



鲁证期货
LUZHENG FUTURES

LUZHENG FUTURES COMPANY LIMITED
鲁证期货股份有限公司

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

(Stock Code : 01461)



2016
Annual Report





鲁证期货

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Definition

“Articles of Association”	the Articles of Association of LUZHENG FUTURES Company Limited
“Audit Committee”	the Audit Committee of the Board of Directors
“Board” or “Board of Directors”	the board of director(s) of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“China”, “PRC” or “Country”	the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “LUZHENG FUTURES”	LUZHENG FUTURES Company Limited, a company incorporated in the PRC on 10 December 2012 with limited liability, and its H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 01461)
“Controlling Shareholder(s)”	Zhongtai Securities, Laiwu Steel and Shandong Steel
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, subscribed for or credited as fully paid in Renminbi
“Group”, or “we” or “us”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which were listed on the main board of Stock Exchange in Hong Kong
“HK\$” or “HK dollars”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a company established in the PRC on 6 May 1999 with limited liability, 80% of which is owned by Shandong Steel and being one of the Controlling Shareholders of the Company
“Listing Date”	7 July 2015, being the date of listing of H Shares on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), a company established in the PRC on 15 February 2015 with limited liability, which is a wholly-owned subsidiary of the Company

“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company established in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the Nomination Committee of the Board of Directors
“OTC”	over-the-counter
“PRC Futures Exchanges”	China Financial Futures Exchange (中國金融期貨交易所), Dalian Commodity Exchange (大連商品交易所), Zhengzhou Commodity Exchange (鄭州商品交易所) and Shanghai Futures Exchange (上海期貨交易所)
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board of Directors
“Reporting Period”	the year ended 31 December 2016
“Risk Control Committee”	the Risk Control Committee of the Board of Directors
“RMB” or “Renminbi”	the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a company established in the PRC on 17 March 2008 with limited liability, 70% of which is owned by the State-owned Assets Supervision and Administration Commission of the Shandong Provincial Government (山東省人民政府國有資產監督管理委員會) and being one of the Controlling Shareholders of the Company
“Share(s)”	the Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Development Committee”	the Strategic Development Committee of the Board of Directors
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券有限公司), previously known as Qilu Securities Co., Ltd. (齊魯證券有限公司) a company established in the PRC on 15 May 2001 with limited liability, 45.91% owned by Laiwu Steel, being a subsidiary of Laiwu Steel and one of the Controlling Shareholders of the Company

Risk Warnings

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

The Company may be mainly exposed to the following risks:

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

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

Company Profile

I. PROFILE

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

Registered English Name: LUZHENG FUTURES Company Limited

2. Registered office

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

3. Head office in the PRC

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

4. Principal place of business in Hong Kong

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

5. Board of Directors

Executive Directors: Mr. Chen Fang
Mr. Liang Zhongwei

Non-executive Directors: Mr. Lv Xiangyou
Mr. Yin Ge
Mr. Li Chuanyong
Mr. Liu Feng

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

6. Authorized representatives

Mr. Chen Fang

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

Mr. Meng Tao

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

7. Joint company secretaries

Mr. Meng Tao

Ms. Ng Wing Shan

8. Auditors

PRC Auditor

PricewaterhouseCoopers Zhong Tian LLP

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

International Auditor

PricewaterhouseCoopers

Certified Public Accountant

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

9. Legal advisers

As to Hong Kong law: Clifford Chance

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

As to PRC law: Jia Yuan Law Office

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

10. Compliance advisor

Zhongtai International Capital Ltd.

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

11. Principal banks

China Construction Bank (Jinan Shizhong Sub-branch)

No. 76 Jingsi Road, Shizhong District, Jinan, Shandong Province, the PRC

Industrial and Commercial Bank of China (Jinan Lixia Sub-branch)

No. 320 Quancheng Road, Lixia District, Jinan, Shandong Province, the PRC

Bank of China (Jinan Branch)

No. 22 Luoyuan Street, Lixia District, Jinan, Shandong Province, the PRC

Bank of Communications (Jinan Shizhong Sub-branch)

No. 249 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC

Agricultural Bank of China (Wanda Plaza Branch)

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

12. H Share registrar

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

13. Stock code

01461

14. Investor enquiries

Investors' Service Line: +86-531-81678629

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Fax: +86-531-81678628

Website: <http://www.luzhengqh.com>

E-mail: investor@luzhengqh.com

II. HISTORY

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

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

On 21 June 2004, Jinan Energy Investment Co., Ltd. made capital contribution of RMB0.62 million to Quanxin Futures, since then, the registered capital of Quanxin Futures increased to RMB30.82 million.

On 13 September 2006, Qilu Securities Co., Ltd. (齊魯證券有限公司), Shandong Xinkuang Investment Holding Group Co., Ltd. (山東新礦投資控股集團有限公司), Jinan Energy Investment Co., Ltd., Jinan Economic Development Corporation (濟南經濟發展總公司), Jinan Jingmao Industrial Investment Corporation (濟南經貿實業投資總公司) and Shandong Province Resources Development Corporation (山東省資源開發總公司) entered into the “Capital Increase and Reorganization Agreement of Shandong Quanxin Futures Brokerage Co., Ltd.” (《山東泉鑫期貨經紀有限公司增資重組協議書》) to collectively conduct reorganization and capital increase of Quanxin Futures. Upon this capital increase and reorganization, the registered capital of Quanxin Futures increased to RMB50.0 million.

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

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

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

On 24 May 2010, Qilu Securities Co., Ltd. and Jinan Energy Investment Co., Ltd. increased capital contribution of RMB200.0 million and RMB3.6238 million to Luzheng Limited respectively, since then, the registered capital of Luzheng Limited increased to RMB403.62383564 million.

On 30 June 2011, Qilu Securities Co., Ltd. and Jinan Energy Investment Co., Ltd. increased capital contribution of RMB114.30282606 million and RMB2.0733383 million to Luzheng Limited respectively, since then, the registered capital of Luzheng Limited increased to RMB520.0 million.

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

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

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

On 24 July 2015, the Joint Global Coordinators for the Company's global offering exercised the Over-allotment Option in part, involving an aggregate of 2,090,000 H Shares, including (i) 1,900,000 H Shares further issued by the Company; and (ii) 190,000 H Shares sold by the selling Shareholders (namely Qilu Securities Co., Ltd, Shandong State-owned Assets Investment Holdings Co., Ltd. and Jinan Energy Investment Co., Ltd.), which were listed for dealing on the main board of Stock Exchange on 7 August 2015.

On 17 September 2015, Shandong Administration for Industry & Commerce approved the Company's request for change of registration information. Upon completion of this change, the registered capital of the Company was further increased to RMB1,001.9 million, and the shareholding structure was detailed as follows: Qilu Securities Co., Ltd., Yongfeng Group Co., Ltd., Shandong State-owned Assets Investment Holdings Co., Ltd., Jinan Energy Investment Co., Ltd., Linglong Group Co., Ltd., Yantai Shengli Investment Co., Ltd. and holders of H Shares held 632,176,078 Ordinary Shares, 35,156,250 Ordinary Shares, 22,583,601 Ordinary Shares, 11,456,571 Ordinary Shares, 11,718,750 Ordinary Shares, 11,718,750 Ordinary Shares and 277,090,000 H Shares of the Company, respectively, representing 63.10%, 3.51%, 2.25%, 1.14%, 1.17%, 1.17% and 27.66% of the total ordinary share capital of the Company respectively.

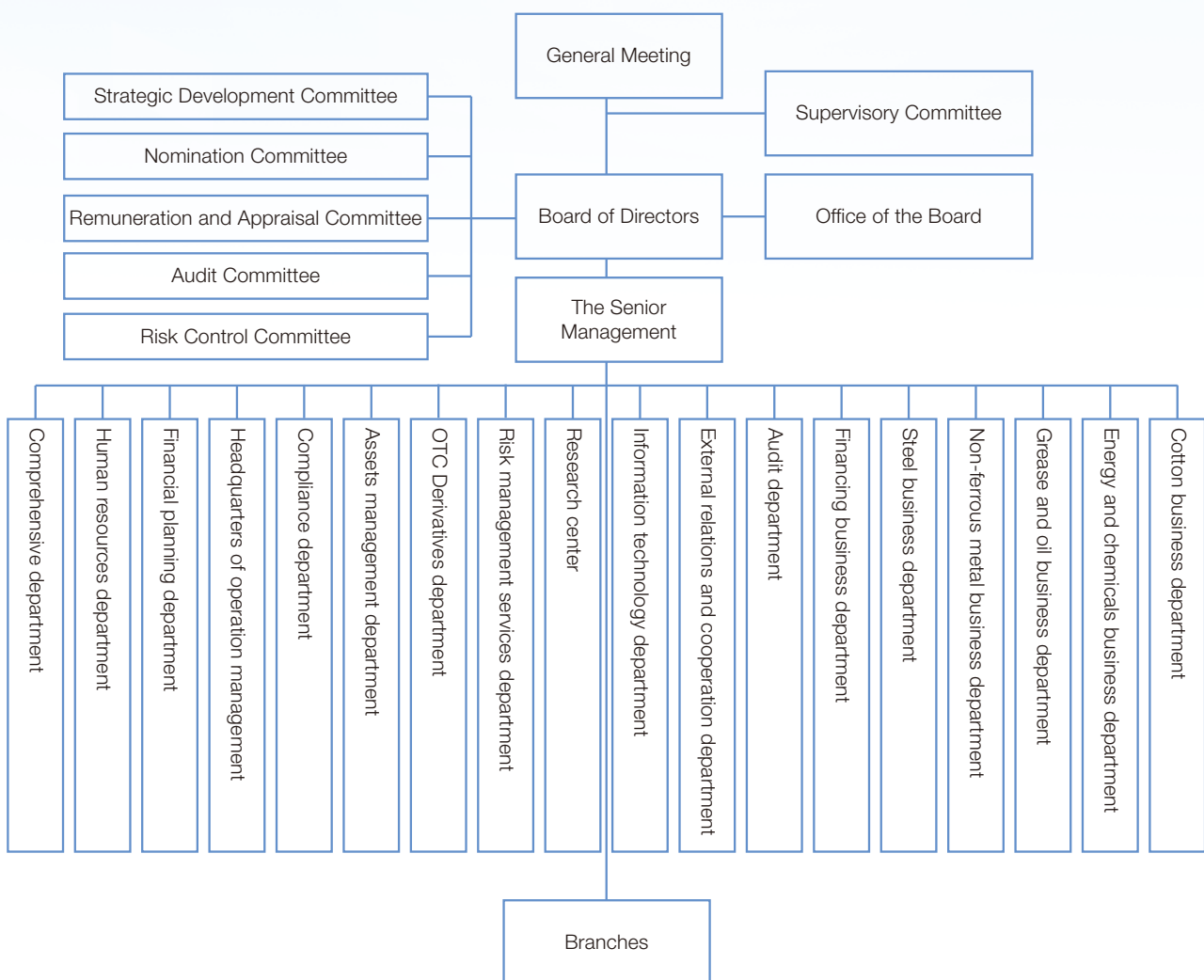
III. STAFF PROFILE

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

	Category	Number	Proportion (%)
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
	OTC businesses	17	3.68
	Marketing	197	42.63
		Total	462
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
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

IV. BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES

According to the Company Law (《公司法》), the Futures Trading Management Regulations (《期貨交易管理條例》) and the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) of the PRC, the Listing Rules and laws and regulations of Hong Kong, as well as the relevant provisions under the Articles of Association, the Company has established the legal corporate governance structure, namely the structure of “three organisations and one management level”. Under this structure, the general meeting will serve as the highest authority of the Company, with the Board of Directors, Supervisory Committee and senior management serving as the organs of decision-making, supervision and execution, respectively. As at the date of the report, the Company has set 12 functions departments, 6 business segments and 26 branches. The organization structure of the Company is set out below:



Company Profile

As at the end of the Reporting Period, the Company has set up a total of 27 branches operating futures products, among which, 10 are located in Shandong province and the other 17 are out of Shandong Province, with details as follows:

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Jinan Branch	Niu Baodong	43	18 October 2007	4/F, Jihua Building, No.19 Yingxian Street, Tianqiao District, Jinan	0531-81916257
Beijing Branch	Hou Chunmei	15	16 April 2007	Units 201B and 202, 2/F, Block No.99, North Third Ring Road West, Haidian District, Beijing	010-64402919
Shanghai Branch	Liu Xiaofei	13	13 October 2008	Room 1801, No.438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950
Tianjin Branch	Zhang Wei	12	10 April 2007	Units 301A, 301B and 301C, No.39 Third Avenue West, Economy and Technology Development Zone, Tianjin	022-66283471
Dalian Branch	Jiang Hong	14	11 February 2003	Units 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No.129 Huizhan Road, Shahekou District, Dalian	0411-84800770
Shenyang Branch	Song Binbin	7	6 November 2007	Units 701-703, Block C, No.161 Nanjing North Street, Heping District, Shenyang	024-23253298
Hangzhou Branch	Wang Genwang	8	31 July 2008	Unit 4001, Yueming Building, No.231 Moganshan Road, Xihu District, Hangzhou, Zhejiang	0571-28118966
Zhengzhou Branch	Xue Pu	10	11 June 2009	No. DT12, 14/F, Weilai Building, No.69 Weilai Road, Zhengzhou	0371-65629609

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Ningbo Branch	Ling Bo	7	8 June 2010	Unit 9-1, Block 004, No.475 Jiangdongbei Road, Jiangdong District, Ningbo, Zhejiang	0574-27893883
Qingdao Branch	Liang Dong	13	4 November 2008	No.78 Jiangxi Road, Shinan District, Qingdao	0532-80776050
Yantai Branch	Guo Feng	12	27 May 2002	4/F, Block B, Guanhai Building, No.267 Guanhai Road, Laishan District, Yantai	0535-6605095
Zibo Branch	Xue Liang	7	25 July 2008	9/F, Securities Building, No.66 Renmin West Road, Zhangdian District, Zibo	0533-2187987
Linyi Branch	Xue Xiangxu	10	29 October 2007	Unit 701, Block 3, Aoernuo International Building, No.26 Qiyang Road, Lanshan District, Linyi	0539-8073720
Jining Branch	Li Xiangmin	7	16 May 2008	Unit 807, Xingtang Jinmao Building, No.123, Guanghe Road, Jining	0537-2715707
Weifang Branch	Mo Zhenqiang	9	30 October 2008	4/F, Office Building, No.166 Dongfeng West Road, Weicheng District, Weifang	0536-8263608
Dongying Branch	Fang Zheng	9	11 November 2008	11/F, Xindu Fortune Center, No.20 Jinan Road, Dongying District, Dongying	0546-8279996
Dezhou Branch	Tang Zhen	7	29 January 2010	11/F, Lijing Building, No.1369 Tianqu Central Road, Decheng District, Dezhou	0534-2617086
Wenzhou Branch	Yu Wenhao	9	12 August 2011	6/F, Guoding Office Building, Xiaonan Road, Lucheng District, Wenzhou, Zhejiang	0577-85552177

Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Shenzhen Branch	Lu Zongjian	9	27 December 2011	Units 723, 725, 726 and 728, Xinhua Insurance Building, Southwest of the cross between Shennan Avenue and Mintian Road, Futian District, Shenzhen	0755-83509686
Guangzhou Branch	Xu Jie	6	22 October 2012	Unit 302-4, No.180 Huasui Road, Tianhe District, Guangzhou	020-38838558
Changsha Branch	Wang Li	5	12 March 2013	Units 1522, Heart of the City, Northwest of the cross between Furong Road and Chengnan Road, Tianxin District, Changsha	0731-84637766
Chengdu Branch	Fu Qi	5	25 July 2013	Unit 2, 5/F, No.42 Donghuazheng Street, Jinjiang District, Chengdu	028-85970818
Rizhao Branch	Tong Yanfang	6	26 December 2014	Unit 1801, Block 001, Hangmao Center, No.277 Beijing Road, Rizhao Economy and Technology Development Zone, Rizhao, Shandong	0633-8088272
Tai'an Branch	Fan Chao	2	4 December 2015	Unit 5012, 5/F, No.171 Dongyue Street, Tai'an	0538-6117399
Shanghai Branch Office	Liu Jie	3	1 February 2016	Room 1502A, No. 438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950-8008
Wuxi Branch	Wang Jiankang	2	26 April 2016	Room 901-902, No.2 Wuai Renjia, Wuxi	0510-82728370
Haikou Branch (Completed industrial and commercial deregistration on 25 January 2017)	Qu Chao	0	22 December 2010	Unit F, 22/F, Beijing Building, No. 56 Guomao Road, Haikou, Hainan	0898-68503101

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

During 2016, directed by the CSRC's regulatory principle of "law compliance, stringent control and comprehensive supervision", various tasks in respect of regulatory transformation of futures market, institutional supply, construction of market and opening-up of market access took place practically, innovation of varieties of futures, therefore, was promoted orderly and the market scale expanded stably; the role of the market function became increasingly important, while the capability of serving the real economy and the efficiency of allocating resources were significantly enhanced; futures operators steadily promoted innovative businesses so the overall competitiveness was increased. More importantly, the prevention and resolution mechanism of risks in futures market was basically formed and established as a set of internationally accepted one which was also in response to the current condition of the domestic market. Such mechanism successfully offset strong fluctuations in both commodity and financial markets during recent years. In particular, since 2015, there has been no material risk event regarding to the futures business when handling strong fluctuations over the prices of stock index futures and bulk commodities, which indicated the high capability of risk control. Generally speaking, under the complicated domestic and international economic situations, China's futures market remained stable, keeping a promising growth momentum in 2016.

