the “Management Measures for Branches (Trail)”. In February 2016, the Company established its first branch office in Shanghai, where resources of futures were relatively highly centralized. Meanwhile the Company also formulated and implemented the “Management Measures for the Posts of Operation Department” to realize the target of small back office and large front office.

Fourthly, the Company seized the opportunities from the development trend of “Internet plus” to facilitate the promotion and introduction of technologies. The Company has established an e-commerce firm naming “Qi Youji (期游記)” for subscriptions on media platforms and Wechat. The Company also made strategy for promotion of Internet to facilitate the on-line attraction of clients from different platforms. The number of new online clients has increased significantly, which represented 72% among the new clients with a 49 percentage points increase as compared to 2015.

As at 31 December 2016, the total trading volume of the Company's futures brokerage business amounted to 88 million lots, which represented a year-on-year increase of 12.55% under the active commodities futures trading; the accumulating trading amount of the Company's futures brokerage business amounted to RMB4.1 trillion, which represented a year-on-year decrease of 68.30% as impacted by the regulatory control on the stock index futures; client's equity as at the end of the period was RMB5.810 billion, which represented a year-on-year growth of 7.91%. Average total daily balance was RMB6.021 billion, which represented a year-on-year decrease of 5.47%. Net commission and fee income amounted to RMB96.904 million, which represented a year-on-year decrease of 34.57%.

(2) *Futures Assets Management Business*

Market Analysis:

Under the tightening policy measures in 2016, the whole industry has been in an era of no channel-type business, de-leveraging and comprehensive prevention of financial risks, which could have an impact on companies with weak base on assets management. Futures firms overcome the impact brought about by the tightening policy and achieved fast development, the scale of assets management business increased from RMB106.3 billion at the beginning of 2016 to RMB280.0 billion at the end of 2016, representing an increase of 163%.

Development Plans and Results:

During the Reporting Period, based on its path and model of development, the Company has considered deeply on the development measures and models for the futures assets management business of the Company with the target of arranging plans to solve the two challenges in "capital-end" and "asset-end" of assets management business. The Company managed to solve the problems in the "capital-end" by strengthening the channels establishment while it also tackled with the problems in the "asset-end" by ways of internal cooperation with other business lines of the Company and active accumulation of investment pool. Meanwhile, the Company undertook adjustment in assets management team and organizing structure with the aim of enhancing its product design ability and work efficiency. During the Reporting Period, the Company issued 43 new assets management products and recorded an increase of 564% in its scale from RMB580 million at the beginning of 2016 to RMB3.85 billion at the end of 2016. The assets management business achieved an income of RMB25.417 million, among which income from management fee was RMB7.51 million, which represented a year-on-year increase of 212% or 5.10 million as compared to RMB2.41 million for the corresponding period in 2015.

After a year of dedicated efforts, the assets management business of the Company has made progress, particularly in securing market share, enhancing its position in the industry and market influence, and improving profitability of its business lines.

(3) *Commodity Trading and Risk Management Business*

Market Analysis:

In 2016, the commodity trading and risk management business grew rapidly. The industry witnessed relatively large increases in trading volumes and amounts of warehouse receipt services, basis trading, cooperative insurance and pricing services.

Development Plans and Results:

The Company engaged in the commodity trading and risk management business through Luzheng Trading Co., Ltd. (魯証經貿有限公司) (“**Luzheng Trading**”), a wholly-owned subsidiary.

During the Reporting Period, the Company achieved rapid growth in the scale of commodity trading business. The varieties of product mix of Luzheng Trading’s commodity trading business and its amount expanded significantly. Its business basically covers all the active products listed on the three domestic commodity exchanges, including agricultural products, non-ferrous metal, ferrous metal, precious metal, and chemical products, etc. Purchase volume of aforementioned commodities was approximately 500 thousand tonnes in 2016. Purchasing amount amounted to RMB2.026 billion for the year, which represented an increase of RMB1.588 billion or 362.19% as compared to RMB0.438 billion for the corresponding period in 2015.

During the Reporting Period, the scale of Luzheng Trading’s financing business grew significantly, which provided RMB630 million of financing for enterprises under the industrial chains such as agricultural products, ferrous metal and rubber, achieving an upgrade in customers’ service for industrial clients.

During the Reporting Period, OTC business has been orderly advanced and its scale kept enlarging. The Group has been actively engaged in pilot No. 1 of Chinese soybean OTC business in Dalian Commodity Exchange and engaged in the expanded pilot project on “Insurance + Futures” of 10 thousand tonnes soybean in Heilongjiang. It applied for and obtained the pilot project of “Insurance + Futures” of Shandong cotton in Zhengzhou Commodity Exchange, and two pilot projects on corn meal OTC and “Financing + Guarantee” OTC on iron ore from Dalian Commodity Exchange. The Company was the only futures company that obtained all the three projects in China. The Group completed a total of 198 OTC transactions throughout the year, covering agricultural products, ferrous metal and chemical products. Nominal value amounted to RMB1,400 million, and the amount of option premium amounted to RMB25.40 million, contributing a business income of RMB2.55 million.

(4) Information Technology Business

The Group always considered information technology (“IT”) infrastructure and information systems essential to the effective management and successful development of its business and hence made continuous investment in IT. The Company has on the one hand further improved and upgraded its IT systems to satisfy the more complicated requirements 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, which is able to improve the competitiveness of its IT and to meet demands of high-volume and high-frequency business on Ultra Fast Trading (“UFT”) system, provide corresponding UFT system according to the different business situations for different exchanges. On the other hand, the Company set up Luzheng Information Technology Co., Ltd. (“**Luzheng Information Technology**”), the only IT subsidiary in the futures industry. 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 at 31 December 2016, Luzheng Information Technology has provided trust services for maintenance and operation to two futures firms. At the same time, Luzheng Information Technology has established its software development platform and team, which have achieved progress in user-end trading software, high-volume trading software, mobile-end service platform and futures information platform through independent research and development and external collaborations.