The total cumulative trading volume of the domestic futures market was 4.138 billion board lots in 2016 and the cumulative trading amount was approximately RMB195.63 trillion. The trading volume of commodity futures ranked first for 7 consecutive years. As at the end of 2016, total clients' interests in the domestic futures market amounted to RMB436.907 billion, representing an increase of 14.08% as compared to 2015, as well as 2.19 times and 1.14 times of total clients' interests in 2013 and 2014, respectively. Total assets and net assets of 149 futures companies amounted to RMB543.941 billion and RMB91.153 billion, respectively, representing year-on-year increases of 14.61% and 16.42%, respectively and increases of 58.5% and 48.8% as compared to 2014, respectively. Operating income and net profit of futures companies amounted to RMB24.008 billion and RMB6.585 billion throughout 2015, respectively. Despite the impact by the control over stock index futures transactions, operating income decreased by 1.64% year-on-year, while net profit remained approximately 10% growth.

VI. BUSINESS BRIEFINGS OF THE COMPANY

The business scopes of the Company and its subsidiaries cover futures brokerage of commodity, financial futures brokerage, futures investment consulting, futures asset management, commodity transaction, registration and settlement services, and other business activities permitted by the CSRC.

VII. BRIEFINGS OF OUR SUBSIDIARIES

As at the end of the Reporting Period, the Company owns four wholly-owned subsidiaries, namely Luzheng Trading (魯証經貿), Luzheng Information Technology (魯証信息技術), Zhongtai Huirong Investment (HK) Company Limited (中泰匯融(香港)有限公司) and Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司).

Luzheng Trading is mainly engaged in sale and wholesale of agricultural products, metal products, mining products, chemical products and edible oil, import and export activities, and provision of investment consultancy and risk management services. The business scope of Luzheng Information Technology includes the provision of software development, system integration, sale of electronic products and equipments, and information technology consultancy services. The business scope of Zhongtai Huirong Investment (HK) Company Limited includes import and export activities, investment, capital risk management and technology consultancy services. The business scope of Shandong Exchange Markets Clearing House Co., Ltd. includes information registration services such as trading venues and varieties of transactions in relevant institutions, market participants, trading contracts, bills and warehouse receipts; unified transaction payment and settlement services and deposit custody services; derivatives business clearing services; warehouse receipts conversion services; warehouse receipts financing services; information technology development services; and financial information services. Details are as follows:

Name of the company	Shareholding percentage (%)	Date of establishment	Registered		Responsible	
			capital	Registered address	person	Contact number
Luzheng Trading Co., Ltd (魯証經貿有限公司)	100	2013.4.24	RMB250 million	Room 201, Block A, No.1 Qianwanyilu, Shenzhen – Hong Kong Cooperation Zone, Qianhai, Shenzhen, Guangdong Province PRC	Liu Qingbin (劉慶斌)	+86-531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.2.15	RMB50 million	Room 1515, Floor 15 No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province PRC	Pei Yingjian (裴英劍)	+86-531-81678620
Zhongtai Huirong Investment (HK) Company Limited (中泰匯融(香港)有限公司)	100	2013.11.21	HK\$118.82 million	Unit 04, 7/F, Bright Way Tower, No. 33 Mong Kok Road, Kowloon, Hong Kong	Liu Qingbin (劉慶斌)	+86-531-86161199
Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司)	40	2016.10.9	RMB0.15 billion	Floor 16, Building B, Gold Times Square, No. 9999 Jingshi Road, Lixia District, Jinan, Shandong Province PRC	Li Xuekui (李學魁)	+86-531-86517060

VIII. HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD

During 2016, the Company has been 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 honored, for the fourth time consecutively, as the “Best Futures Firm in China (中國最佳期貨公司)” in the 9th session of the “Best Futures Firms and Best Futures Analysts Awards” (中國最佳期貨經營機構暨最佳期貨分析師評選) as jointly held by the Futures Daily (期貨日報) and the Securities Times (證券時報), and was also granted the awards of “China Futures Firm Gold Management Team (中國期貨公司金牌管理團隊)”, “Best Futures IT System Construction Award (最佳期貨IT系統建設獎)”, “Best Brand Establishment Award (最佳品牌建設獎)”, “Best Capital Operation Development Award (最佳資本運營發展獎)”, and “Best Assets Management Business Award (最佳資產管理業務獎)”, during this rating.

The Company was granted the “Excellent Membership Award (優秀會員獎)”, the “Product Innovation Services Award (產品創新服務獎)” and the “Best Technological Support Award (最佳技術支持獎)” by Dalian Commodity Exchange; Luzheng Trading was granted the “Excellent Risk Management Subsidiary Award (優秀風險管理子公司)”.

The Company was also honored with the “Futures Brand Award (期貨行業品牌獎)” and the “Golden IT Services Award (金牌IT服務獎)” by hexun.com.

The Company was initially recognized as the “Provincial Civilized Unit (省級文明單位)” by Shandong Spirits and Civilization Construction Committee (山東省精神文明建設委員會).

The Company was also recognized as the “Outstanding Entry-level Employee’s Party Organisation (先進基層黨組織)” by CPC Zhongtai Securities Co., Ltd. Committee (中共中泰證券股份有限公司委員會).

Financial Summary

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

I. MAJOR ACCOUNTING DATA OF THE GROUP

Unit: RMB'000

Item	2016	2015	Increase/ decrease over corresponding period of last year	2014
Operating income	398,915	369,898	7.84%	322,053
Operating profit	154,809	115,184	34.40%	102,215
Profit before income tax	154,926	124,910	24.03%	105,612
Profit attributable to shareholders of the Company	113,003	93,583	20.75%	80,291
Net cash outflow from operating activities	(270,552)	(32,603)	(729.84%)	31,805

Unit: RMB'000

Item	31 December 2016	31 December 2015	Increase/ decrease over corresponding period of last year	31 December 2014
Total assets	8,204,293	7,433,409	10.37%	5,527,300
Total liabilities	6,125,765	5,455,048	12.30%	4,254,921
Total equity attributable to shareholders of the Company	2,048,755	1,978,361	3.56%	1,272,379
Total share capital	1,001,900	1,001,900	—	750,000

II. MAJOR FINANCIAL INDEXES OF THE GROUP

Item	2016	2015	Increase/ decrease over corresponding period of last year	2014
Basic earnings per Share (RMB)	0.11	0.11	—	0.11
Diluted earnings per Share (RMB)	0.11	0.11	—	0.11
Weighted average return on net asset	5.59%	5.94%	Decrease by 0.35 percentage points	6.53%

Item	31 December 2016	31 December 2015	Increase over corresponding period of last year	31 December 2014
Net asset per Share attributable to shareholders of the Company (RMB)	2.04	1.97	3.55% Increase by 5.36 percentage points	1.70
Gearing ratio	16.24%	10.88%		4.11%

Note: With respect to the gearing ratios for the respective reporting periods as set out in the above table, all the assets and liabilities are stated at figures excluding accounts payable to brokerage clients.

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

Indicators	31 December 2016	31 December 2015	Regulatory standard
Net capital (RMB)	1,088,405,455.00	1,302,998,553.03	15,000,000.00
Net capital/total risk capital reserves	273.24%	480.94%	100.00%
Net capital/net assets	55.61%	68.40%	40.00%
Current assets/current liabilities	795.24%	1,098.00%	100.00%
Liabilities/net assets	7.80%	6.39%	150.00%
Settlement reserve funds (RMB)	126,652,938.79	174,716,013.54	8,000,000.00

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

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

1. Profitability

Unit: RMB'000

Item	2016	2015	2014	2013	2012
Operating income	398,915	369,898	322,053	315,661	307,822
Operating expenses	244,106	254,714	219,838	219,913	224,474
Profit before income tax	154,926	124,910	105,612	102,422	85,497
Profit attributable to shareholders of the Company	113,003	93,583	80,291	78,674	66,233

2. Assets Condition

Units: RMB'000

Item	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Total assets	8,204,293	7,433,409	5,527,300	3,816,770	3,639,448
Total liabilities	6,125,765	5,455,048	4,254,921	2,627,231	2,528,790
Total equity attributable to shareholders of the Company	2,048,755	1,978,361	1,272,379	1,189,539	1,110,658
Total share capital	1,001,900	1,001,900	750,000	750,000	750,000

3. Key financial indexes

Item	2016	2015	2014	2013	2012
Basic earnings per Share (RMB)	0.11	0.11	0.11	0.1	0.1
Diluted earnings per Share (RMB)	0.11	0.11	0.11	0.1	0.1
Weighted average return on net asset	5.59%	5.94%	6.53%	6.84%	8.28%
Net asset per Share attributable to shareholders of the Company (RMB)	2.04	1.97	1.70	1.59	1.48
Gearing ratio	16.24%	10.88%	4.11%	3.85%	3.36%

Chairman Statement

Dear Shareholders,

In 2016, the China's futures market was affected by both the domestic and international political and economic factors, resulting in active transactions of commodities futures. Meanwhile, stock and index futures were still under stringent control, leading to substantial shrinkage of the transactions of financial futures, which exerted certain impacts on the futures market. However, futures operators persisted in the direction of serving the real economy, while the commodity market also remained unchanged. The huge demand of the real economy on futures and derivatives grew even more exuberantly instead of deteriorated due to the economic downturn. The Company seized business opportunities for the development of futures market and overcame the impact on business from the control over stock and index futures. The Company also insisted on serving the real economy, and promoting the business transformation and internationalization. After a year of efforts, the Company's various businesses, including brokerage business, assets management, commodity transactions and risk management, have been fully developed.

2016 is the first year of the realization of "the Second Boom" initiated by the Company. The Company made good use of raised funds to raise capital and to enhance the risk management of subsidiaries, which further strengthened its capability in serving the real economy. Meanwhile, by focusing its work on the growth of transactions and the enhancement of customer services for industrial clients, the Company promoted business transformation. Also, through expanding the international vision of management and strengthening the international interaction and cooperation, the Company promoted internationalization. The Company as well elevated the standard of capital management and cost control to optimize and improve revenue generation and to reduce expenses. In addition, the Company proactively advocated public welfare. It entered into an Assistant Agreement with Huachuan County of Heilongjiang Province and established Shandong Zhongtai Philanthropic Foundation, fulfilling the social responsibilities of a listed company by helping the needy and supporting charities.

In 2017, the Company will endeavour to maintain the strategic targets of becoming the leading integrated financial service providers in futures and derivatives market. It will also devise its risk management and asset management businesses by putting foci on serving the real economy with financial services. In order to properly manage the business expectation under its direction, it will further strengthen benchmarking management. It will as well continue to employ its strategy on internationalization, including the gradual promotion of the deployment of production elements worldwide, the completion of its international business map, the rapid expansion of its businesses, and the enhancement of its professional ability in order to achieve the sustainable development of the Company and to create more values for all Shareholders and investors with better returns.

LUZHENG FUTURES Company Limited

Chen Fang

Chairman

22 March 2017

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 GROUP'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.

Management Discussion and Analysis

(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 34.58%.

(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.

Management Discussion and Analysis

(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.

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 362.56% 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 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;

Management Discussion and Analysis

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.

Management Discussion and Analysis

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:

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

Management Discussion and Analysis

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:

Unit: 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	398,915	100.00	369,898	100.00	29,017	7.84

(1) Net commission and fee income

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

Unit: 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
	264,432	619,500
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
	167,528	471,367

Management Discussion and Analysis

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:

Unit: 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	—
	169,125	172,146
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
	16,034	26,126

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.

Management Discussion and Analysis

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:

Unit: 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

(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

Unit: 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	—
	86,877	37,225

Management Discussion and Analysis

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:

Unit: RMB'000

	Year ended 31 December					
	2016		2015		Increase/(decrease) in 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

Unit: 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

Management Discussion and Analysis

(2) Depreciation and amortization

Unit: 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
	8,358	8,169

(3) Impairment losses

Unit: RMB'000

	Year ended 31 December	
	2016	2015
Other receivables	1,162	237
Accounts receivable	400	—
	1,562	237

(4) Other operating expenses

Unit: 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
	88,294	106,782

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:

Unit: 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	8,204,293	7,433,409	770,884	10.37

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:

Unit: 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	7,050,192	6,854,857	195,335	2.85

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%.

Management Discussion and Analysis

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:

Unit: 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:

Unit: 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

Management Discussion and Analysis

(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:

Unit: 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	—
	269,706	22,857

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:

Unit: 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	350,677	252,341	98,336	38.97

Management Discussion and Analysis

(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:

Unit: 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:

Unit: 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

Management Discussion and Analysis

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.

Unit: 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
	300,539	188,146

(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:

Unit: 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	—
Total equity	2,078,528	1,978,361	100,167	5.06

Management Discussion and Analysis

(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

Management Discussion and Analysis

The total remuneration expenses of the Group 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
	120,818	95,592

For the year ended 31 December 2016, the five highest paid individuals include one Supervisor (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
	5,149	4,328

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	—
	5	5

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

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

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

(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 Supervisory Committee 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 PRC Futures Exchanges. 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.

Management Discussion and Analysis

(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.

Report of the Board of Directors

I. PRINCIPAL BUSINESSES

As of 31 December 2016, the Company was a futures company. The Group's business scope covered commodity futures brokerage, financial futures brokerage, futures investment and consultancy, futures asset management, commodity trading registration and settlement services as well as other business activities permitted by the CSRC.

II. RESULTS AND DIVIDENDS

Please refer to Chapter XIII of this report for the details of the Group's results for the year ended 31 December 2016.

The Board of Directors recommends the payment of a final dividend of RMB0.048 (tax inclusive) per share for the year ended 31 December 2016 to Shareholders whose name appear on the register of members of the Company on 27 June 2017. 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 of the final dividends shall come into effect upon the approval by the Shareholders at the 2016 annual general meeting (the "AGM") to be held on 15 June 2017. The Company is expected to distribute the final dividend for 2016 on or about 27 July 2017.

III. BUSINESS REVIEW

A review of the business for the year and a discussion on future development of the Group are set out from pages 23 to 29 of this report. An analysis of the major financial key performance indicators on the performance of the Group for the year is set out from pages 29 to 42 of this report. Details of the significant events that have material impact on the Group during the Reporting Period and since the end of the financial year are set out from pages 45 to 47 of this report. Major risks and uncertainties that may be faced by the Group are set out from pages 47 to 51 of this report.

IV. DIRECTORS AND DIRECTORS' BIOGRAPHIES

(i) Directors

During the Reporting Period, the Directors of the Company are as follows: executive Directors Mr. Chen Fang (chairman of the Board), Mr. Liang Zhongwei; non-executive Directors Mr. Lv Xiangyou, Mr. Zhang Yunwei (whose tenure expired on 16 June 2016), Mr. Yin Ge (appointed on 16 June 2016), Mr. Li Chuanyong, and Mr. Liu Feng; independent non-executive Directors: Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, Mr. Wei Wei (whose tenure expired on 23 June 2016) and Mr. Li Dapeng (appointed on 23 June 2016).

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

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

(ii) Directors' biographies

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

V. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

The Directors and Supervisors (including newly appointed Directors and Supervisors during the Reporting Period) have entered into service contracts with the Company. The principal particulars of these service contracts are (a) for a term of three years commencing from the signing date; and (b) are subject to termination in accordance with their respective terms. The service contracts may be renewed according to the Articles of Association and applicable laws, rules or regulations.

Save as disclosed above, none of the Directors, Supervisors or their associated entities has entered or proposed to enter a service contract with the Company (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

VI. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be owned under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executive of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, are as follows:

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

Report of the Board of Directors

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

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 31 December 2016.

Notes:

- (1) Laiwu Steel directly holds approximately 45.91% of the equity interest in Zhongtai Securities and is the holding company of Zhongtai Securities. Therefore, Laiwu Steel is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities for the purpose of Part XV of the SFO.
- (2) Laiwu Steel is owned as to 80% by Shandong Steel. Therefore, Shandong Steel is deemed to be interested in the 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 28,022,000 (long position) H Shares of the Company. CM International Capital Limited (中民國際資本有限公司) holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) holds 100% of the equity interest in CM International Capital Limited (中民國際資本有限公司). Therefore, China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) and CM International Capital Limited (中民國際資本有限公司) are deemed to be interested in the 28,022,000 (long position) H Shares held by CM International Capital Limited for the purpose of Part XV of the SFO.

Report of the Board of Directors

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

Save as disclosed above, as at 31 December 2016, the Directors of the Company are not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

For the year ended 31 December 2016, none of the Directors, Supervisors and senior management of the Company has been penalized by regulatory authorities.

IX. THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

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

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

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

In December 2016, the Company entered into an Assistant Agreement with the People's Government of Huachuan County of Heilongjiang Province (黑龍江省樺川縣人民政府), an national poverty county and donated RMB1 million to Huachuan County which was designated for the use of alleviating the underprivileged out of poverty. With the aim of speeding up the task of poverty alleviation, the Company will subsequently endeavor to provide Huachuan County with assistance in respect of agricultural product price insurances, warehouse and logistics, financing, and trading, etc.

Moreover, the Company established Shandong Zhongtai Philanthropic Foundation in December 2016, and its business scope covered poverty assistance, charity work, disaster relief, public assistance and other public welfare projects. Other than contributing RMB1 million, the Company also organized a fund raising campaign among the employees, from which an additional donation of RMB0.8162 million was raised.

In 2016, the Company had no material environmental or other social security issues.

X. THE LISTING AND USE OF PROCEEDS

1. Issuance 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 Stock Exchange on 7 July 2015. 275,000,000 H shares (excluding over-allotment options) were issued under the global offering. The issue price of H Shares is HK\$3.32 per share. On 24 July 2015, the joint global coordinator of the Company partially exercised 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, Shandong State-owned Assets Investment Holdings Co., Ltd. and Jinan Energy Investment Co., Ltd., which were listed and traded on the main board of Stock Exchange on 7 August 2015.

The net proceeds as prescribed in 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 Technology for developing its IT development capabilities; and
4. Approximately 10% will be used for working capital and general corporate purposes.

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

Report of the Board of Directors

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 projects intended to be financed	Whether there were changes in the projects	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	—	—	—	N/A
Capital contribution to Luzheng Trading	No	130,000	130,000	20.12	N/A
Capital contribution to Luzheng Information Technology	No	20,000	2,000	3.10	N/A
Injection of working capital	No	0	64,600	10.00	N/A

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 will be used in 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 purposes as prescribed in the Prospectus in due course in 2017.

XI. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM to be held on 15 June 2017 and their entitlement to the final dividend for 2016, 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, Wan Chai, 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.

XII. FINAL DIVIDEND

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 HK dollars upon approval. The actual amount to be distributed in HK dollars shall be calculated on the basis of the average benchmark exchange rate between RMB and HK 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)).

XIII. OTHER DISCLOSURES

(1) Permitted Indemnity Provision

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

(2) Management Contract

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

(3) Environment Policies and Performance

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

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

Through the implementation of the aforementioned policies and measures, the Group raised the overall awareness of environmental protection and saved energy.

(4) Compliance of Laws and Regulations

The Company strictly abides by the Company Law of the PRC (中國《公司法》), the Regulations on the Administration of Futures Trading (《期貨交易管理條例》), the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), the Listing Rules, the SFO and the relevant laws and regulations of the PRC and Hong Kong.

(5) Relationship with Key Stakeholders

1. Employees

Employees are regarded as the most important and valuable assets for the Group. The Group has established complete system and procedures of human resource management in order to regulate the use of human resources and realistically protect employees' rights and interests. Through compensation and welfare schemes and annual appraisal plans, the Company has awarded and commended outstanding employees while enhancing employees' vocational capabilities and widening their room for promotion by way of training and others.

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

2. Major customers and suppliers

The Company provides services for the various individual and institutional customers. The Company's large customers include institutional and high-net-worth individuals. All customers are located in China, mainly in Shandong Province. For the year ended 31 December 2016, the revenue from the five largest customers of the Company represented less than 30% of operating cost. As far as the Directors are aware, as at the date of this report, none of the Directors, Supervisors, their respective close associates or any Shareholders who owned more than 5% of the Company's number of issued shares had any interest in the five largest customers of the Company.

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

(6) Directors' Competing Business

During the Reporting Period, none of the Directors of the Company and their associates (as defined in the Listing Rules) is interested in any business which competes, or may compete, directly or indirectly, with the business of the Company and/or its subsidiaries.

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

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

(8) Equity-linked Agreements

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

(9) Reserves and Reserves Available for Distribution to Shareholders

During the Reporting Period, the changes of the reserves and reserves available for distribution to Shareholders of the Group are set out in Note 34 of the notes to the consolidated financial statements and the consolidated statements of changes in equity in this report.

Report of the Board of Directors

(10) Pre-Emptive Rights

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

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

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

(12) Property and Equipment

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

(13) Public Float

For the year ended 31 December 2016, the public float of the Company was in compliance with the minimum public float requirement of 25% of the Stock Exchange.

(14) Share Capital

As at 31 December 2016, the total share capital of the Company was RMB1,001,900,000, divided into 1,001,900,000 Shares (including 724,810,000 Domestic Shares and 277,090,000 H Shares) with a nominal value of RMB1.00 each. The details of changes in share capital of the Company during the Reporting Period is set out in Note 33 to the consolidated financial statements of this report.

(15) Issuance of Debentures

The Company had no issued debentures for the year ended 31 December 2016.

(16) Donation

In December 2016, the Company entered into an Assistant Agreement with the People's Government of Huachuan County of Heilongjiang Province (黑龍江省樺川縣人民政府), a national poverty county and donated RMB1 million to Huachuan County which was designated for the use of alleviating the underprivileged out of poverty. With the aim of speeding up the task of poverty alleviation, the Company will subsequently endeavor to provide Huachuan County with assistance in respect of agricultural product price insurances, warehouse and logistics, financing, and trading, etc.

Moreover, the Company established Shandong Zhongtai Philanthropic Foundation in December 2016, and its business scope covered poverty assistance, charity work, disaster relief, public assistance and other public welfare projects. Other than contributing RMB1 million, the Company also organized a fund raising campaign among the employees, from which an additional donation of RMB0.8162 million was raised.

For details, please refer to "IX. The Company's Commitment to Social Responsibilities" of this chapter.

By order of the Board

Chen Fang

Chairman

22 March 2017

Report of Supervisory Committee

2016 is the year of innovative yet challenging development of the Chinese futures market. Trading volume of the national futures market again hit a historical record due to the rapid development of innovative businesses such as assets management, risk management and stock options as well as new changes in business scopes, business models and cross-licensing of futures companies. LUZHENG FUTURES firmly grasped market opportunities and actively expanded its strategic layout through deepening reforms and perfecting the mechanism of risk management upon smooth completion of the H Share IPO in 2015, and hence achieved excellent operating results.

With the active cooperation of the Board and the management, the Supervisory Committee, with the attitude of being responsible to all Shareholders, discharged all duties and completed the re-election of the Supervisory Committee based on the Articles of Association and the Rules of Procedure of the Supervisory Committee of the Company and in strict compliance with relevant laws and regulations including the Company Law and the Futures Trading Management Regulations of the PRC as well as the rules and requirements of the CSRC and the Stock Exchange. The Supervisors attended the meetings of the Board and the management and reported the work progress during the general meeting. The Supervisors conducted effective supervision on the legal compliance of the Company's financial affairs as well as the Board's and management's performance of responsibility, and safeguarded the legal rights of the Company and Shareholders.

I. ROUTINE WORK OF SUPERVISORY COMMITTEE IN 2016

The Supervisory Committee held a total of five meetings during this Reporting Period, the details of such meetings are as follows:

- (1) On 22 March 2016, it convened the ninth meeting of the first session of the Supervisory Committee and the 2015 Supervisory Committee meeting, which approved the "Work Report of the General Manager of LUZHENG FUTURES Company Limited in 2015" (《魯証期貨股份有限公司2015年度總經理工作報告》) and the "Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited in 2015" (《魯証期貨股份有限公司2015年度監事會工作報告》).
- (2) On 15 April 2016, it convened the tenth meeting of the first session of the Supervisory Committee, which approved the "Proposal on the Approval of the Supervisors of the Second Session of the Supervisory Committee During the General Meeting" (《關於提請股東大會審議第二屆監事會監事的議案》).
- (3) On 16 June 2016, it convened the first meeting of the second session of the Supervisory Committee, which approved the "Proposal on the Election of the Chairman of the Second Session of the Supervisory Committee of LUZHENG FUTURES Company Limited" (《關於選舉魯証期貨股份有限公司第二屆監事會主席的議案》).
- (4) On 15 August 2016, it convened the second meeting of the second session of the Supervisory Committee, which approved the "Proposal on the Election of the Chairman of the Second Session of the Supervisory Committee of LUZHENG FUTURES Company Limited" (《關於選舉魯証期貨股份有限公司第二屆監事會主席的議案》).

- (5) On 23 August 2016, it convened the third meeting of the second session of the Supervisory Committee, which approved the “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年中期業績公告的議案》), the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年中期報告的議案》), the “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年中期利潤分配預案的議案》) and the “Proposal on the Work Report of the Chief Risk Officer of LUZHENG FUTURES Company Limited in the First Half of 2016” (《關於魯証期貨股份有限公司2016上半年首席風險官工作報告的議案》).

II. SUPERVISORY OPINIONS ON RELEVANT MATTERS IN 2016

During the Reporting Period, the Supervisory Committee attended the general meeting, on-site meetings of the Board and the meetings with the management, supervised and inspected the legal compliance of the Company, key decisions-making procedures and significant operating activities as well as the Company’s financial condition.

(I) Legal Compliance of the Company

The overall operating activities of the Company were in compliance with related laws, regulations and regulatory policies. The Board practically performed all resolutions and key decisions-making procedures conformed to the requirements of the Company Law of the PRC and the Articles of Association; the Directors and senior management of the Company tried their best in performing their duties pursuant to national laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association or injure the interest of the Company when discharging their duties in the Company.

(II) Inspection on Financial Conditions of the Company

During the Reporting Period, the Supervisory Committee conducted effective supervision and careful inspection on the financial conditions and operation results of the Company in 2016 and believed that the financial system of the Company was sound, and the financial operation was standardised with excellent financial conditions. The financial statements prepared by the Company were true, objective and accurate. PricewaterhouseCoopers issued an unqualified audit report and gave an objective reflection to the financial conditions and operation results of the Company in 2016.

(III) Connected Transactions of the Company

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

Report of Supervisory Committee

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

The Company has established a relatively complete internal control system which was effectively taken in place. The establishment of such system could rather effectively prevent and control risks of each procedure of the Company's operation management. The self-assessment report on internal control gives a true and objective reflection to the establishment and operation of the internal control system of the Company.

III. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2017

In 2017, the Supervisory Committee will continually strive to achieve the goal of operation development of the Company in strict compliance with the standards and requirements of the operation of listed companies' supervisory committees and firmly safeguard the interests of the Company and Shareholders. The Committee will also diligently and seriously perform the supervision and inspection functions, and promote healthy development of the Company.

(I) Continue to be well prepared for annual supervision and inspection. The Supervisory Committee will analyze the performance of the Company's key decisions-making procedures and significant operating activities, the authenticity of accounting information, compliance management, risk prevention and control, and sustainable development capability, etc.; evaluate the performance of Directors and senior management; and supervise the construction and execution of the internal control system and raise meaningful questions and recommendations.

(II) Develop specific supervision and inspection projects and focus on key matters. It will conduct research and identify specific supervision and inspection projects for implementation with reference to the Company's business operation. It will also focus on ensuring the Company to thoroughly comply with laws and regulations, requirements of regulatory policies and the Articles of Association and matters on the acquisition of assets, external investment, large sum donations, the construction and operation of the Company's risk management system as well as the innovative business system, etc.

(III) Strengthen routine supervision and inspection and develop business researches. It will conduct reviews on the Company's financial statements, compliance reports and specific compliance reports; continue to focus on performance of Directors and senior management; and conduct researches on operation management and business operation of subsidiaries and business departments based on the Company's needs for innovative development.

Report of Supervisory Committee

(IV) Maintain further facilitation of the Supervisory Committee. It will put strenuous efforts on studying the policies on listing regulation, the development on futures regulation and new business regulations so as to adapt to new requirements of the Company' business development; keep close contact with Directors and senior management and continue to improve the members' knowledge of futures; and actively seek for and refine the methods of supervision and inspection on the Supervisory Committee and enhance the efficiency of supervision and inspection on the Supervisory Committee.

In summary, the Supervisory Committee conducted supervision on the Company and no abnormal conditions were found in 2016.

By order of the Supervisory Committee

Li Xuekui

Chairman

22 March 2017

Directors, Supervisors, Senior Management and Staff

I. BRIEFINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Set out below is the brief introduction of the Company's Directors, Supervisors and senior management during the Reporting Period:

1. Directors: the Board consists of ten Directors, including two executive Directors with Mr. Chen Fang serving as the chairman of the Board, four non-executive Directors and four independent non-executive Directors.
2. Supervisors: the Supervisory Committee consists of six Supervisors, including one shareholder representative Supervisor, three staff representative Supervisors and two independent Supervisors.
3. Senior management: there are seven senior management in the Company, including one general manager, four deputy general managers, one chief risk officer and one secretary of the Board.