(5) Joint Establishment of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司)

During the Reporting Period, Shandong Exchange Markets Clearing House Co., Ltd. was jointly established by Luzheng Information Technology with other 6 enterprises, including Jinan West City Investment and Development Co., Ltd. (濟南西城投資發展有限公司), Shandong Financial Assets Exchange Co., Ltd. (山東金融資產交易中心有限公司), Jinan Innovation Financial Investment Co., Ltd. (濟南高新財金投資有限公司), East China Petroleum Exchange Co., Ltd. (華東石油交易中心有限公司), Linyi International Commodity Exchange Co., Ltd. (臨沂國際商品交易中心有限公司) and Shouguang Fruits and Vegetables Variety Right Exchange Co., Ltd. (壽光果菜品種權交易中心有限公司) on 9 October 2016, with a registered capital of RMB0.15 billion, of which 40% of shares were held by Luzheng Information Technology. As a financial-based services institution specialized in serving factor transaction markets, Shandong Exchange Markets Clearing House Co., Ltd. possessed five basic functions (i.e. unified account opening, full registration, centralized settlement, capital supervision and statistical monitoring). The establishment of Shandong Exchange Markets Clearing House Co., Ltd. set a significant and meaningful milestone for the deepening of financial market reforms in Shandong Province, the facilitation of financial infrastructure and the promotion of upgrading and transformation of the economic structure in the whole province.

(6) *Development Plans for 2017*

In 2017, the Company will carry on its business development in the follows aspects:

1. To strengthen and expand the Company's brokerage business, and solidify its foundation for development;
2. To highlight the industrial features, take advantages in futures, enhance capability of active management, and rapidly enlarge the scale of assets management in order to boost the assets management business as the key driver for the Company's profit;
3. To maintain the advantage and leading status of OTC business in the industry;
4. To solidify the foundation of risk management business, and to make new attempt in business combination of futures and cash commodities trading;
5. To strengthen the establishment of investment team and further increase the level of capital return;
6. To take advantages in technologies and lead its business development with services provided;
7. To implement the strategy that talents bring strong enterprise and make great efforts to strengthen the construction of qualified team; and
8. To enhance awareness and strengthen the compliance of risk management.

The development plans of the Company by business lines in 2017 are set out below:

Futures Brokerage

In 2017, the Group will carry on to promote the transformation and upgrading of the brokerage business in order to strengthen and expand its brokerage business, and solidify its foundation for development. Firstly, the Group will accelerate the establishment of its branches in order to attain regional advantage and enhance management efficiency. Secondly, the Group will strengthen its ability in human resources allocation through accelerating its pace in recruiting external talents and promoting internal spirit of craftsmanship. Thirdly, the Group will optimize the structural adjustment of its branches through reasonable arrangement of branches, optimization of staff deployment, improvement in structure and consolidation of resources, with a target of increasing the average revenue in administration fees per department. Fourthly, the Group will provide further training in the futures and options market and actively seize the new market opportunities. Fifthly, the Group will further manifest the synergies among parent company, subsidiaries and the Company. Sixthly, the Group will attach greater importance to the strategic position of its development with major clients, in particular, cooperation with financial institutions, so as to expand its business scale as soon as possible.

Futures Assets Management Business

The Group will, on the basis of its plans in 2016, carry on its work in relation to “asset-end” and “capital-end” projects with clear objectives on risk management and wealth management with futures characteristics. The Group will continue to expand and strengthen its platforms and channels, further explore the Company’s proactive self-management ability, strengthen cooperation with external private equity funds, and broaden product lines and strengthen product design ability in order to secure market share, to enhance its industrial position and market influence, and to improve profitability of its business lines, so as to upgrade the assets management business comprehensively.

Commodity Trading and Risk Management Business

The Group will provide enterprises with a diversified and customized risk management plan in strict compliance with the requirements of financial service entities through various forms of in-depth studies in physical commodity industry, analysis of risks faced by the entities, as well as its own professional competencies. The Group will insist on its industrial customer-oriented strategy and will upgrade its overall level of technological proficiency in order to provide support to integrated financial service providers of bulk commodity futures and derivatives. The Company will further improve its overall understanding and ability to serve the relevant industries based on a deeper development of its current advantages.

Information Technology Business

The Group will take advantage of Luzheng Information Technology’s profession to enhance our core competitiveness and quickly secure market share. Firstly, the Group will widen the scope of IT trust services for maintenance and operation. Secondly, the Group will provide support to its back-office maintenance and operation as well as software development 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 the development and maintenance of the Group’s clients in order to enhance the clients’ loyalty. The Group will also develop a customer-related 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 services.

III. Financial Statement Analysis

(1) Profitability Analysis

During the Reporting Period, the Group captured business opportunities for innovative development, firmly implemented strategic plans, stably enhanced comprehensive competitiveness, maintained stable overall business growth and achieved remarkable growth of profitability. As at the end of the Reporting Period, the Group achieved operating income of RMB399 million, which represented an increase of 7.84% as compared to RMB370 million in 2015, of which operating income of RMB38 million was derived from the commodity trading and risk management business, representing an increase of 192.31% as compared to operating income of RMB13 million in 2015. Net profit attributable to the shareholders of the Company amounted to RMB113.003 million, which represented an increase of 20.75% as compared to RMB93.583 million in 2015. Earnings per share were RMB0.11.

(2) *Asset Structure and Asset Quality*

During the Reporting Period, both of the Group's total assets and total liabilities increased relatively significantly. With the transformation of specialization in brokerage business, the Group's total assets and total liabilities both increased relatively significantly on the ground that the Group's level of services for industrial enterprise business was highly recognised, making the accounts payable to brokerage clients increase.

At the end of 2016, the Group's assets totaled RMB8,204 million, increased by 10.37% as compared to RMB7,433 million at the end of 2015. The Group's liabilities totaled RMB6,126 million, increased by 12.30% as compared to RMB5,455 million at the end of 2015. Net assets attributable to the shareholders of the Company was RMB2,049 million, increased by 3.59% as compared to RMB1,978 million at the end of 2015.

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 at 31 December 2016, non-current assets were RMB128 million, which represented a decrease of 41.01% as compared to RMB217 million at the end of 2015, and current assets were RMB8,076 million, which represented an increase of 11.90% as compared to RMB7,217 million at the end of 2015. During the Reporting Period, adequate provision for bad debts of receivables have been made by the Group. There was no indication of material impairment of other assets.

Gearing ratio increased dramatically. At the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients were RMB403 million, representing an increase of 66.53% as compared to RMB242 million at the end of 2015. The Group's gearing ratio was 16.24%, increased by 5.36 percentage points as compared to 10.88% at the end of 2015.

(3) *Financing Channels and Ability*

During the Reporting Period, the Group did not involve in any financing activities such as issuance and placing of shares as well as issuance of sub-ordinated bonds in response to market condition and requirements of business operation.

(4) *Liquidity Level Management*

The Company places great emphasis on liquidity management based on the principle of "being comprehensive, prudent and predicable" while focusing on the organic combination of the security, liquidity and profitability of capital. The liquidity monitor index of the Company in each month throughout 2016 complied with the regulatory requirements of the CSRC.

(5) *Cash Flow Analysis*

Net cash outflow generated from operating activities in 2016 was RMB271 million, increased by RMB238 million from RMB33 million in the same period of 2015, representing a year-on-year increase of 721.21%; net cash outflow generated from investing activities in 2016 was RMB188.276 million, decreased by RMB208.308 million from RMB396.584 million in the same period of 2015, representing a year-on-year decrease of 52.53%; net cash inflow generated from financing activities for 2016 was RMB142 million while net cash inflow generated from financing activities for 2015 was RMB612 million; net cash and cash equivalents decreased by RMB499 million from RMB183 million for 2015 to RMB-316 million for the same period of 2016, mainly due to the decrease in net cash flow generated from financing activities.

(6) *Items of Income Statement*

During the Reporting Period, the Group's profit before income tax amounted to RMB154,926 thousand, representing a year-on-year increase of RMB30,016 thousand and 24.03%. The summary of the financial results is as follows:

stated in RMB'000	Year ended 31 December	
	2016	2015
Commission and fee income	264,432	619,500
Commission and fee expense	(167,528)	(471,367)
Net commission and fee income	96,904	148,133
Interest income	169,125	172,146
Interest expense	(16,034)	(26,126)
Net interest income	153,091	146,020
Gains/(losses) on physical commodities trading	10,643	(5,708)
Net investment gains	51,400	44,228
Other income	86,877	37,225
Operating income	398,915	369,898
Staff costs	(120,818)	(95,592)
Commission to brokerage agents	(16,912)	(27,102)
Introducing broker commission	(8,162)	(16,832)
Depreciation and amortization	(8,358)	(8,169)
Impairment losses	(1,562)	(237)
Other operating expenses	(88,294)	(106,782)
Operating expenses	(244,106)	(254,714)

stated in RMB'000	Year ended 31 December	
	2016	2015
Operating profit	154,809	115,184
Share of losses of investment in an associate	(1,946)	(2,874)
Other gains, net	<u>2,063</u>	<u>12,600</u>
Profit before income tax	154,926	124,910
Income tax expense	<u>(42,150)</u>	<u>(31,327)</u>
Profit for the year	112,776	93,583
Total comprehensive income	<u>113,249</u>	<u>93,744</u>
Profit attributable to:		
— Shareholders of the Company	113,003	93,583
— Non-controlling interests	<u>(227)</u>	<u>—</u>
	<u>112,776</u>	<u>93,583</u>
Total comprehensive income attributable to:		
— Shareholders of the Company	113,476	93,744
— Non-controlling interests	<u>(227)</u>	<u>—</u>
	<u>113,249</u>	<u>93,744</u>
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)		
Basic/Diluted	<u>0.11</u>	<u>0.11</u>

1. Operating Income

During 2016, the Group achieved total operating income RMB398,915 thousand, which represented a year-on-year increase of 7.84%. Among which, net commission and fee income, net interest income and net investment gains amounted to RMB96,904 thousand, RMB153,091 thousand and RMB51,400 thousand, respectively. The income structure of the Group is as follows:

stated in RMB'000	Year ended 31 December					
	2016		2015		Increase/(decrease) in 2016 compared with 2015	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	%
Net commission and fee income	96,904	24.29	148,133	40.05	(51,229)	(34.58)
Net interest income	153,091	38.38	146,020	39.48	7,071	4.84
Gains/(losses) on physical commodities trading	10,643	2.67	(5,708)	(1.54)	16,351	286.46
Net investment gains	51,400	12.88	44,228	11.96	7,172	16.22
Other income	86,877	21.78	37,225	10.05	49,652	133.38
Total operating income	<u>398,915</u>	<u>100.00</u>	<u>369,898</u>	<u>100.00</u>	<u>29,017</u>	<u>7.84</u>

(1) Net commission and fee income

During the Reporting Period, the composition of the Group's commission and fee income is as follows:

stated in RMB'000	Year ended 31 December	
	2016	2015
Commission and fee income		
Futures brokerage service	246,737	525,152
Settlement and clearing service income from other futures firms	3,321	74,663
Asset management service	14,351	19,405
Investment consultancy service	23	280
	<u>264,432</u>	<u>619,500</u>
Commission and fee expense		
Settlement and clearing fees to exchange-clearing organizations	164,207	396,704
Settlement and clearing service expense to exchange-clearing organizations	3,321	74,663
	<u>167,528</u>	<u>471,367</u>

During the Reporting Period, the Group achieved commission and fee income of RMB264,432 thousand, representing a year-on-year decrease of 57.32%, which was primarily due to a decrease in income of futures brokerage service.

Commission and fee income decreased by RMB355,068 thousand, representing a year-on-year decrease of 57.32%, while commission and fee expense decreased by RMB303,839 thousand, representing a decrease of 64.46%. Therefore, after consolidating income and expense factors, net commission and fee income only decreased by 34.58%, which was primarily due to a decrease of stock index futures transactions resulting from the regulatory control in the Chinese futures market in 2016 with a significant decrease in trading amount as well as the high proportion of transaction and settlement fees of stock index futures changed by exchange-clearing organizations.

(2) Net interest income

During the Reporting Period, the Group achieved net interest income of RMB153,091 thousand, representing a year-on-year increase of 4.84%. The composition of the Group's net interest income in 2016 is as follows:

stated in RMB'000	Year ended 31 December	
	2016	2015
Interest income		
Interest income from deposits with banks	158,792	144,447
Interest income from deposits with exchange-clearing organizations	8,993	27,699
Interest income from financial assets held under resale agreements	1,340	—
	<u>169,125</u>	<u>172,146</u>
Interest expense		
Interest expense to brokerage clients	14,383	24,207
Interest expense on settlement and clearing services to other futures firms	1,651	1,919
	<u>16,034</u>	<u>26,126</u>

Interest income was mainly derived from interest from demand and term deposits of the Group's own capital and interest from client margin deposits.