(I) The Board

Executive Directors

Mr. Chen Fang (陳方), aged 57, joined the Company in September 2006. At present, he is the secretary to the party committee, the Chairman of the Board and an executive Director of the Company, and serves as a party committee member and a vice president of Zhongtai Securities, the part-time vice president of China Futures Association, the president of Shandong Futures Association, the chairman of Industry Development Committee of the Dalian Commodity Exchange, and a member of the Case Review Committee of China Financial Futures Exchange. Mr. Chen Fang served in several positions including the deputy director of the experimental center, the deputy director of the center of environmental science and the deputy dean of the department of environmental engineering in succession in Shandong University from December 1978 to July 2000; served as the deputy office manager of Shandong Province Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資有限公司) from July 2000 to May 2001 and participated in the preparation and establishment of Zhongtai Securities; served as the general manager of the research and development center, and the general manager and vice president of Beijing business department in succession in Zhongtai Securities since May 2001; served as a party committee member of Zhongtai Securities from May 2013 to December 2015; served as the Chairman of the Board of the Company since September 2006; served as the secretary to the party committee of the Company from November 2008 to July 2014; served as the secretary of the Disciplinary Committee of the Company from June 2010 to August 2016; served as the chairman of the board of directors of Luzheng Trading from April 2013 to August 2015; served as the secretary to the party committee of the Company since August 2016; and served as a party committee member of Zhongtai Securities since January 2017. Mr. Chen Fang served as the vice president of Shandong Securities and Futures Association from March 2007 to April 2009; served as the president of Shandong Futures Association since April 2009; served as a council member of China Futures Association since May 2008; served as part-time vice president of China Futures Association since September 2014; served as the chairman of Industry Development Committee of Dalian Commodity Exchange since March 2012; and served as a member of the Case Review Committee of China Financial Futures Exchange since August 2016. Mr. Chen Fang graduated from Shandong TV University majoring in electronics and obtained a college diploma in February 1982; graduated from school of management of Shandong University majoring in political economics and obtained the graduation certificate for post graduates in June 2000; and graduated from the Nanyang Business School of Nanyang Technological University, Singapore, majoring in management economics and obtained a master degree in July 2000.

Directors, Supervisors, Senior Management and Staff

Mr. Liang Zhongwei (梁中偉), aged 43, joined the Company in March 2009. At present, he is a staff representative Director and an executive Director of the Company as well as the secretary general of Shandong Futures Association. Mr. Liang Zhongwei served as an employee of Shandong Province Qilu Trust and Investment Co., Ltd. from July 1997 to May 2001; held several positions in Zhongtai Securities, including assistant to the departmental general manager and departmental senior business manager in succession, from May 2001 to March 2009; served as the office manager and the general manager of human resources department of the Company from March 2009 to September 2013; served as our executive Director of the Company since June 2012; and served as the secretary general of Shandong Futures Association since September 2013. Mr. Liang Zhongwei graduated from Shandong University majoring in international economy in July 1997 and obtained a bachelor degree. Mr. Liang Zhongwei obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 2001.

Non-executive Directors

Mr. Lv Xiangyou (呂祥友), aged 46, joined the Company in April 2010. At present, he is a non-executive Director of the Company, as well as the chief of organization department to the party committee and a vice president of Zhongtai Securities. Mr. Lv Xiangyou served as a staff member, the deputy director and director of the finance division of Laiwu Steel in succession from July 1993 to September 2002; served as the office manager and secretary of the board of directors of Luyin Investment Group Co., Ltd. (魯銀投資集團股份有限公司) from September 2002 to April 2007, during which he served as a member of trust group of risk disposal work team of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from November 2004 to April 2007; served in several positions including the general manager of the human resources department, director and the secretary of the board of directors exercising the responsibilities of the chief compliance officer in Zhongtai Securities from January 2007 to September 2014; served as the director of the organization department of the party committee of Zhongtai Securities since December 2008; served as the non-executive Director of the Company since April 2010; served as the chief compliance officer of Zhongtai Securities from August 2013 to July 2016; served as the chief risk officer of Zhongtai Securities from December 2013 to July 2016; and served as a vice president of Zhongtai Securities since August 2013. Mr. Lv Xiangyou graduated from Shandong Economic College (山東經濟學院) majoring in accounting and obtained a college diploma in July 1993; graduated from Shandong Provincial Party School majoring in economics and management and obtained a university diploma in December 1998; and graduated from Tianjin University majoring in business administration and obtained a master degree in March 2010. Mr. Lv Xiangyou obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province in February 2006, and the qualification of accountant issued by the Ministry of Finance of the PRC in May 2000.

Mr. Yin Ge (尹戈), aged 36, joined the Company in June 2016. At present, he is a non-executive Director of the Company, the general manager of the operation and management department and a member of the brokerage business management committee of Zhongtai Securities. Mr. Yin Ge served as the deputy general manager of the innovative business department of Weifang branch of Tiantong Securities from January 2002 to January 2004; held several positions in Zhongtai Securities from January 2004 to February 2005, including the deputy general manager and general manager of the business department of the Qingdao Yan'an Third Road branch, the general manager of the business department of the Qingdao Hong Kong, Middle Road branch, the person in charge of the preparation for establishment of the Qingdao branch, the general manager, the committee secretary, the general manager of department of over-the-counter market management and the general manager

Directors, Supervisors, Senior Management and Staff

of the headquarters of retail business of the Qingdao branch; served as the general manager of the operation management department and a member of the management committee of Zhongtai Securities since February 2015; and served as a non-executive Director of the Company since June 2016. Mr. Yin Ge graduated from the Management Cadres' Academy of the Agricultural Bank in Wuhan (武漢農行管理幹部學院) majoring in finance and obtained a college diploma in July 2000; and graduated from Shanghai University of Finance and Economics majoring in management science and engineering and obtained a postgraduate diploma in July 2002.

Mr. Li Chuanyong (李傳永), aged 48, joined the Company in December 2012. At present, he is a non-executive Director of the Company as well as the deputy manager of Yongfeng Group Co., Ltd. (永鋒集團有限公司) Mr. Li Chuanyong served in several positions in succession in Yongfeng Group Co., Ltd. from June 2003 to April 2005, including the manager of the steel mill, the deputy general manager and the director of the steel works; served as the deputy general manager of Yongfeng Group Co., Ltd. since April 2005; and served as a non-executive Director of the Company since December 2012. Mr. Li Chuanyong graduated from Anshan Institute of Iron & Steel Technology majoring in metal pressure and processing and obtained a bachelor degree in July 1990. Mr. Li Chuanyong obtained the qualification of senior engineer issued by the Personnel Department of Heilongjiang Province in September 2000.

Mr. Liu Feng (劉峰), aged 44, joined the Company in February 2015. At present, he is a non-executive Director of the Company, as well as the deputy general manager of capital operation center of Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司) and a non-executive director of Zhongtong Bus Holding Co., Ltd. (中通客車控股股份有限公司). Mr. Liu Feng served as an office staff member of the silk worm cocoon division and the deputy director member of trading and development department of Shandong Silk Corporation (山東省絲綢總公司) from July 1994 to June 2002; served as the manager of comprehensive administration department of Shandong Hengrun Silk Co., Ltd. (山東恒潤絲綢有限公司) from July 2004 to January 2005; served as a principal staff member in the silk worm cocoon unit of Qingdao Hairun Investment Group (青島海潤投資集團) from January 2005 to December 2005; served as the secretary and principal staff member of comprehensive administration office of Shandong Silk Group (山東省絲綢集團有限公司) from January 2006 to June 2009; served in several positions in Shandong State-owned Assets Investment Holdings Co., Ltd. in succession from June 2009 to December 2015 such as the clerical director of comprehensive department, the director of equity operation of capital operation department and the senior business manager and deputy director of capital operation department; served as the deputy general manager of capital operation center of Shandong State-owned Assets Investment Holdings Co., Ltd. since December 2015; served as a non-executive Director in the Company since February 2015; and served as a non-executive director of Zhongtong Bus Holding Co., Ltd. since December 2016. Mr. Liu Feng graduated from Shandong Agricultural University, majoring in sericultural science and obtained a bachelor degree in July 1994; graduated from Renmin University of China majoring in business administration and obtained a master degree in July 2004; and graduated from Shandong Agricultural University majoring in the management of agricultural economy and obtained a doctoral degree in June 2011. Mr. Liu Feng obtained the qualification of agronomist issued by the Intermediate Review Commission of Professional Titles in Agriculture of Shandong Silk Corporation in October 1999.

Directors, Supervisors, Senior Management and Staff

Independent Non-executive Directors

Mr. Gao Zhu (高竹), aged 54, joined the Company in December 2012. At present, he is an independent non-executive Director of the Company as well as the deputy chairman of UOB Investment (China) Limited (大華大陸投資有限公司) and an independent director of AVIC Futures Co., Ltd. (中航期貨有限公司). Mr. Gao Zhu served as the deputy general manager of Minmetals Investment & Development Co., Ltd. (五礦投資發展有限公司) from June 2002 to October 2010; served as the chairman of the board of directors of Minmetals Haiqin Futures Co., Ltd. (五礦海勤期貨有限公司) from August 2003 to November 2010; served as deputy chairman of the board of directors of Minmetals Star Futures Brokerage Co., Ltd. (五礦實達期貨經紀有限公司) from August 2003 to November 2010; served as the general manager and the deputy chairman of the board of directors of Minmetals Securities Co., Ltd. (五礦證券有限公司) from September 2010 to November 2011; served as the president of UOB Investment (China) Limited from November 2011 to April 2016; served as independent non-executive Director of the Company since December 2012; served as independent director of AVIC Futures Co., Ltd. since December 2014; and served as the deputy chairman of UOB Investment (China) Limited since April 2016. Mr. Gao Zhu graduated from University of Science and Technology Beijing majoring in industrial management engineering and obtained his highest degree—a master degree in July 1988. Mr. Gao Zhu obtained the qualification of senior international business executive issued by the Occupation Qualification Review Committee for Senior International Business Expertise under the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999.

Mr. Yu Xuehui (于學會), aged 51, joined the Company in January 2008. At present, he is an independent non-executive Director of the Company as well as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所), an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) and an independent director of Minsheng Royal Fund Management Co., Ltd (民生加銀基金管理有限公司). Mr. Yu Xuehui served in succession as the broker and deputy manager of the trading department of China International Futures Co., Ltd. (中國國際期貨經紀有限公司) from March 1993 to October 1997; served as a partner of Beijing Hanhua Law Firm (北京市漢華律師事務所) from November 1997 to October 2005; served as a partner of Beijing Besthold Law Firm from November 2005 to April 2007; served as a partner of Beijing Zhongtian Law Firm since May 2007; served as an independent non-executive Director of the Company since January 2008; served as an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) since March 2008; and served as an independent director of Minsheng Royal Fund Management Co., Ltd. since August 2012. Mr. Yu Xuehui graduated from Peking University majoring in economic law and obtained a bachelor degree in July 1988. Mr. Yu Xuehui was granted the qualification of lawyer by Beijing Municipal Bureau of Justice in June 1993.

Mr. Wang Chuanshun (王傳順), aged 51, joined the Company in December 2012. At present, he serves as an independent non-executive Director of the Company, and serves as the director of Shandong Branch of Ruihua Certified Public Accountants (瑞華會計師事務所山東分所). Mr. Wang Chuanshun served as a division member in Shandong Audit Office from July 1990 to November 1994; served as deputy director of audit department of Shandong Accounting Firm (山東會計師事務所) from November 1994 to December 1998; served as vice general manager and senior accountant in Shandong Zhengyuan Hexin Accounting Firm (山東正源和信會計師事務所) from January 1999 to December 2004; served as director of Shandong Branch of Ruihua Certified Public Accountants since January 2005; and served as an independent non-executive Director in the Company since December 2012. Mr. Wang Chuanshun graduated from Shandong Agricultural University majoring in management of agricultural economy and obtained a bachelor degree in July 1987; graduated from Southwest

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Agricultural University and obtained a master degree in July 1990, with research orientation of accounting and audit. Mr. Wang Chuanshun obtained the qualification of senior accountant issued by the Department of Personnel of Shandong Province in November 1997, and obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in June 2000.

Mr. Li Dapeng (李大鵬), aged 59, joined the Company in June 2016. At present, he is an independent non-executive Director of the Company, the chief information officer of Haier Finance Holdings (Qingdao) Company Limited and an independent non-executive director of China Energine International (Holdings) Limited. Mr. Li Dapeng served as a part-time professor in the University of Cincinnati and the Ohio State University from September 1990 to August 2001; and served as the technical advisor of Anthem Blue Cross and Blue Shield Insurance Company in the United States of America from January 1998 to August 2001; served as the chief architect of New York Mercantile Exchange from August 2001 to August 2003; served as an expert of Committee of Formulation of Capital Market Standards and the associate director of STEP working group of CSRC participating in the formulation of information technology standards of the capital market in the CSRC from September 2003 to March 2008; and served as the chief information officer and the chairman of Technology Management Committee of Shanghai Futures Exchange from September 2003 to March 2010; joined the formulation of the 12th Five-Year Plan of CSRC and directly involved in the drafting of its section headed "Internationalization" from September 2010 to February 2011; served as the senior advisor to chief executive officer of Hong Kong Exchanges and Clearing Limited from March 2010 to June 2015; served as the chief information officer of Haier Finance Holdings (Qingdao) Company Limited since July 2015; served as an independent non-executive director of China Energine International (Holdings) Limited (listed on the Stock Exchange, stock code: 01185) since November 2015. Mr. Li Dapeng graduated from University of Science and Technology Beijing (formerly Beijing Steel Institute) with a bachelor degree in computer engineering in February 1982 and a master degree in computer engineering in June 1986, and graduated from the University of Cincinnati with a doctoral degree in computer engineering in December 1991 specializing in the theory of computing models of neural networks and the implementation of pattern recognition in the field of artificial intelligence.

(II) The Supervisory Committee

Mr. Li Xuekui (李學魁), aged 53, joined the Company in September 2006. At present, he is the secretary of the Disciplinary Committee, the chairman of the Supervisory Committee and a staff representative Supervisor of the Company, as well as serves as the chairman and general manager of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司), a standing director of Shandong Futures Association, the chairman of Settlement Committee of the Shanghai Futures Exchange and a member of Trading Committee of Zhengzhou Commodity Exchange. Mr. Li Xuekui served in succession as a teacher and deputy director of academic affairs section of Shandong Banking School of the People's Bank of China (中國人民銀行山東銀行學校) from July 1983 to March 2001; served as the associate professor of Financial College of Shandong Polytechnic University (山東輕工業學院金融職業學院) from March 2001 to November 2002; served in succession in several positions in Zhongtai Securities from November 2002 to September 2006, including the assistant to the department manager, deputy general manager to the department and general manager to the department; served as the executive deputy general manager of the Company from September 2006 to August 2008; served as the general manager of the Company from August 2008 to August 2016; served as a party committee member of the Company since March 2009; served as the secretary of the Disciplinary Committee of the Company since August 2016; served as a staff representative Supervisor and the chairman

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of the Supervisory Committee of the Company since August 2016; served as the chairman and general manager of Shandong Exchange Markets Clearing House Co., Ltd. since October 2016; served as the Chairman of Trading Committee of Zhengzhou Commodity Exchange since January 2011; and served as the chairman of Settlement Committee of the Shanghai Futures Exchange since December 2010. Mr. Li Xuekui served as a council member of Shandong Futures Association since April 2009; the standing director of Shandong Futures Association since September 2013. Save as aforesaid, Mr. Li Xuekui did not hold any directorship in any other listed public companies in the last three years immediately before the date of this annual report. Mr. Li Xuekui graduated from Shaanxi Finance College (陝西財經學院) majoring in finance and obtained a bachelor degree in June 1989; graduated from Asia International Open University (Macau) majoring in business administration and obtained a master degree in October 2008. Mr. Li Xuekui obtained the title of associate professor issued by the Office of Educational System Professional Title Reform Group of Shandong Province (山東省教育系統職稱改革領導小組辦公室) in March 2001.