Interest income decreased by RMB3,021 thousand, representing a year-on-year decrease of 1.75%, which was primarily due to decreases in deposits with exchange-clearing organizations and interest rates in exchange-clearing organizations after collection of capital by the Company..

Interest expense decreased by RMB10,092 thousand, representing a year-on-year decrease of 38.63%, which was primarily due to a decrease in interests payable to brokerage clients.

2 *Net investment gains*

During the Reporting Period, the Group achieved net investment gains of RMB51,400 thousand, representing a year-on-year increase of 16.22%. The composition of the Group's investment gains in 2016 is as follows:

stated in RMB'000	Year ended 31 December	
	2016	2015
Net realized gains from disposal of available-for sale financial assets	3,795	28,048
Dividends and interest income from available-for-sale financial assets	20,793	2,432
Net realized losses from disposal of financial assets at fair value through profit or loss ⁽¹⁾	(1,774)	(370)
Dividends income from financial assets at fair value through profit or loss	2,833	139
Net realized gains from derivative financial instruments ⁽²⁾	20,805	23,210
Unrealized fair value change of financial instruments at fair value through profit or loss		
— Financial assets at fair value through profit or loss	1,079	(1,044)
— Financial liabilities at fair value through profit or loss	2,039	(8,160)
— Derivative financial instruments	1,830	(27)
	<u>51,400</u>	<u>44,228</u>

(1) This item consists of losses from investment in exchange traded stocks, funds and other financial instruments at fair value through profit or loss.

(2) This item represents gains from futures, exchange options and OTC derivatives transactions related to subsidiaries and commodity trading activities.

3 *Other income*

stated in RMB'000	Year ended 31 December	
	2016	2015
Refunds of trading fees	81,126	36,612
Cooperative hedging fees	1,942	152
Training service fees	1,512	—
Software service fees	1,282	461
Other	1,015	—
	<u>86,877</u>	<u>37,225</u>

4 Operating expenses

During 2016, the Group's operating expense amounted to RMB244,106 thousand, representing a year-on-year decrease of RMB10,608 thousand and 4.16%. The breakdown is as follows:

stated in RMB'000	Year ended 31 December				Increase/(decrease) in	
	2016		2015		2016 compared with 2015	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	%
Staff costs ⁽¹⁾	120,818	49.49	95,592	37.53	25,226	26.39
Commission to brokerage agents	16,912	6.93	27,102	10.64	(10,190)	(37.60)
Introducing broker commission	8,162	3.34	16,832	6.61	(8,670)	(51.51)
Depreciation and amortization ⁽²⁾	8,358	3.42	8,169	3.21	189	2.31
Other operating expenses ⁽⁴⁾	88,294	36.17	106,782	41.92	(18,488)	(17.31)
Impairment losses ⁽³⁾	1,562	0.65	237	0.09	1,325	559.07
Total operating expenses	244,106	100.00	254,714	100.00	(10,608)	(4.16)

(1) Staff costs

stated in RMB'000	Year ended 31 December	
	2016	2015
Salaries and bonus	97,133	73,567
Other social security	9,953	9,227
Pension	9,012	8,120
Labour union funds and employee education funds	4,237	3,309
Other welfare	483	1,369
	120,818	95,592

(2) Depreciation and amortization

stated in RMB'000	Year ended 31 December	
	2016	2015
Depreciation of property and equipment	5,168	4,788
Amortization of long-term prepaid expenses	2,049	2,351
Amortization of intangible assets	1,141	1,030
	<u>8,358</u>	<u>8,169</u>

(3) Impairment losses

stated in RMB'000	Year ended 31 December	
	2016	2015
Other receivables	1,162	237
Accounts receivable	400	—
	<u>1,562</u>	<u>237</u>

(4) Other operating expenses

stated in RMB'000	Year ended 31 December	
	2016	2015
Office expenses	23,537	22,275
Marketing and distribution expenses	15,283	15,528
Consulting expenses	12,810	19,082
Rentals	10,782	12,246
Information system maintenance fees	6,909	5,448
Professional service expenses	4,771	1,382
Business tax and surcharges	3,823	11,524
Property maintenance fee	3,799	3,830
Futures Investors Protection Fund	2,034	7,146
Auditors' remuneration — Audit services	1,650	1,880
Listing expense	—	4,102
Other expenses	2,896	2,339
	<u>88,294</u>	<u>106,782</u>

Other operating expenses decreased by RMB18,488 thousand, representing a year-on-year decrease of 17.31%, which was primarily due to decreases in consulting expenses, business tax and surcharges this year.

(7) *Items of assets*

As at 31 December 2016, the Group's total assets was RMB8,204,293 thousand, representing a year-on-year increase of 10.37%, among which cash assets amounted to RMB7,050,192 thousand, representing a year-on-year increase of 2.85%; assets of financial investment amounted to RMB803,424 thousand, representing a year-on-year increase of 146.29%; other assets amounted to RMB350,677 thousand, representing a year-on-year increase of 38.97%. The Group's total assets are as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase as at 31 December 2016 compared with 31 December 2015	
			Amount	%
Cash assets ⁽¹⁾	7,050,192	6,854,857	195,335	2.85
Assets of financial investment ⁽²⁾	803,424	326,211	477,213	146.29
Other assets ⁽³⁾	350,677	252,341	98,336	38.97
Total	<u>8,204,293</u>	<u>7,433,409</u>	<u>770,884</u>	<u>10.37</u>

1. *Cash assets*

As at 31 December 2016, the Group's cash assets increased by RMB195,335 thousand, representing a year-on-year increase of 2.85%. The composition of the Group's cash assets is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase/(decrease) as at 31 December 2016 compared with 31 December 2015	
			Amount	%
Margin deposits held in exchange-clearing organizations	2,196,722	2,661,676	(464,954)	(17.47)
Bank balances held for brokerage clients	3,855,245	2,996,241	859,004	28.67
Cash and bank balances	998,225	1,196,940	(198,715)	(16.60)
Total cash assets	<u>7,050,192</u>	<u>6,854,857</u>	<u>195,335</u>	<u>2.85</u>

Changes of cash assets were mainly attributed to changes of money held for clients. Bank balances held for brokerage clients amounted to RMB3,855,245 thousand, representing 46.99% of the Group's total assets and a year-on-year increase of RMB859,004 thousand and 28.67%, which was primarily attributed to an increase in the Group's client margin. Cash and bank balances amounted to RMB998,225 thousand, representing 12.17% of the Group's total assets and a year-on-year decrease of RMB198,715 thousand and 16.60%.

2. *Assets of financial investment*

As at 31 December 2016, the Group's financial investment assets increased by RMB477,213 thousand, representing a year-on-year increase of 146.29%. The composition of the Group's assets of financial investment is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase as at 31 December 2016 compared with 31 December 2015	
			Amount	%
Available-for-sale financial assets ⁽¹⁾	533,718	303,354	230,364	75.94
Financial assets at fair value through profit or loss ⁽²⁾	269,706	22,857	246,849	1,079.97
Total assets of financial investment	803,424	326,211	477,213	146.29

(1) Available-for-sale financial assets:

As at 31 December 2016, the Group's available-for-sale financial assets increased by RMB230,364 thousand, representing a year-on-year increase of 75.94%. The composition of the Group's available-for-sale financial assets is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015
Current — Unlisted At fair value		
Collective asset management schemes	166,246	182,625
Trust schemes	137,560	—
Private securities investment funds	129,875	120,729
Bank wealth management products	100,037	—
	533,718	303,354

(2) Financial assets at fair value through profit or loss:

As at 31 December 2016, the Group's financial assets at fair value through profit or loss increased by RMB246,849 thousand, representing a year-on-year increase of 1,079.97%. The composition of the Group's financial assets at fair value through profit or loss is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015
Investment held for trading		
Listed equity securities	15,385	19,909
Listed open-ended funds	848	2,948
Financial assets designated at fair value through profit or loss		
Collective asset management schemes	134,661	—
Trust schemes	70,939	—
Private securities investment funds	47,873	—
	<u>269,706</u>	<u>22,857</u>

3. *Other assets*

As at 31 December 2016, the Group's other assets increased by RMB350,677 thousand, representing a year-on-year increase of RMB98,336 thousand and 38.97%. The composition of the Group's other assets is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase/(decrease) as at 31 December 2016 compared with 31 December 2015	
			Amount	%
Property and equipment	42,239	45,125	(2,886)	(6.40)
Intangible assets	7,787	6,157	1,630	26.47
Investment in an associate	28,743	5,811	22,932	394.63
Other non-current assets	1,862	3,137	(1,275)	(40.64)
Available-for-sale financial assets	16,514	134,310	(117,796)	(87.70)
Deferred income tax assets	5,823	1,983	3,840	193.65
Refundable deposits	25,516	20,138	5,378	26.71
Physical commodities	72,560	3,640	68,920	1,893.41
Other current assets	136,825	30,889	105,936	342.96
Derivative financial assets	609	1,151	(542)	(47.09)
Financial assets held under resale agreements	12,199	—	12,199	—
Total other assets	<u>350,677</u>	<u>252,341</u>	<u>98,336</u>	<u>38.97</u>

(8) *Items of liabilities*

As at 31 December 2016, the Group's total liabilities amounted to RMB6,125,765 thousand, representing a year-on-year increase of RMB670,717 thousand and 12.30%, among which accounts payable to brokerage clients amounted to RMB5,722,701 thousand, representing a year-on-year increase of 9.77%, which was primarily due to the growth of the scale of approved margin. The Group's key changes of total liabilities are as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase/(decrease) as at 31 December 2016 compared with 31 December 2015	
			Amount	%
Deferred income tax liabilities	76	14	62	442.86
Other non-current liabilities	1,783	2,599	(816)	(31.40)
Other current liabilities	76,505	41,530	34,975	84.22
Current income tax liabilities	23,555	7,298	16,257	222.76
Financial liabilities at fair value through profit or loss	300,539	188,146	112,393	59.74
Derivative financial liabilities	606	1,927	(1,321)	(68.55)
Accounts payable to brokerage clients	5,722,701	5,213,534	509,167	9.77
Total	6,125,765	5,455,048	670,717	12.30

1. *Accounts payable to brokerage clients*

As at 31 December 2016, the Group's accounts payable to brokerage clients amounted to RMB5,722,701 thousand, representing 93.42% of the Group's total liabilities and a year-on-year increase of RMB509,167 thousand and 9.77%, which was primarily due to better market prices of commodity futures and the growth of the scale of margin at the end of 2016, among which the growth of the scale of margin from corporate clients was relatively larger. The composition of the Group's accounts payable to brokerage clients is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase/(decrease) as at 31 December 2016 compared with 31 December 2015	
			Amount	%
Domestic	5,722,701	5,213,534	509,167	9.77
Individual clients	2,339,583	2,424,132	(84,549)	(3.49)
Corporate clients	3,383,118	2,789,402	593,716	21.28
Overseas	—	—	—	—
Total	5,722,701	5,213,534	509,167	9.77

2. Financial liabilities at fair value through profit or loss increased by RMB112,393 thousand, representing a year-on-year increase of 59.74% as compared to the same period of 2015.

stated in RMB'000	As at 31 December 2016	As at 31 December 2015
Interests of holders of consolidated structured entities	299,936	144,470
Payable to clients for cooperative hedging business	603	43,676
	<u>300,539</u>	<u>188,146</u>

(9) Items of equity

As at 31 December 2016, the Group's total equity amounted to RMB2,078,528 thousand, representing a year-on-year increase of 5.06%. The composition of the Group's equity is as follows:

stated in RMB'000	As at 31 December 2016	As at 31 December 2015	Increase as at 31 December 2016 compared with 31 December 2015 Amount	%
Share capital	1,001,900	1,001,900	—	—
Share premium	650,630	650,630	—	—
Other reserves	176,354	148,266	28,088	18.94
Retained earnings	219,871	177,565	42,306	23.83
Total equity attributable to shareholders of the Company	2,048,755	1,978,361	70,394	3.56
Non-controlling interests	29,773	—	29,773	—
	<u>2,078,528</u>	<u>1,978,361</u>	<u>100,167</u>	<u>5.06</u>

(10) Charges over assets

As at 31 December 2016, physical commodities amounting to RMB19,758 thousand were placed as collateral by the Group in the Shanghai Futures Exchange.