Ms. Ding Mei (丁玫), aged 51, joined the Company since June 2016. At present, she serves as a Supervisor of the Company and is the general manager of Jinan Energy Investment Co., Ltd (濟南市能源投資有限責任公司). Ms. Ding Mei was the deputy officer of the Auditing Department of Jinan (濟南市審計局) from July 1986 to December 1992 and served as the deputy officer of the Foreign Economic Relations and Trade Commission of Jinan (濟南市對外經濟貿易委員會) between December 1992 and August 2000. She has been the deputy general manager of Jinan Energy Investment Co., Ltd from August 2000 to August 2016; served as a supervisor of the Company since June 2016; and served as the general manager of Jinan Energy Investment Co., Ltd. since August 2016. Ms. Ding Mei graduated from Shandong University majoring in computer application in July 1986. Ms. Ding Mei obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業資格高級評審委員會) in October 2002.

Mr. Hu Yuyue (胡俞越), aged 56, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, and he is also the vice president of China Business History Society (中國商業史學會), the consultant to the drafting group of Futures Law in the National People's Congress, the director of institute of securities and futures of Beijing Technology and Business University, a part-time professor of China Agricultural University and Central South University, a standing director of the Capital Enterprise Reform and Development Society, the director of the Beijing University for Business Administration, a member of the Strategic Development Committee of Zhengzhou Commodity Exchange, a member of the Product Committee of Shanghai Futures Exchange, a consulting expert of Shanghai Stock Exchange, deputy director of Expert Committee of CFLP Bulk Commodity Market and an independent director of seven companies (please see below for details of these companies). Mr. Hu Yuyue served in several positions in succession in the department of economics of Beijing College of Commerce from August 1983 to April 1999, including teaching assistant, lecturer, associate professor and the director of the teaching and research office of trade and economics; served as a professor of the school of economics and the director of securities and futures institute in Beijing Technology and Business University since May 1999; served as an independent director of Minmetals & Jingyi Futures Co., Ltd. (五礦經易期貨有限公司) since April 2006; served as an independent director of Nanhua Futures Co., Ltd. (南華期貨股份有限公司) since April 2013; served as an independent director of Beijing Urban Construction Investment & Development Co., Ltd. (北京城建集團有限責任公司) (listed in Shanghai Stock Exchange; stock code: 600266) since December 2013; served as an independent director of Shanghai Ganglian Ecommerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300226)

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since May 2014; served as an independent director of Beijing Ctrowell Technology Corporation Limited (北京康拓紅外技術股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300455) since October 2014, served as an independent director of Shanxi Zhangze Electric Power Co., Ltd (山西漳澤電力股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 000767) since May 2016; served as an independent director of Zhejiang Juhua Co., Ltd (浙江巨化股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600160) since November 2016; served as a member of the Product Committee of Shanghai Futures Exchange since March 2005; and served as the Supervisor of the Company since June 2015. Mr. Hu Yuyue was granted by the Ministry of Education of the PRC the “Research Achievement Award of the Second National Regular Institutions of Higher Learning in Social Science” in December 1998; rewarded as “Excellent Young Elite Teacher in Beijing” by Beijing Municipal Education Commission in 1998; selected to the “Hundred Theoretical Talents Plan for the New Century in Beijing” by Beijing Committee of the Communist Party of China in 2001; and was entitled by Beijing Federation of Trade Unions “Hu Yuyue Securities and Futures Research Team–Municipal Staff Innovation Studio” (胡俞越證券期貨研究團隊 — 市級職工創新工作室) in 2011. Mr. Hu Yuyue graduated from Nanjing University majoring in history and obtained a bachelor degree in July 1983. Mr. Hu Yuyue was granted the title of professor by Beijing High Professional Technical Title Review Committee in September 1999.

Mr. Mu Yong (牟勇), aged 40, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center (北京金石農業產業投資基金管理公司). Mr. Mu Yong served as a staff member in Sichuan Branch of King & Wood Mallesons (金杜律師事務所) from February 2000 to August 2000; served as a legal consultant of Beijing Capital Management Company Limited (北京首創資產管理有限公司) from July 2003 to March 2005; served in succession as level-4 assistant, level-3 assistant, principal staff member and deputy director of the CSRC from March 2005 to May 2013; served as the general manager of Shanxi Dianshi Equity Investment Co., Ltd. (山西典石股權投資管理有限公司) from June 2013 to December 2014; served as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center since January 2015; and served as an independent Supervisor of the Company since June 2015. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law, and obtained a master degree in July 2003.

Mr. Wang Hairan (王海然), aged 38, joined the Company in July 2007. At present, he is a staff representative Supervisor, as well as the manager of the compliance and review department of the Company. Mr. Wang Hairan served in several positions in succession in Sanlong Futures Brokerage Co., Ltd. (三隆期貨經紀有限公司) from December 1999 to February 2007, including an employee of the trading department, dealer of Dalian Commodity Exchange, and the deputy manager of the trading department and manager of audit department; served as the office manager of Sanlong Industrial Group (三隆實業集團) from March 2007 to June 2007; served in succession as an employee and the person in charge in the compliance and audit department of the Company from July 2007 to January 2009; served as the deputy manager of Beijing business department of the Company from January 2009 to August 2010; served in succession as an employee and the deputy manager of the compliance and audit department of the Company from August 2010 to April 2014; served as the manager of the compliance and audit department of the Company since April 2014; and served as a staff representative Supervisor of the Company since June 2015. Mr. Wang Hairan graduated from Shandong University, WeiHai majoring in economic law, and obtained the certificate of college degree in July 1999; graduated from Shandong University majoring in business administration, and obtained the university diploma in January 2008.

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Mr. Yu Zhanyong (虞戰勇), aged 45, joined the Company since April 2008. At present, he serves as a member of the Discipline Committee and the deputy general manager of the audit department of the Company (presides over the work). Mr. Yu Zhanyong served as the accountant of the financial department, director assistant, and the chief accountant of the second external architect company under the headquarters of Shandong Sanjian Group Co., Ltd. (山東三箭置業集團總公司) from July 1994 to September 1999; served as the director of financial section and the manager of the general affairs department of Shandong Xingye United Group Co., Ltd. (山東興業聯合集團有限公司) from October 1999 to July 2005; served as the financial manager of Shandong Shengkai Properties Co., Ltd. (山東聖凱置業有限公司) from April 2006 to March 2008; served as the business manager of the financial planning department of the Company from April 2008 to May 2011; served as the deputy general manager of the audit department of the Company from June 2011 to May 2014; served as the general manager of the Guangzhou branch from May 2014 to July 2016, has been serving as the principal of the audit department of the Company since July 2016; also has been a member of the Discipline Committee of the Company since October 2016. Mr. Yu Zhanyong graduated from Shandong Water Conservancy Vocational College (山東水利專科學校) majoring in technical economics and finance and obtained college diploma in July 1994; graduated from China University of Political Science and Law (中國政法大學) majoring in law and obtained the university diploma in January 2007; graduated from the Ocean University of China (中國海洋大學) majoring in accounting and obtained the university diploma in January 2015. Mr. Yu Zhanyong obtained the qualification of intermediate accountant issued by the Ministry of Finance of the PRC in May 2004, and obtained the qualification of the corporate legal advisor issued by the Ministry of Personnel of the PRC, the Ministry of Justice of the PRC and the State-owned Assets Management Committee of the State Council in March 2004.

(III) Senior Management

Mr. Liu Qingbin (劉慶斌), aged 47, joined the Company in May 2014. At present, he is a party committee member and the general manager of the Company, the chairman of Luzheng Trading, the director of Zhongtai Huirong Investment (HK) Company Limited, and a member of the Council of Zhengzhou Commodity Exchange. Mr. Liu Qingbin served as a staff of Jinan First Machine Tool Plant (濟南第一機床廠) from July 1992 to July 1997; served as a section member of Jinan Securities Administration Office (濟南市證券監管辦公室) from July 1997 to August 1998; served as a section member, deputy principal section member of Department of Integration, deputy principal section member and principal section member of Department of Intermediary Supervision of Jinan Securities Administration Office of the CSRC in succession from August 1998 to March 2004; served as a principal section member and the deputy director of Institutional Supervision Division, and deputy director and director of Futures Supervision Division of the Shandong Regulatory Bureau of CSRC (中國證監會山東監管局) in succession from March 2004 to August 2008; served as a department cadre and the director of company supervision department I of Futures Supervision Division, and director of the audit office and director of the general office of Futures Supervision Division II of CSRC in succession from August 2008 to April 2014; served as the secretary to the party committee of the Company from June 2014 to August 2016; served as the chairman of Luzheng Trading and the director of Zhongtai Huirong Investment (HK) Company Limited since August 2015; and served as the general manager of the Company since August 2016. Mr. Liu Qingbin graduated from Luoyang Institute of Technology (洛陽工學院) majoring in marketing and obtained a bachelor degree in July 1992. Mr. Liu Qingbin acquired the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province (山東省註冊會計師協會) in January 2005, and obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業職務高級評審委員會) in February 2005.

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Mr. Liu Yunzhi (劉運之), aged 47, joined the Company in January 2007. At present, he is a party committee member, the deputy general manager and the chief financial officer of the Company, as well as a non-executive director of Luzheng Trading. Mr. Liu Yunzhi served as a director of the Auditing Firm of the Audit Office of Shandong Province (山東省審計廳審計師事務所) from July 1993 to December 1999; served as a director and the departmental manager in Shandong Shenyuan CPA LLP (山東申元有限責任會計師事務所) from January 2000 to May 2001; served as the departmental manager and deputy senior accountant of Shandong Zhengyuan Hexin (Limited) Certified Public Accountants (山東正源和信有限責任會計師事務所) from June 2001 to January 2002; served as the deputy general manager of the planning and finance department of Zhongtai Securities from January 2002 to January 2007; served as general manager of Jinan business department of the Company from October 2007 to August 2008; served as the deputy general manager of the Company since January 2008; served as the financial officer of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Mr. Liu Yunzhi graduated from Jiangxi Finance College (江西財經學院) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) a master degree majoring in business administration in April 2008. Mr. Liu Yunzhi obtained the qualification of senior auditor issued by the High Review Commission of Professional Title in Auditing of Shandong Province (山東省審計專業資格高級評審委員會) in May 2002; obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in December 2009; and obtained the qualification of asset valuer issued by the Ministry of Finance of the PRC in October 1999.

Ms. Jiang Hui (姜輝), aged 45, joined the Company in December 2008. At present, she is the deputy general manager of the Company, as well as a non-executive director of Luzheng Trading. Ms. Jiang Hui served as an employee of Heilongjiang Tobacco Futures Co., Ltd. (黑龍江煙草期貨有限公司) from October 1995 to October 1996; served as an employee in Changchun Gaosida Futures Co., Ltd. (長春高斯達期貨有限公司) from October 1996 to December 1999; served as the manager of Dalian business department of Yunnan Binhai Futures Co., Ltd. (雲南濱海期貨有限公司) from December 1999 to January 2001; served as the manager of Dalian business department of Dalian Wanheng Futures Co., Ltd. (大連萬恆期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Ms. Jiang Hui graduated from Shenyang Sport University (瀋陽體育學院) majoring in physical education and obtained a bachelor degree in July 1992.

Mr. Pei Yingjian (裴英劍), aged 43, joined the Company in November 2006. At present, he is the deputy general manager, as well as the supervisor of information and technology department of the Company and an executive director of Luzheng Information Technology and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd.. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of Yingda International Trust Co., Ltd. (英大國際信託有限公司) from September 1994 to August 1998; served as the director of the securities department of Shandong International Trust Corporation (山東省國際信託有限公司) from August 1998 to May 2001; served as the director of information and technology department of Zhongtai Securities from May 2001 to November 2006; served in several positions in succession in the Company from November 2006 to April 2015, including an employee of the information and technology department and general manager of information and technology department; served as the information and technology supervisor of the Company since July 2010; served as the deputy general manager

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of the Company since July 2012; served as an executive director of Luzheng Information Technology since February 2015; and served as and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. in September 2016. Mr. Pei Yingjian graduated from Jinan Machinery University for Employees (濟南機械職工大學) majoring in foreign trade and economy, and obtained the college diploma in July 1994; graduated from Yunnan University majoring in computer science and technology, and obtained a bachelor degree in January 2009. Mr. Pei Yingjian obtained the qualification of engineer issued by Intermediate Review Committee of Shandong Provincial Economic and Trade Commission for Engineering Technology Titles (山東省經濟貿易委員會工程技術職務中級評審委員會) in November 2005.

Mr. Liu Jianmin (劉建民), aged 47, joined the Company in January 2000. At present, he is the deputy general manager of the Company and a supervisor of Luzheng Trading. Mr. Liu Jianmin served in succession as the dealer, trading clearing principal and manager of Shanghai trading department of Shandong Metal Material Corporation (山東省金屬材料總公司) from September 1993 to January 2000; served in several positions in the Company from January 2000 to September 2014, including the manager of the market development department, manager of the trading clearing department, assistant of general manager, the general manager of compliance and review department, compliance supervisor, chief risk officer and general manager of the audit department; served as the supervisor of Luzheng Trading since April 2013; and served as the deputy general manager of the Company since September 2014. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

Ms. Ji Qihong (季秋紅), aged 44, joined the Company in February 2014. At present, she is the chief risk officer, the general manager of the audit department and general counsel of the Company. Ms. Ji Qihong served in succession as the technician and assistant engineer in the Transportation Company of Jinan Corporation of Shandong Province Oil Group (山東省石油集團濟南總公司) from July 1992 to June 1998; served as a section member of Shandong Securities Administration Office from June 1998 to October 1999; served in succession as the section member and deputy principal section member of inspection office of Jinan Securities Regulatory Office of the CSRC from October 1999 to August 2001; served in succession as the deputy and principal section member of institutional supervision division of Jinan Securities Office of the CSRC from August 2001 to March 2004; served in several positions in Shandong Regulation Bureau of the CSRC from March 2004 to February 2014, including the principal section member of institutional supervision division, assistant investigator, deputy director and investigator, deputy director and investigator of futures supervision division, and investigator of office of party affairs (discipline inspection and supervision office); served as an employee of the Company from February 2014 to September 2014; served as the chief risk officer and general manager of the audit department of the Company since September 2014; and served as general counsel of the Company since December 2014. Ms. Ji Qihong graduated from Shandong University majoring in applied chemistry, and obtained a bachelor degree in July 1996; and graduated from Shandong University majoring in civil law and commercial law, and obtained a master degree in November 2008. Ms. Ji Qihong obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in May 2000; obtained the qualification of senior economist issued by the Department of Personnel of Shandong Province in February 2005; and obtained certificate of Certified Enterprise Risk Manager issued by Asia Association of Risk and Crisis Management in August 2014.

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Mr. Meng Tao (孟濤), aged 35, joined the Company in December 2006. At present, he is the secretary of the Board, a joint company secretary, office manager of the Board and the general manager of assets management department of the Company. Mr. Meng Tao served as an employee of the finance department of Qilu Futures Brokerage Co., Ltd. (齊魯期貨經紀有限公司) from July 2004 to December 2006; served in several positions in succession in the Company from December 2006 to October 2015, including an employee and the business manager of the planning and finance department, the business manager and deputy manager of the clearing department, the general manager of Wenzhou business department, the general manager of assets management department and office manager; served as the general manager of the settlement and financing management department of the Company from April 2012 to June 2016; served as the secretary of the Board of the Company since February 2015; served as the office manager of the Board of the Company since October 2015; and served as the general manager of the assets management department of the Company since February 2016. Mr. Meng Tao graduated from Qingdao University majoring in accounting, and obtained a bachelor degree in July 2004. Mr. Meng Tao was rated by Finance Office of Shandong Province as one of “Top 100 Young Financial Leaders in Shandong Province in 2014” in December 2014.

(IV) Company Secretaries

Mr. Meng Tao also serves as a joint company secretary of the Company. For Mr. Meng Tao’s biography, see (III) Senior Management of this section.