(11) Risk of fluctuation of exchange rate and mitigation 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 its risk of foreign exchange is immaterial. The Group currently does not use any derivative financial instruments to hedge the risk of exchange.

(12) *Contingent liabilities and commitments*

The Group had no contingent liabilities as at 31 December 2016.

(13) *Gearing ratio*

Item	As at 31 December 2016	As at 31 December 2015	Increase in 2016 compared with the same period of 2015	As at 31 December 2014
Gearing ratio (%)	16.24	10.88	increased by 5.36 percentage points	4.11

IV. **Employees structure, remuneration, and training**

As at 31 December 2016, the Company had 462 employees in total. The breakdown of the composition of the employees is as follow:

Category		Number	Percentage (%)
By profession	Administrative management	67	14.5
	Financial planning	21	4.55
	Management of brokerage business	42	9.09
	Information technology	28	6.06
	Clearing	7	1.52
	Compliance and risks control	38	8.23
	Research and development	12	2.6
	Customer services	11	2.38
	Assets management	22	4.76
	Options and OTC businesses	17	3.68
	Marketing	197	42.63
	Total	462	100
By age	Below 30	187	40.5
	31–35	151	32.7
	36–40	59	12.8
	41–45	32	6.9
	Above 45	33	7.1
	Total	462	100
By education background	Post-graduate and above	96	20.8
	Bachelor degree	288	62.3
	College degree and below	78	16.9
	Total	462	100

The total remuneration expenses of the Company in 2016 were RMB120.818 million, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2016	2015
Salaries and bonus	97,133	73,567
Other social security	9,953	9,227
Pension	9,012	8,120
Labour union funds and employee education funds	4,237	3,309
Other welfare	483	1,369
	<u>120,818</u>	<u>95,592</u>

For the year ended 31 December 2016, the five highest paid individuals did not include any of the directors or the supervisors (2015: 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	
	2016	2015
Salaries, allowances and other welfares	2,277	2,277
Bonus	2,872	2,051
	<u>5,149</u>	<u>4,328</u>

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

	Year ended 31 December	
	2016	2015
RMB600,001 to RMB800,000	—	1
RMB800,001 to RMB1,000,000	2	4
RMB1,000,001 to RMB1,200,000	3	—
	<u>5</u>	<u>5</u>

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

The Company attaches great importance to attracting, motivating, nurturing and making good use of talents. We always pay close attention to the competitiveness of our salary level within the industry and the fairness of our remuneration system from the perspective of our staff. We implemented a remuneration system based on market level with reference to the results of performance appraisals. The remuneration package of the Company comprises basic salary, allowance, performance bonus and staff benefits. In line with the applicable laws and regulations of the PRC, the Company enters into a labor contract with each of our employee to establish a labor relationship. A labor contract contains provisions relating to labor contract term, scope of work, work location, working hours and holidays, labor remuneration, social insurance, labor protection, labor conditions and prevention and protection from occupational hazards, labor discipline and its compliance, staff training, discharge, termination, and renewal of labor contract and economic compensation. In accordance with the applicable laws and regulations of the PRC, the Company purchases various social insurance policies (endowment insurance, medical insurance, unemployment insurance, work related injury insurance and maternity insurance) and establishes housing funds for its employees. We have made full contribution to the aforesaid social insurances and housing funds in accordance with the applicable regulations.

During the Reporting Period, the Company enhanced its training system and provided trainings in line with our business transformation in a timely manner. Such initiative is built on our effort in strengthening fundamental work and focusing on the research on market demand. During 2016, a total of 53 internal training sessions on various aspects were held, covering OTC businesses, assets management, options, risk platform, information technology, compliance, knowledge and training on new businesses, training for new staff, training of reserve talents and training for person-in-charge of business departments. In addition, selected staff members were sent out to join 31 external trainings held by exchanges, associations and industrial organization. Such trainings cover the areas at types of futures, derivatives of options, financial training, information technology training and other business training.

V. Changes in Branches and Subsidiaries and Impact on Results

(1) Details on changes in branches and subsidiaries during the Reporting Period

1. Details on changes in branches of the Company

During the Reporting Period, the Company established the Shanghai Branch and Wuxi Branch on 29 February 2016 and 19 May 2016, respectively. The Weifang Branch and Zhengzhou Branch completed the relocations within the same cities on 9 May 2016 and 23 December 2016, respectively. On 19 December 2016, the area of the original location of the Changsha Branch was reduced.

Haikou Branch was deregistered on 25 January 2017.

2. *Details on changes in subsidiaries of the Company*

During the Reporting Period, Shandong Exchange Markets Clearing House Co., Ltd. was jointly established by Luzheng Information Technology with other six enterprises, including Jinan West City Investment and Development Co., Ltd. (濟南西城投資發展有限公司), Shandong Financial Assets Exchange Co., Ltd. (山東金融資產交易中心有限公司), Jinan Innovation Financial Investment Co., Ltd. (濟南高新財金投資有限公司), East China Petroleum Exchange Co., Ltd. (華東石油交易中心有限公司), Linyi International Commodity Exchange Co., Ltd. (臨沂國際商品交易中心有限公司) and Shouguang Fruits and Vegetables Variety Right Exchange Co., Ltd. (壽光果菜品種權交易中心有限公司) on 9 October 2016, with a registered capital of RMB0.15 billion, of which 40% of shares are held by Luzheng Information Technology.

(2) *The effect on the results of the changes in branches and subsidiaries*

1. *The effect on the results of the changes in branches of the Company*

During the Reporting Period, the Shanghai Branch of the Company did not carry out any business and therefore had no impact on the business of the Company. The trading volume of Wuxi Branch was 251,800 board lots, accounting for 0.29% of the total volume while the turnover was RMB12,868 million, accounting for 0.31% of the total turnover.

2. *The effect on the results of the changes in subsidiaries of the Company*

During the Reporting Period, Shandong Exchanges Markets Clearing House Co., Ltd., a company invested and established by the Group, recorded a book loss of RMB0.3768 million.

VI. Major Investments and Financing

(1) *Major investments*

On 4 February 2016, the Company used its listing proceeds of RMB100 million for the capital increase of Luzheng Trading.

On 1 April 2016, the Company used its listing proceeds of RMB30 million for the capital increase of Luzheng Trading.

On 30 August 2016, the Company used its listing proceeds of RMB20 million for the capital increase of Luzheng Information Technology.

(2) *Major financing*

During the Reporting Period, there was no major financing of the Company.

VII. Replacement of Material Assets, Acquisition, Disposal, Spin-Off and Reorganization of Other Companies

During the Reporting Period, the Company did not carry out any replacement of material assets, acquisition, disposal, spin-off or reorganization of other companies.

VIII. Possible Risks, Uncertainties and Countering Measures

(1) Possible major risks

There are certain possible risks that the Company may encounter, including market risk, credit risk, liquidity risk, operational risk and compliance risk. The risks stated above may come from the uncertainties of the Company's operation activities.

1. **Market Risk:** the risk of incurring losses due to the changes in market price and interest rate. The major risks faced by the Company are the price risk of equity-based assets, price risk of commodities and interest rate risk. Along with the development and advancement in the option business of the Company in 2017, we may also encounter several risks in option market such as hedge risk and pricing risk.
2. **Credit Risk:** the risk of incurring losses resulting from the failure of a counterparty to perform its contractual obligations. The major risks that the Company may encounter are default risk and settlement risk.
3. **Liquidity Risk:** the capital liquidity risk due to insufficient capital to meet the obligations of the liabilities or payment settlement during operation; the trading liquidity risk due to the failure to buy or dispose of option, physical commodity and option contract at the market prices.
4. **Operational Risk:** the risk related to a series of non-financial issues, including unsatisfactory performance of internal operation process, staff, system and losses resulting from external incidents.
5. **Compliance Risk:** the risk that is closely related to operational risk and reputation risk, which is the risk that the Company or its staff may face legal sanction, regulatory measure and disciplinary punishment and may incur economic losses and reputation harm due to the violation of laws, regulations and regulatory rules of our business activities or by our staff.

(2) *Countering measures adopted*

1. *General countering measures adopted*

(1) Having established a four-level risk management structure

The Company has established a four-level risk management structure: the first level comprises the Board and the Supervisory Committee; 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 comprises the Compliance Department and the Audit Department; and the fourth level comprises the Company's business departments and branches.

(2) Consistently improving the corporate governance structure

The Company consistently standardizes the operation mechanism of the general meeting and improves the corporate governance structure to ensure that all Shareholders, especially minority Shareholders, can enjoy equal positions and have their interests well protected. It ensures that the Board gives strategic guidance to the Company and effectively monitors the senior management. Moreover, it gives full play to the roles of all Board Committees and independent non-executive Directors and also gives full play to the role of the Board of Supervisors in monitoring the Board and the senior management as well as the financial condition of the Company. It also ensures that any material events in relation to the Company are disclosed in a timely manner.

(3) Consistently improving the comprehensive risk management system

The Company has formulated risk strategies, principles and procedures and insists that the aforesaid measures cover all departments of the Company, all business sectors and the whole business process from the start to the end. It also takes the Company as a whole to organize and carry out risk management and to centralize the monitoring reports.

(4) Consistently improving the risk awareness

The Company puts great emphasis on enhancing risk awareness and risk management capabilities among our staff. Through the co-operation with Moody Training (穆迪培訓), international experts in risk control are invited to conduct staff training and hold seminars and trainings in the Company frequently. It also puts great effort in enhancing the capabilities of the Company's staff in identifying and preventing risks as well as raising the risk awareness of the Company's staff. It fosters a favorable risk management culture and ensures that the general risk management objectives of the Company are achieved.

2. *Countering measures against major risks*

(1) Market Risk

- (i) Establishing a systematic investment mechanism. The Company's research team provides investment recommendations and our operation teams provide market guidance to the Company's research team. In order to avoid an excessive concentration of the Company's capital, the Company adopts a variety of trading strategies to reduce loss from systematic risk.
- (ii) The operation teams are required to submit an application to the Company's senior management before conducting new investment project, which include details of the nature of transaction and an analysis of the potential market risks and possible outcome. The Investment Decision Committee of the Company will decide the feasibility of the project through a standardized process.
- (iii) Controlling the exposure of the interest arbitrage transaction and option transaction by adopting quantitative measures. Moreover, it will strengthen the Company's control on the pre-set warning line, stop line and scale of trading positions, in order to reduce the loss resulting from dramatic fluctuation and unexpected movement of market price.

(2) Credit Risk

- (i) For credit risks related to the Company's commodity and futures trading and risk management business, the Company has established a client credit evaluation system and assesses the creditworthiness of the existing and potential clients based on the onsite investigation and independent third-party investigations, and adjusts the credit ratings of the clients based on the financial conditions of the client and the history of co-operation with the Company. Before entering into a contract, the Company decides on whether to engage a potential client based on the credit evaluation results of the clients or to raise the agreed interest rate or commodity price so as to compensate the credit risk borne by the Company.
- (ii) For credit risks related to the Company's futures brokerage business, the Company conducts risk rating on the clients based on their assets, professional knowledge on futures, trading experiences and risk tolerance before entering into contracts with the clients. Accordingly, the Company provides appropriate services to our clients and implement corresponding risk management measures. Meanwhile, the Company requires our clients to maintain higher margin deposits than the minimum deposit required by the futures exchanges in China. The risk control personnel will strictly comply with the internal control measures of the Company to close out the position compulsorily if such margin deposits fall short, with reference to the clients' past dealing history and reputation. This measure can control the risk of margin calls and at the same time, retain premium clients.

(3) Liquidity Risk

- (i) To establish a risk evaluation and monitor system on net capital.
- (ii) To strengthen the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management.
- (iii) To conduct a stress test on the risk control indexes on an ad hoc basis. It simulates the effects on the major control indexes and the cash flow of the Company under different situations, such as dramatic fluctuation in market price, material insufficiency in market liquidity or massive changes in macro-economic environment, and prevention measures and emergency plans are formulated accordingly.
- (iv) To select those commodities that are more actively traded in the commodity market among the commodity trading and risk management business for starting the business, or to select the contracts with the largest or second-largest open interest within similar futures contracts for trading. The Company has a strict control on the position ratio to the option business in order to reduce the liquidity risk of trading.