Ms. Ng Wing Shan (吳詠珊), a joint company secretary of the Company. At present, she is the assistant vice president of SW Corporate Services Group Limited. Ms. Ng Wing Shan has more than ten years of professional experience in the company secretarial field, and has extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies. Ms. Ng is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

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

During the Reporting Period, Mr. Zhang Yunwei and Mr. Wei Wei have ceased to act as non-executive Directors and independent non-executive Director of the Company, respectively, with the appointment of Mr. Yin Ge and Mr. Li Dapeng serving as non-executive Director and independent non-executive Director of the Company, respectively.

During the Reporting Period, Mr. An Tie ceased to act as the chairman of the Supervisory Committee of the Company, Mr. Zhang Shouhe ceased to act as a Supervisor of the Company, and Mr. Li Xisheng ceased to act as a staff representative Supervisor of the Company, and with the appointment of Mr. Li Xuekui, Ms. Ding Mei and Mr. Yu Dongxin serving as the chairman of the Supervisory Committee and a staff representative Supervisor of the Company, a Supervisor of the Company and a staff representative Supervisor of the Company, respectively.

During the Reporting Period, Mr. Yu Dongxin ceased to act as the deputy general manager of the Company, Mr. Li Xuekui ceased to act as the general manager of the Company, with the appointment of Mr. Liu Qingbin being appointed as the general manager of the Company.

On 15 March 2017, Mr. Yu Dongxin ceased to act as a staff representative Supervisor of the Company, with the appointment of Mr. Yu Zhanyong being appointed as a staff representative Supervisor of the Company.

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

The remuneration plan of the external Directors and Supervisors of the Company shall be proposed by the Remuneration and Appraisal Committee and the Nomination Committee according to the industry and market conditions, and shall be implemented after approval by the general meetings of the Company. During the Reporting Period, upon the approval by the 2015 annual general meeting of the Company, the allowance standards of independent non-executive Directors, independent Supervisors and other external Directors and Supervisors of the Company shall be RMB100,000/year (after tax), RMB60,000/year (after tax) and RMB40,000/year (after tax), respectively.

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

(III) Long-term incentive scheme

The Company currently has no implementation of any long-term incentive scheme.

Directors, Supervisors, Senior Management and Staff

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

1. Remuneration information of Directors and Supervisors

Please refer to Note 48 of the consolidated financial statements of this report for details.

During the Reporting Period, none of the Directors and Supervisors gave up or agreed to give up the remuneration of Directors and Supervisors.

2. Remuneration information of senior management

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

IV. STAFF AND REMUNERATION

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

Significant Events

I. MATERIAL LITIGATIONS AND ARBITRATIONS

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

II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

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

III. CONNECTED TRANSACTIONS

(I) Connected transactions

During the Reporting Period, transactions between the Company and our connected persons constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

(II) Connected persons

During the Reporting Period, the Company has entered into certain transactions in the ordinary and usual course of business with the following connected persons:

- **Zhongtai Securities**

Zhongtai Securities was established under the laws of the PRC in May 2001 with a registered capital of approximately RMB6.2717632 billion. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading. As of 31 December 2016, Zhongtai Securities owned approximately 63.10% of the total issued share capital of the Company and is therefore a Controlling Shareholder and connected person of the Company.

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

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

- **Shandong Steel**

Shandong Steel was established under the laws of the PRC in March 2008 with a registered capital of RMB10,467 million. It is primarily engaged in the production and sale of steel products such as steel and steel billets. As of 31 December 2016, Shandong Steel owned 80% equity interest in Laiwu Steel. Meanwhile, Laiwu Steel's interest in our Controlling Shareholder Zhongtai Securities was approximately 45.91% and Laiwu Steel is the holding company of Zhongtai Securities. Shandong Steel is therefore a Controlling Shareholder and connected person of the Company.

Significant Events

- **Associates of Shandong Steel (excluding our Group)**

Associates of Shandong Steel (excluding our Group), including the subsidiaries and the companies in which Shandong Steel holds 30% or more of the equity interest, for instance Laiwu Steel, Zhongtai Securities and their respective subsidiaries, are connected persons of the Company by virtue of their being associates of Shandong Steel as defined under Chapter 14A of the Listing Rules.

Accordingly, the following transactions between each of the connected persons and the Company, which have been entered into in the ordinary course of business on a continuing basis, will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(III) Non-exempt continuing connected transactions

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

Financial Services Framework Agreement

In the ordinary and usual course of business, the Company regularly provides specific financial services (as detailed below) to Zhongtai Securities and its associates. On the other hand, Zhongtai Securities and its associates also regularly provide various financial services (as detailed below) to the Company. To comply with the requirements of the Listing Rules, the Company entered into a financial services framework agreement (the “Financial Services Framework Agreement”) with Zhongtai Securities on 12 June 2015 to engage in the following services with Zhongtai Securities and/or its associates in the ordinary and usual course of business. As the highest applicable percentage ratio for the three years ending 31 December 2015, 2016 and 2017 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 5% on an annual basis upon signature of the Financial Services Framework Agreement, such transactions constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, and announcement and independent shareholders’ approval requirements under Rules 14A.35 and 14A.36 of the Listing Rules. The Financial Services Framework Agreement is for a fixed term of three years effective on the Listing Date, subject to renewal.

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

Asset Management Service Framework Agreement

The Company entered into an asset management service framework agreement (the “**Asset Management Service Framework Agreement**”) with Zhongtai Securities on 19 October 2015, pursuant to which Zhongtai Securities will purchase collective asset management schemes in which the Company acts as the manager on a continuing basis in the Company’s ordinary and usual course of business. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) for the transactions under the Asset Management Service Framework Agreement exceeds 0.1% but less than 5%, the asset management services to be provided by the Company to Zhongtai Securities shall be subject to the reporting and announcement requirements but exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules. The Asset Management Service Framework Agreement is valid from 19 October 2015 to 31 December 2017.

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2016 (RMB'000)	Proposed annual caps for the year ended 31 December 2016 (RMB'000)
1. IB Services		
Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Group	8,162	27,000
Commissions charged by us to Zhongtai Securities and/or its associates for provision of IB services by the Group	—	825
2. Purchase of Asset Management Schemes		
Average daily amount invested	96,631	210,000
Asset Management Fees (as defined below) charged by Zhongtai Securities and/or its associates	383	2,110
3. Securities Brokerage and other Financial Services		
Commissions charged by Zhongtai Securities and/or its associates	9	600
Total Commissions charged by Zhongtai Securities and/or its associates to the Group	8,554	29,710
Total Commissions charged by the Group to Zhongtai Securities and/or its associates	—	825
4. Collective Asset Management Schemes purchased by Zhongtai Securities		
Total amount of collective asset management schemes purchased by Zhongtai Securities	—	80,000
Asset Management Fees charged to Zhongtai Securities and/or its associates	—	1,200

Significant Events

Financial Services Framework Agreement

A. IB Services

Principal terms:

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

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

In the Company's ordinary and usual course of business, Zhongtai Securities and/or its associates provide IB services to the Company. In particular, Zhongtai Securities and/or its associates introduce potential clients to the Company for the engagement of the Company's futures brokerage business. In addition, Zhongtai Securities and/or its associates will also provide the following services to such clients introduced to the Company: (i) assisting clients in opening futures accounts; (ii) providing clients with updates of futures markets; (iii) assisting clients with their risk control and management; and (iv) other related financial services. Zhongtai Securities and/or its associates will charge the Company commissions for the provision of such IB services.

The Company's IB services provided to Zhongtai Securities:

Likewise, the Company also provides IB services to Zhongtai Securities, i.e., the Company introduces potential clients to Zhongtai Securities for the engagement of its stock option trading business. In 2016, Zhongtai Securities became one of the eight PRC securities firms which obtained licenses from the CSRC to engage in the stock option trading business. Stock option trading refers to the trading activities that take stock option contracts as subject matters of trading and are carried out in a public and centralized manner, or in other manners approved by the CSRC. In addition, the Company will also be responsible for conducting comprehensive evaluation of the referred clients. The Company will charge Zhongtai Securities commissions for such provision of IB services.

Reasons for the transaction:

The Company, as a futures firm, and Zhongtai Securities, as a securities company, will achieve sharing of customer resources through mutual provision of IB services. In particular, the Company could effectively obtain access to the relatively abundant customer resources of Zhongtai Securities and/or its associates. Besides, both Zhongtai Securities and the Company could effectively achieve synergies through mutual provision of IB business while enhancing the Company's customer service capabilities as well as expanding the investment channels and product range the Company offers to our own customers. In addition, Zhongtai Securities and/or its associates have been providing IB services to our Group during the Reporting Period and have a deep understanding of the Company's business needs. The Company did not enter into any similar IB services arrangement with any other parties during the Reporting Period. Thus, the continuous provision of such services by Zhongtai Securities and/or its associates to the Company would foster the development of the Company's futures business.

Pricing Policy:

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

B. Purchase of the Asset Management Schemes

Principal terms:

In the ordinary and usual course of business, the Company participates in asset management schemes in which Zhongtai Securities and/or its associates act as the manager. Zhongtai Securities and/or its associates, as the manager, will invest under such asset management schemes in a certain scope of financial products. In this regard, the Company will pay management fees, subscription fees and redemption fees (as the case may be, and hereinafter collectively referred to as the “Asset Management Fees”) to Zhongtai Securities and/or its associates.

Reasons for the transaction:

Investment in asset management schemes could enhance the Company’s investment return and, compared with other investments, the return on investment in assets management schemes is relatively more stable and thus in line with the Company’s risk management requirements. In addition, the Company has invested in various asset management schemes managed by Zhongtai Securities and/or its associates during the Reporting Period and thus has developed a better understanding of their investment strategy and performance, which are the key factors the Company considers in selecting asset management schemes.

Significant Events

Pricing Policy:

- (i) Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management schemes are calculated based on the Company's investment amounts times the Asset Management Fees rate;
- (ii) for collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such plan equally and evenly, including our Group and any other independent third party investor participants. Such Asset Management Fees rate is also consistent with the prevailing market rates for collective asset management schemes issued by any other independent third parties with similar scales of investment;
- (iii) for targeted asset management schemes, (a) the Asset Management Fees rate charged by Zhongtai Securities and/or its associates as the manager is comparable to, or no less favorable than, those charged by Zhongtai Securities to any other independent third parties for similar targeted asset management schemes; (b) such Asset Management Fees rate is also comparable to, or no less favorable to our Group, than the Asset Management Fees rate charged by any other independent third party managers in other similar targeted asset management schemes the Company participated in; and (c) the Asset Management Fees rate has been determined based on arm's length negotiations between Zhongtai Securities and/or its associates and the Company with reference to the prevailing market commission rates for similar targeted management schemes on normal commercial terms, and is consistent with market practice; and
- (iv) the investment in the asset management schemes in which Zhongtai Securities and/or its associates act as the manager, including the charged Asset Management Fees rate, as well as the proposed annual caps for the three years ending 31 December 2015, 2016 and 2017, have been approved by the Shareholders of the Company at the general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

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

Principal terms:

As part of the Company's treasury management activities, Zhongtai Securities and/or its associates provide securities brokerage services to the Company in our ordinary course of business, including but not limited to trading of securities, bonds and funds, subscription for new shares and reverse repo of treasury bonds, as well as other financial services in the Company's ordinary course of business, for which Zhongtai Securities and/or its associates charged the Company commissions.

Reasons for the transaction:

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

Pricing policy:

- (i) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services will be determined based on arm's-length negotiations between Zhongtai Securities and/or its associates and the Company with reference to the prevailing market commission rate for similar business, and is consistent with the market practice;
- (ii) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Company are comparable to, or no less favorable than, those charged by Zhongtai Securities and/or its associates to any other independent third parties, and the corresponding commission rate is also within the range as set by PRC Futures Exchanges; and
- (iii) the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates, including the commission rate, as well as the proposed annual caps for the three years ending 31 December 2015, 2016 and 2017, have been approved by our Shareholders at the Company's general meeting held in April 2015 prior to entering into such Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

Asset Management Service Framework Agreement

Principal Terms:

Zhongtai Securities purchases collective asset management schemes in which we act as the manager on a continuing basis in our ordinary and usual course of business. We, as the manager, will invest the funds under such collective asset management schemes in certain categories of financial products. In this regard, Zhongtai Securities will pay Asset Management Fees to us.

Subject to the compliance with the Asset Management Service Framework Agreement, the Company and Zhongtai Securities will enter into separate contracts in respect of such asset management services to specify the terms for the provision of such services.

The Asset Management Service Framework Agreement is valid from 19 October 2015 to 31 December 2017.

Significant Events

Reasons for the Transaction:

The Company commenced its asset management business in January 2013, and its amount of assets under management has achieved stable growth, increasing from RMB61.0 million as of 31 December 2013 to RMB182.0 million as of 31 December 2014. The successful launch and operation of the Company's asset management products have generated income for our clients and increased income for our asset management business at the same time. The Company as well as its asset management business brand have also gained market recognition gradually. In addition, in consideration of the actual investment demand for the purchases of asset management products by Zhongtai Securities, and the Company's better understanding of Zhongtai Securities' investment demand as compared to other asset management companies, the Company is capable of improving both the asset return of Zhongtai Securities and the Company's income for asset management business, which will further facilitate the cooperation between the Company and Zhongtai Securities, and is in the interests of the Company and its Shareholders as a whole.

Pricing Policy:

Regarding the Asset Management Service Framework Agreement entered into between the Company and Zhongtai Securities, the Company has undertaken to comply with the following pricing policies:

- (i) the Asset Management Fees rate of the collective asset management schemes is consistent with the general market rate for the collective asset management schemes in which the Company acts as the manager;
- (ii) the Asset Management Fees rate of the collective asset management schemes is applicable to all investors participating in such schemes equally and evenly, including Zhongtai Securities and any other independent third party investor participants; and
- (iii) the Asset Management Fees rate of the collective asset management schemes is also consistent with the general prevailing market rates for collective asset management schemes issued by other independent third parties with similar scale of investment.

2. Continuing connected transactions relating to Shandong Steel and/or its associates

Futures Brokerage Services Framework Agreement

In the ordinary and usual course of business, the Company provides futures brokerage and other related financial services to our clients, including Shandong Steel and/or its associates. To comply with the requirements of the Listing Rules, the Company entered into a futures brokerage services framework agreement (the "Futures Brokerage Services Framework Agreement") with Shandong Steel on 19 June 2015 to provide futures brokerage and other related financial services to Shandong Steel and/or its associates in the ordinary and usual course of our business. As the highest applicable percentage ratio for the three financial years ending 31 December 2015, 2016 and 2017 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 0.1%, but less than 5% on an annual basis upon signature of the Futures Brokerage Services Framework Agreement, such transactions will constitute continuing connected transactions of the Company subject

to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and announcement requirement under Rule 14A.35 of the Listing Rules. The Futures Brokerage Services Framework Agreement is for a fixed term of three years effective on the Listing Date, subject to renewal.

Principal terms:

In the ordinary and usual course of business, the Company provides futures brokerage and other related financial services to Shandong Steel and/or its associates. In particular, the Company executes trading of commodity and financial futures on behalf of Shandong Steel and/or its associates in return for a management fee and performance fee (the “Futures Commissions”) for such services.

Reasons for the transaction:

Both the steel production and sales business of Shandong Steel and Laiwu Steel as well as the assets management and proprietary investment business of Zhongtai Securities and/or its associates require hedging through futures trading. Given that the Company has extensive experience in the futures industry, Shandong Steel and/or its associates entrusted the Company to provide futures brokerage services to them. Besides, the Company has been continuously providing futures brokerage services to Shandong Steel and/or its associates (including but not limited to Laiwu Steel and Zhongtai Securities) during the Reporting Period. As Shandong Steel and/or its associates have a better understanding of the respective investment and capital needs of each other, the Company believes that we would be able to achieve higher return from our services provided.

Pricing policy:

- (i) although the Company's Futures Commissions for the provision of futures brokerage services vary according to different kinds of futures products, such commissions for the same futures products are applicable to all our clients of the Company, including Shandong Steel and/or its associates, and other independent third party clients;
- (ii) the Futures Commissions charged by the Company for the provision of futures brokerage and other financial services are based on a percentage that is at a premium of the Futures Commissions rate set by the PRC futures exchanges with reference to the prevailing market futures commissions rate, and is consistent with market practice; and
- (iii) the provision of futures brokerage and related financial services to Shandong Steel and/or its associates, including the Futures Commissions rates, as well as the proposed annual caps for the years ending 31 December 2015, 2016 and 2017, have been approved by the Shareholders of the Company at its general meeting held in April 2015 prior to entering into such Futures Brokerage Services Framework Agreement. Zhongtai Securities, an associate of Shandong Steel, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

Significant Events

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

Nature of transaction	Amounts for the year ended 31 December 2016 (RMB'000)	Proposed annual caps for the year ended 31 December 2016 (RMB'000)
Futures Commissions	1,401	7,000

3. Our Independent Non-executive Directors' and Auditors' Confirmation

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

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

In respect of the disclosure of the continuing connected transactions:

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

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

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

4. Waivers from the Stock Exchange

In relation to the continuing connected transactions described under the subsection headed "1. Continuing Connected Transactions Relating to Zhongtai Securities and/or its Associates - Financial Services Framework Agreement" above (the "Non-exempt Continuing Connected Transactions with Zhongtai Securities and/or its Associates"), the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending 31 December 2015, 2016 and 2017 is expected to be more than 5%. Accordingly, the Non-exempt Continuing Connected Transactions with Zhongtai Securities and/or its Associates are subject to the announcement requirement under Rule 14A.35 of the Listing Rules, the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.36 of the Listing Rules. In relation to the continuing connected transactions described under the subsection headed "2. Continuing Connected Transactions Relating to Shandong Steel and/or its Associates" above (the "Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates"), the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending 31 December 2015, 2016 and 2017 is expected to be more than 0.1% but less than 5%. Accordingly, the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates are subject to the announcement requirement under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

As certain continuing connected transactions described in the subsection headed "3. Non-exempt Continuing Connected Transactions" above are expected to continue on a continuing or recurring basis, our Directors consider that strict compliance with the above announcement and independent shareholders' approval requirements would be impractical, and such requirements would lead to unnecessary administrative costs and would be unduly burdensome to the Company.

Accordingly, the Company has applied to the Stock Exchange, and the Stock Exchange has granted us pursuant to Rule 14A.105 of the Listing Rules, waivers from strict compliance with 1) the announcement and independent shareholders' approval requirements in respect of the Non-exempt Continuing Connected Transactions with Zhongtai Securities and/or its Associates under Rules 14A.35 and 14A.36 of the Listing Rules, and 2) the announcement requirement under Rule 14A.35 of the Listing Rules in respect of the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates, provided that the total value of transactions for each of the three years ending 31 December 2015, 2016 and 2017 will not exceed the relevant annual caps set forth above. The independent non-executive Directors and auditors of the Company have reviewed whether the Non-exempt Continuing Connected Transactions with Zhongtai Securities and/or its Associates and the Non-exempt Continuing Connected Transactions with Shandong Steel and/or its Associates have been entered into based on the principal terms and pricing policies under the relevant agreements as disclosed in this section. Such confirmations by our independent non-executive Directors and our auditors have been disclosed in the previous section "3. Our Independent Non-executive Directors' and Auditors' Confirmation", as required by the Listing Rules.

Significant Events

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the date of this report on the continuing connected transactions referred to in this section, the Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

(IV) Non-exempted connected transactions

Hot Rolled Wide Steel Plate Purchase Agreement

Principal Terms:

Luzheng Trading (as purchaser) and Laiwu Steel (as seller) entered into Hot Rolled Wide Steel Plate Purchase Agreements on 21 October 2016 and 5 December 2016, whereas, Laiwu Steel agreed to sell and Luzheng Trading agreed to purchase hot rolled wide steel plate for a consideration of approximately RMB2.93 million (equivalent to approximately HK\$3,365,100) and RMB7.70 million (equivalent to approximately HK\$8,671,300), respectively, in cash (the actual settlement amount shall depend on the final delivery quantity).

Pricing Policy:

As enterprises operated for the purpose of making profits, Laiwu Steel is reluctant to disclose its cost of steel production, which constitutes its core confidential commercial information and commercial secrets. However, the price of hot rolled wide steel plates purchased by Luzheng Trading is determined with reference to comparable prices of similar products sold in domestic markets by independent third parties, in order to ensure that the price and terms of sales of bulk commodities sold by Laiwu Steel to Luzheng Trading are fair, reasonable and such price is comparable to that of similar products paid by independent third parties.

Reasons for the Transaction:

Recently there has been a rising trend of prices of hot rolled wide steel plate in Shandong market. The spot trade is active and there are greater trading opportunities in the market. Luzheng Trading is entrusted by the downstream traders to purchase hot rolled wide steel plates collectively on their behalf. The hot rolled wide steel plate produced by Laiwu Steel that Luzheng Trading intends to purchase is a delivery brand of Shanghai Futures Exchange with better circulation, and as the mainstream product in Shandong market, its market share is relatively high, and is accepted by the market easily. The profitability of Laiwu Steel is relatively strong and its business operation is stable. The default risk in relation to the purchase from Laiwu Steel faced by Luzheng Trading is smaller. By entering into the Hot Rolled Wide Steel Plate Purchase Agreement with Laiwu Steel, Luzheng Trading can seize favourable timing in the market prices and obtain stable profits from the differences in prices for the benefit of the Company.

Luzheng Trading is a wholly-owned subsidiary of the Company, and Laiwu Steel is a Controlling Shareholder of the Company. Accordingly, Laiwu Steel is a Connected Person of the Company under Chapter 14A of the Listing Rules, and the transaction involved in the Hot Rolled Wide Steel Plate Purchase Agreement constitutes a Connected Transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the aggregated transaction is more than 0.1% but less than 5%, the transaction contemplated under the Hot Rolled Wide Steel Plate Purchase Agreements entered on 21 October 2016 and 5 December 2016 are subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The details of the related party transactions of the Group are set out in Note 41 of the notes to the consolidated financial statements of this report.

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

IV. MAJOR CONTRACTS AND THEIR PERFORMANCE

On 6 January 2016, the Treasury Operations Investment Decision Committee of the Company passed the "Proposal on Purchase of Luzheng Huiquanwantai Chengzhang Tranche 1 Asset Management Scheme for Multiple Specific Clients" (《魯証匯泉萬泰成長1期特定多客戶資產管理計劃的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 1), to approve the purchase of the "Luzheng Huiquanwantai Chengzhang Tranche 1 Asset Management Scheme for Multiple Specific Clients" (《魯証匯泉萬泰成長1期特定多客戶資產管理計劃》) issued by the Company with an investment amount of RMB7.5 million.

On 14 January 2016, the Treasury Operations Investment Decision Committee of the Company passed the "Proposal on Purchase of Shuanglong-Xinancheng Stable Series Tranche 2 Asset Management Scheme" (《關於購買雙隆-信安成穩健2號資產管理計劃的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 3), to approve the purchase of the "Shuanglong-Xinancheng Stable Series Tranche 2 Asset Management Scheme" (《雙隆-信安成穩健2號資產管理計劃》) issued by Shanghai Solon Investment Co.,Ltd. (上海雙隆投資有限公司) with an investment amount of RMB60 million.

On 8 March 2016, the Treasury Operations Investment Decision Committee of the Company passed the "Proposal on Purchase of Jiutai Fund—Jiahe Tranche 1 Asset Management Scheme" (《關於購買九泰基金—嘉禾1號資產管理計劃的議案》) and "Proposal on Purchase of Yingyangyongsheng Tranche 3 Private Equity Fund" (《關於購買盈陽湧盛三號私募基金的議案》) (Lu Qi Gu Zi Tou Ji [2016] No. 6), to approve the purchase of the "Jiutai Fund—Jiahe Tranche 1 Asset Management Scheme" (《九泰基金—嘉禾1號資產管理計劃》) and "Yingyangyongsheng Tranche 3 Private Equity Fund" (《盈陽湧盛三號私募基金》) issued by Jt Asset Management Co.,Ltd. (九泰基金管理有限公司) and Zhejiang Yingyang Asset Management Co.,Ltd. (浙江盈陽資產管理股份有限公司) with an investment amount of RMB10 million and RMB30 million, respectively.

On 15 April 2016, the Treasury Operations Investment Decision Committee of the Company passed the "Proposal on Purchase of Luzheng Huiquan Qingchunbao Asset Management Scheme for Multiple Specific Clients" (《關於購買魯証匯泉青春寶特定多客戶資產管理計劃的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 7), to approve the purchase of the "Luzheng Huiquan Qingchunbao Asset Management Scheme for Multiple Specific Clients" (《魯証匯泉青春寶特定多客戶資產管理計劃》) issued by the Company with an investment amount of RMB15 million.

Significant Events

On 27 April 2016, the Treasury Operations Investment Decision Committee of the Company passed the “Proposal on Purchase of Luzheng Quantongruitu Tranche 1 Asset Management Scheme” (《關於購買魯証泉通瑞途1號資產管理計劃的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 8), to approve the purchase of the “Luzheng Quantongruitu Tranche 1 Asset Management Scheme” (《魯証泉通瑞途1號資產管理計劃》) issued by the Company with an investment amount of RMB50 million.

On 17 May 2016, the Treasury Operations Investment Decision Committee of the Company passed the “Proposal on Purchase of Luzheng SPDB FOF Collective Asset Management Scheme” (《關於購買魯証浦發FOF集合資產管理計劃的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 9), to approve the purchase of the “Luzheng SPDB FOF Collective Asset Management Scheme” (《魯証浦發FOF集合資產管理計劃》) issued by the Company with an investment amount of RMB6 million.

On 6 June 2016, the Treasury Operations Investment Decision Committee of the Company passed the “Proposal on Purchase of Zeran Tranche 5 Balanced Fund” (《關於購買澤然5號平衡型基金的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 10), to approve the purchase of the “Zeran Tranche 5 Balanced Fund” (《澤然5號平衡型基金》) issued by Crescendi Capital Group (三度星和(北京)投資有限公司) with an investment amount of RMB10 million.

On 24 June 2016, the Treasury Operations Investment Decision Committee of the Company passed the “Proposal on Purchase of Jiutai Fund—Jiahe Grade Tranche 8 Asset Management Scheme” (《關於購買九泰基金—嘉禾分級8號資產管理計劃的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 11), to approve the purchase of the “Jiutai Fund—Jiahe Grade Tranche 8 Asset Management Scheme” (《九泰基金—嘉禾分級8號資產管理計劃》) issued by Jt Asset Management Co.,Ltd. (九泰基金管理有限公司) with an investment amount of RMB10 million.

On 17 November 2016, the Treasury Operations Investment Decision Committee of the Company passed the “Proposal on Purchase of Xuanhuai Alpha Tranche 2 Private Investment Fund” (《關於購買宣懷Alpha二號私募投資基金的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 12), to approve the purchase of the “Xuanhuai Alpha Tranche 2 Private Investment Fund” (《宣懷Alpha二號私募投資基金的議案》) issued by Shanghai Jiulan Asset Management Co.,Ltd. (上海宣懷資產管理有限公司) with an investment amount of RMB30 million.

On 27 December 2016, the Treasury Operations Investment Decision Committee of the Company passed the “Proposal on Purchase of Bachelier Tranche 2 Private Fund” (《關於購買巴舍里耶2期私募基金的議案》)(Lu Qi Gu Zi Tou Ji [2016] No. 13), to approve the purchase of the “Bachelier Tranche 2 Private Fund” (《巴舍里耶2期私募基金》) issued by Lingwang (Shenzhen) Asset Management Co.,Ltd. (領望(深圳)投資管理有限公司) with an investment amount of RMB20 million.

V. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Reporting Period.

VI. UNDERTAKINGS OF THE CONTROLLING SHAREHOLDERS AND THEIR PERFORMANCE

To avoid any actual or potential competition between the businesses of Zhongtai Securities, Laiwu Steel and Shandong Steel and the Company, our Controlling Shareholders undertook on 15 June 2015 (the “Non-Competition Undertaking”) that, subject to certain exceptions and save as disclosed in the section under “Relationship with Controlling Shareholders” of the Company’s Prospectus, our Controlling Shareholders shall not, and shall procure their associates (except for any members of our Group) will not, engage in the PRC in any business which directly or indirectly competes with the core businesses (futures brokerage, futures asset management, and commodity trading and risk management businesses) of the Company (“Restrained Businesses”) within the period that (a) the H Shares of the Company are listed on the Stock Exchange, and (b) our Controlling Shareholders and their respective associates are entitled to exercise no less than 30% voting power of the Company or are deemed to be the Controlling Shareholders of our Group (“Restrained Period”).

The Company has received confirmation letters from each of the Controlling Shareholders, which confirmed that during the Reporting Period, they had been in compliance with all the undertakings made under the Non-Competition Undertaking as well as all its requirements (including but not limited to matters relating to the options for new business opportunities, pre-emptive rights, option for purchase, etc.).

The independent non-executive Directors of the Company have reviewed the compliance with the Non-Competition Undertaking of the Controlling Shareholders during the Reporting Period, and signed an annual confirmation letter concerning the Controlling Shareholders being in compliance with the Non-Competition Undertaking. The summary of the annual confirmation letter is as follows:

“We hereby confirm that:

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

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

We agree that the Company can disclose the content of this letter, including adding the content of this letter into the 2016 annual report of the Company.”

Save as disclosed above, during the Reporting Period, none of the independent non-executive Directors of the Company made any decision concerning whether to exercise options for new business opportunities, pre-emptive rights, option for purchase, etc.

VII. APPOINTMENT, CHANGE AND DISMISSAL OF AUDITORS

(1) Change of auditors of the Company in the past three years

For maintaining the consistency and completeness of the audit work of the Company, after the review and approval of the 2015 first extraordinary general meeting convened on 5 January 2015, the Company confirmed to appoint PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as its international and domestic auditors. The Company also subsequently approved the confirmation of appointing such auditors as the auditors in 2015 for the annual financial reports prepared in accordance with China Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively at the annual general meeting of 2015 convened on 16 June 2016, and further appointed the said auditors as the external auditors in 2016 in accordance with same standards.

(2) Auditors' Remuneration

As of 31 December 2016, the remuneration of the Group's auditors was RMB1.65 million in total. Among them, the statutory audit fees of the Company in 2016 prepared in accordance with China Accounting Standards for Business Enterprises, the statutory audit fees of Luzheng Trading in 2016, the statutory audit fees of Luzheng Information Technology in 2016, the statutory audit fees of the Company in 2016 prepared in accordance with International Financial Reporting Standards and the interim review service fees were RMB0.21 million, RMB0.07 million, RMB0.01 million, RMB0.86 million and RMB0.5 million respectively.

Save as disclosed in the paragraph above, no other audit related or non-audit related fees were paid to the auditors by the Group for the year ended 31 December 2016.

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

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

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.

During the Reporting Period, the Company convened 24 meetings in total, of which there was one general meeting, 10 Board meetings, 5 Supervisory Committee meetings, 2 Risk Control Committee meetings, 2 Audit Committee meetings, one Remuneration and Appraisal Committee meeting, and 3 Nomination Committee meetings.