(4) Operational Risk

- (i) The Company will set aside 5% of its fee income as risk reserve fund each month, which will be utilized in the compensation for the malfunction of the information system, wrong single transaction, forced liquidation or the loss induced by inappropriate operation risk.
- (ii) The Company adopts a human-oriented approach and offers incentives such as remuneration and promotion with openness, fairness and impartiality. The Company provides its staff with favorable development environment and enhance their sense of responsibility and belonging, with a purpose to reduce the operational risk caused by human negligence.
- (iii) The Company formulates strict internal control system with written terms. The system covers every business line of the Company, including human resources and administration, brokerage business, intermediaries management, trading, settlement, transaction, internal control on compliance, risk control, legal affairs, anti-money laundering, customer service, financial management, information technology, research and development and investor education, asset management and option business. The Company will expand and improve ourselves in accordance with the laws and regulations, monitoring requirements and the development of new business.

(iv) The Company has a strict internal audit system. The Company has established an audit department to inspect the rationality, the legitimacy and the effectiveness of the internal system of the Company, the operational capital and the financial revenue and expenditure of each operating entities, the operation process of each business department of the Company and the performance of our personnel. If any violation or illegal incident are found, the audit department will make rectification recommendations and will supervise its implementation.

(5) Compliance Risk

The Company has built up a comprehensive compliance management and organization system. The Company has appointed a chief risk officer who is responsible for the risk management, internal compliance and auditing. We have also established the compliance department and the audit department to operate under the guidance of the chief risk officer. The Company has adopted certain measures to reduce compliance risk, including interpreting the latest laws and regulations in a timely manner, conducting compliance training, offering compliance consultation and carrying out internal audit.

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 annual general meeting (the “**AGM**”) to be held on 15 June 2017 and their entitlement to the 2016 Final Dividend, the register of members of the Company will be closed respectively from 16 May 2017 to 15 June 2017, both days inclusive, and from 22 June 2017 to 27 June 2017, both days inclusive, during which no transfers of shares shall be effected. Shareholders whose names appear on the Company’s register of members on 15 June 2017 will be entitled to attend and vote at the AGM, and Shareholders whose names appear on the Company’s register of members on 27 June 2017 will be entitled to receive the final dividend for 2016. 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 15 May 2017. In order for holders of H shares of the Company to qualify for receiving the final dividend for 2016 subject to the approval of Shareholders at AGM, transfers of shares must be lodged with H Share registrar of the Company at the aforementioned address, no later than 4:30 p.m. on 21 June 2017.

FINAL DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.048 (tax inclusive) per share for the year ended 31 December 2016. The total amount of dividends to be distributed is RMB48,091,200.00 (The total amount of dividends distributed for the year ended 31 December 2015 is RMB43,081,700.00). The distribution proposal of the 2016 Final Dividend shall come into effect upon the approval by the Shareholders at the AGM to be held on 15 June 2017. The 2016 Final Dividend will be paid to domestic Shareholders in RMB and H Shareholders in Hong Kong dollars upon approval. The actual amount to be distributed in Hong Kong dollars shall be calculated on the basis of the average benchmark exchange rate between RMB and Hong Kong dollars as announced by the People's Bank of China for the five working days prior to the date of the AGM. The Company expected to distribute the 2016 Final Dividend on or about 27 July 2017.

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 Circular of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-resident taxpayers under Tax Treaties (SAT Circular [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)).

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.

LISTING AND USE OF PROCEEDS

1. Issue of shares and the use of proceeds

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 sold by the selling shareholders, Zhongtai Securities Company Limited (formerly known as Qilu Securities Co., Ltd.), 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 dated 23 June 2015 (the "**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 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 RMB.

2. Use of raised proceeds in projects intended to be financed

As at 31 December 2016, the aforementioned proceeds raised were utilized for the purposes set out in the Prospectus as follows:

Unit: RMB'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	130,000	130,000	20.12	
Capital contribution to Luzheng Information Technology	No	20,000	20,000	3.10	
Injection of working capital	No	0	64,600	10.00	

In order to enhance the efficiency of the utilization of the proceeds, as at the end of the Reporting Period, the Company's remaining proceeds raised used as the investment 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 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has been committed to improving its standard of corporate governance, and views it as an integral part of creating value for the Shareholders. A modern corporate governance structure, comprising of the general meeting, the Board, the Supervisory Committee and the senior management of the Company, has been established by reference to the code provisions set out in the Corporate Government Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”), 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.

During the Reporting Period, 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.

AUDIT COMMITTEE

The Audit Committee (the “**Audit Committee**”) of the Company consists of five members, including Independent non-executive Directors Mr. Wang Chuanshun and Mr. Gao Zhu, Mr. Li Dapeng, and non-executive Directors Mr. Lv Xiangyou and Mr. Liu Feng. Mr. Wang Chuanshun is currently the chairperson of the Audit Committee.

The consolidated financial statements for the year ended 31 December 2016 of the Group were audited by the external independent auditor of the Company and this results announcement is based on such financial statements which have been agreed by the Company and the auditor. The Audit Committee, the Board and the external independent auditor of the Company have reviewed the accounting standards adopted by the Company, the Audit Committee and the Board have also reviewed the results of the Company for the year ended 31 December 2016.

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 exacting 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 during the Reporting Period. 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 by the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the Reporting Period.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement has been published on the websites of HKExnews of the Hong Kong Stock Exchange at (www.hkexnews.hk) and the Company at (www.luzhengqh.com).

The annual report of the Company for the year ended 31 December 2016 containing all the information, including the audited financial statements, required by the Listing Rules will be despatched to the shareholders of the Company and made available on the websites of HKExnews of the Hong Kong Stock Exchange at (www.hkexnews.hk) and the Company at (www.luzhengqh.com) in due course.

By order of the Board
LUZHENG FUTURES Company Limited
CHEN Fang
Chairman

Jinan, the PRC
22 March 2017

As at the date of this announcement, the Board consists of Mr. Chen Fang and Mr. Liang Zhongwei as executive Directors; Mr. Lv Xiangyou, Mr. Yin Ge, Mr. Li Chuanyong and Mr. Liu Feng as non-executive Directors; and Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng as independent non-executive Directors.