II. GENERAL MEETING

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

The 2015 annual general meeting of LUZHENG FUTURES Company Limited

On 16 June 2016, the Company convened the 2015 annual general meeting with physical presence, at which the following resolutions were passed:

- (1) The “2015 Work Report of the Board of Directors of LUZHENG FUTURES Company Limited” was considered and passed;
- (2) The “2015 Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited” was considered and passed;
- (3) The “2015 Annual Report of LUZHENG FUTURES Company Limited” was considered and passed;
- (4) The “2015 Profit Distribution Plan of LUZHENG FUTURES Company Limited” was considered and passed;
- (5) The “Proposal on Appointment of Accounting Firms in 2015 and 2016” was considered and passed;
- (6) The “Allowance Standard of External Directors and Supervisors” was considered and passed;
- (7) The “Election of Non-Staff Representative Directors of the Second Session of the Board of Directors” was considered and passed;
- (8) The “Election of Non-Staff Representative Supervisors of the Second Session of the Supervisory Committee” was considered and passed;
- (9) The “Amendments to the Articles of Association” was considered and passed;
- (10) The “General Mandate to Issue Domestic Bond Financing Instruments” was considered and passed; and
- (11) The “General Mandate to Issue New Shares” was considered and passed.

III. PERFORMANCE OF THE DIRECTORS

(1) Summary of the performance of the Directors

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

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

(2) Attendance of the Directors at Board meetings and general meetings

Pursuant to the Articles of Association, at least four regular Board meetings shall be held by the Board of Directors each year and the Chairman of the Board of Directors is responsible to convene such meetings. Notice for each regular Board meeting shall be given at least 14 days prior to the convening of the meeting, which shall stipulate the date and venue of the meeting, the timeframe, reasons, agenda and the date of the notice.

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

Corporate Governance Report

During the Reporting Period, attendance of the Directors at Board meetings and general meetings is as follows:

Name of Directors	No. of Board meetings attended	Attended in person	Attended by means of telecommunication	Attended by proxy	Absent	Two consecutive absents	Attendance at general meetings No. of general meetings attended
CHEN Fang	10	4	6	0	0	no	1
LIANG Zhongwei	10	4	6	0	0	no	0
LV Xiangyou	10	3	6	1	0	no	0
ZHANG Yunwei (whose tenure expired on 16 June 2016)	5	0	4	1	0	no	0
YIN Ge (appointed on 16 June 2016)	5	3	2	0	0	no	0
LI Chuanyong	10	3	6	1	0	no	0
LIU Feng	10	3	6	1	0	no	0
<i>Independent Non-executive Directors</i>							
GAO Zhu	10	4	6	0	0	no	1
YU Xuehui	10	3	6	1	0	no	1
WANG Chuanshun	10	4	6	0	0	no	1
WEI Wei (whose tenure expired on 23 June 2016)	5	0	4	1	0	no	0
LI Dapeng (appointed on 23 June 2016)	5	2	2	1	0	no	0

No. of Board meetings held during the year	10
In which: conducted in person	4
conducted by means of telecommunication voting	6
No. of general meetings held during the year	1

(3) Board meetings and resolutions during the Reporting Period

During the Reporting Period, the Board of Directors convened a total of 10 Board meetings and details of the meetings and resolutions are as follows:

1. *The 34th meeting of the first session of the Board of Directors of LUZHENG FUTURES Company Limited*

On 1 March 2016, the Company convened the 34th meeting of the 1st session of the Board of Directors and reviewed and approved the “Proposal on Establishment of the Risk Management Services Department” (《關於成立風險管理服務部的議案》).

2. *The 35th meeting of the first session of the Board of Directors of LUZHENG FUTURES Company Limited*

On 22 March 2016, the Company convened the 35th meeting of the 1st session of the Board of Directors and approved the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal on General Manager’s Report of LUZHENG FUTURES Company Limited for 2015” (《關於魯証期貨股份有限公司2015年度總經理工作報告的議案》);
- (2) reviewed and approved the “Proposal on the Board of Directors’ Report of LUZHENG FUTURES Company Limited for 2015” (《關於魯証期貨股份有限公司2015年度董事會工作報告的議案》);
- (3) reviewed and approved the “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2015” (《關於魯証期貨股份有限公司2015年度利潤分配方案的議案》);
- (4) reviewed and approved the “2015 Annual Results Announcement of LUZHENG FUTURES Company Limited” (《魯証期貨股份有限公司2015年度業績公告》);
- (5) reviewed and approved the “2015 Annual Report of LUZHENG FUTURES Company Limited (International Version)” (《魯証期貨股份有限公司2015年度報告(國際版)》);
- (6) reviewed and approved the “2015 Annual Report of LUZHENG FUTURES Company Limited (Domestic Version)” (《魯証期貨股份有限公司2015年度報告(國內版)》);
- (7) reviewed and approved the “Proposal on Report of the Risk Management Indicators in 2015” (《關於報告2015年度風險監管指標情況的議案》);
- (8) reviewed and approved the “Proposal on Appointment of Accounting Firms in 2015 and 2016” (《關於聘請2015年度及2016年度會計師事務所的議案》);
- (9) reviewed and approved the “Proposal on Amendments to the Articles of Association of LUZHENG FUTURES Company Limited” (《關於修訂魯証期貨股份有限公司章程的議案》);

- (10) reviewed and approved the “Proposal on Allowance Standards of Directors and Supervisors of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司董事、監事津貼標準的議案》);
- (11) reviewed and approved the “Proposal on General Mandate to Issue Domestic Bond Financing Instruments by LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司發行境內外債券類融資工具一般性授權的議案》);
- (12) reviewed and approved the “Proposal on General Mandate to Further Issue Domestic Shares and H Shares of the Company by LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司增發公司內資股、H股股份一般性授權的議案》);
- (13) reviewed and approved the “Proposal on Recommendation of Mr. Liu Qingbin as a Member of the Council of Zhengzhou Commodity Exchange” (《關於推薦劉慶斌同志為鄭州商品交易所理事會會員理事的議案》);
- (14) reviewed and approved the “Proposal on Cessation of Mr. Yu Dongxin as the Deputy General Manager of the Company” (《關於余東新先生不再擔任公司副總經理職務的議案》); and
- (15) reviewed and approved the “Proposal on Convening the Annual General Meeting of LUZHENG FUTURES Company Limited for 2015” (《關於召開魯証期貨股份有限公司2015年度股東大會的議案》).

3. The 36th meeting of the first session of the Board of Directors of LUZHENG FUTURES Company Limited

On 15 April 2016, the Company convened the 36th meeting of the 1st session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Authorization for Purchases and Sales of Bulk Commodities with Shandong Steel and Its Subsidiaries” (《關於授權與山鋼集團及其附屬公司於2016年度內進行大宗商品採購、銷售的議案》);
- (2) reviewed and approved the “Proposal on Appointment of Computershare Hong Kong Trustees Limited For Distribution of Dividends of H Shares on Behalf of the Company” (《關於聘請香港中央證券信託有限公司代發H股股息等事項的議案》); and
- (3) reviewed and approved the “Proposal on Approval of the Directors of the Second Session of the Board of Directors by the general meeting” (《關於提請股東大會審議第二屆董事會董事的議案》).

4. The 37th meeting of the first session of the Board of Directors of LUZHENG FUTURES Company Limited

On 29 April 2016, the Company convened the 37th meeting of the 1st session of the Board of Directors and approved the “Proposal on Cancellation of Haikou Branch” (《關於撤銷海口營業部的議案》) by way of voting by telecommunication.

5. The 38th meeting of the first session of the Board of Directors of LUZHENG FUTURES Company Limited

On 20 May 2016, the Company convened the 38th meeting of the 1st session of the Board of Directors and approved the “Proposal on Establishment of Headquarters of Operation Management” (《關於設立運營管理總部的議案》) by way of voting by telecommunication.

6. The first meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 16 June 2016, the Company convened the 1st meeting of the 2nd session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Election of Chairman of the 2nd Session of the Board of Directors of LUZHENG FUTURES Company Limited” (《關於選舉魯証期貨股份有限公司第二屆董事會董事長的議案》); and
- (2) reviewed and approved the “Proposal on Election of Members and Chairmen of the Committees under the 2nd Session of the Board of Directors of LUZHENG FUTURES Company Limited” (《關於選舉魯証期貨股份有限公司第二屆董事會各專門委員會委員及委員會主席的議案》).

7. The second meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 15 August 2016, the Company convened the 2nd meeting of the 2nd session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Appointment of the General Manager of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司總經理的議案》); and
- (2) reviewed and approved the “Proposal on Appointment of the Deputy General Manager of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司總經理的議案》).

8. The third meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 23 August 2016, the Company convened the 3rd meeting of the 2nd session of the Board of Directors and approved the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal on 2016 Interim Results Announcement of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司2016年中期業績公告的議案》);
- (2) reviewed and approved the “Proposal on 2016 Interim Report of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司2016年中期報告的議案》);
- (3) reviewed and approved the “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年中期利潤分配預案的議案》);
- (4) reviewed and approved the “Proposal to Report of the Interim Risk Management Indicators in 2016” (《關於報告魯証期貨股份有限公司2016年中期風險監管指標的議案》);

- (5) reviewed and approved the “Proposal on Amendments to the Anti-laundering Internal Control System of LUZHENG FUTURES Company Limited” (《關於修訂<魯証期貨股份有限公司反洗錢內控制度>的議案》);
- (6) reviewed and approved the “Proposal on Appointment of the Chief Risk Officer of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司首席風險官的議案》);
- (7) reviewed and approved the “Proposal on Appointment of the Secretary to the Board of Directors of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司董事會秘書的議案》); and
- (8) reviewed and approved the “Proposal on Appointment of the Chief Financial Officer of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司財務負責人的議案》).

9. The fourth meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 14 September 2016, the Company convened the 4th meeting of the 2nd session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Development of Share Option Business” (《關於開展股票期權業務的議案》); and
- (2) reviewed and approved the “Proposal on Contribution on Establishing Shandong Zhongtai Philanthropic Foundation” (《關於出資參與成立山東中泰慈善基金會的議案》).

10. The fifth meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 12 December 2016, the Company convened the 5th meeting of the 2nd session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Change of the Registered Address of the Changsha Branch” (《關於變更長沙營業部註冊登記地的議案》);
- (2) reviewed and approved the “Proposal on Change of the Registered Address of the Zhengzhou Branch” (《關於變更鄭州營業部註冊登記地的議案》); and
- (3) reviewed and approved the “Proposal on Establishment of Wuhan Branch” (《關於設立武漢分公司的議案》).

(4) Training for Directors

The Company places high importance on continual training of Directors to ensure that they have appropriate understanding of the operations and business of the Company and the duties of a Director under the relevant legal and regulatory requirements of CSRC and the Hong Kong Stock Exchange, Hong Kong Companies Ordinance, Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association. During the Reporting Period, the Directors have attended regular trainings organized by local authorities and fulfilled the requirements of continual training. Besides these, the Company has also established a multi-level information exchange system and platform to enhance information sharing and exchanges among Directors, Supervisors and the senior management, enhancing the Directors' ability to fulfill their duties. In addition, details of the training for the Director during the Reporting Period are as follows:

Name of Directors	Date	Duration	Organizer	Content
Chen Fang	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform
Liang Zhongwei	12 April 2016	3 hours	Shandong Branch of China Securities Regulatory Commission, Shandong Securities Association and Shandong Futures Association	Meeting of Standardized Development of Securities and Futures Business and Self-discipline Training in Shandong
	17 May 2016	6 hours	China Securities Association, Shandong Securities Association and Shandong Futures Association	Training of Complaint Address for Branches of Securities and Futures Companies in Shandong
	5 July 2016– 8 July 2016	21 hours	Shandong Branch of China Securities Regulatory Commission and Shandong Futures Association	High-level Seminar on Futures Theories and Practices
	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform

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Name of Directors	Date	Duration	Organizer	Content
Lv Xiangyou	22 October 2016	8 hours	Shandong State-owned Assets Supervision and Administration Commission and Singapore Sing-China International Training Group	Training of Reforms of State-owned Enterprises
	15 November 2016	8 hours	Shandong State-owned Assets Supervision and Administration Commission and Shandong School of Administration	Training of Development Strategies of State-owned Enterprises
Yin Ge	24 March 2016– 27 March 2016	21 hours	Zhongtai Securities	Training of Leadership of Mid-Senior Management of Zhongtai Securities
	19 May 2016– 22 May 2016	21 hours	Zhongtai Securities	Training of Leadership of Mid-Senior Management of Zhongtai Securities
	1 August 2016– 12 August 2016	10 hours	China Securities Association	Follow-up Career Training of Futures Personnel
	12 August 2016– 14 August 2016	18 hours	Zhongtai Securities	Training of Leadership of Mid-Senior Management of Zhongtai Securities
Li Chuanyong	4 May 2016	8 hours	Mckinsey & Company	Meeting Management
	11 June 2016	8 hours	Mckinsey & Company	Effective Communication (Pyramid Model) and Effective Listening
	9 July 2016	8 hours	Mckinsey & Company	Lead yourself, Lead Others and Lead Organizations
	13 August 2016	8 hours	Mckinsey & Company	Change Management
	17 September 2016	8 hours	Mckinsey & Company	Problem Analysis and Solving
	22 October 2016	8 hours	Mckinsey & Company	Establishing Excellent Mechanics of Performance Management
	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform

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Name of Directors	Date	Duration	Organizer	Content
Liu Feng	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform
Gao Zhu	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform
Yu Xuehui	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform
Wang Chuanshun	23 November 2016– 25 November 2016	24 hours	Shandong Branch of the Chinese Institute of Certified Public Accountants	Training of Partners of Large Accounting Firms
Li Dapeng	16 November 2016– 17 November 2016	8 hours	The Company	High-level Training of Futures Transaction, Assets Management and Risk Control Platform

(5) Appointment, Reappointment and Removal of Directors

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

During the Reporting Period and in June 2016, Mr. Zhang Yunwei ceased to serve as a non-executive Director of the Company, Mr. Wei Wei ceased to serve as an independent non-executive Director of the Company, Mr. Yin Ge was appointed as a non-executive Director of the Company, and Mr. Li Dapeng was appointed as an independent non-executive Director of the Company.

IV. WORK PERFORMANCE OF BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

As at the end of the Reporting Period, the Board comprised of 10 Directors: Mr. CHEN Fang as Chairman and executive Director, Mr. LIANG Zhongwei as executive Director, 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.

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

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

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

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(21) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange where the Company's shares are listed, Shareholders' general meetings and the Articles of Association.

(2) Duties concerning corporate governance of the Board

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

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

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

During the Reporting Period, the Board of Directors of the Company reviewed and supervised the training of the Directors and the senior management to ensure their continuous professional development; reviewed and supervised the system established by the Company according to the laws and the related requirements from the securities regulatory institutions in Hong Kong and its compliance, and made relevant disclosure; formulated, reviewed and supervised the code of conduct and the relevant compliance manual of the Company's employees and Directors; reviewed the Company's compliance with the CG Code and the disclosure in the Corporate Governance Report.

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

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

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

The senior management of the Company, under the leadership of the general manager, is responsible for implementing the resolutions of the Board and managing the daily operation of the Company.

(4) Composition and Main Duties of Special Committees

There are five special committees under the Board of Directors of the Company: Strategic Development Committee, Risk Control Committee, Audit Committee, Remuneration and Appraisal Committee and Nomination Committee.

1. Currently, the Strategic Development Committee comprises 7 members: Mr. CHEN Fang as an executive Director, Mr. GAO Zhu, Mr. YU Xuehui and Mr. LI Dapeng as the independent non-executive Directors, and Mr. LV Xiangyou, Mr. LI Chuanyong and Mr. LIU Feng as the non-executive Directors. Mr. CHEN Fang, as an executive Director, is currently the chairman of the Strategic Development Committee. The main duties of the Strategic Development Committee of the Company are as follows:

- (1) to stay informed of and understand the general development conditions of the Company;
- (2) to study and understand domestic and overseas industrial developments and relevant national policies;
- (3) to study and formulate medium and long-term development strategies, plans and proposals of the Company, make recommendations on and evaluate and monitor the implementation of the medium and long-term strategic goals of the Company;
- (4) to review the medium and long-term development goals and development plans of each business and management segments of the Company;
- (5) to review and make recommendations on the annual operation and investment plans of the Company;
- (6) to study and make recommendations on the proposals to increase or decrease the Company's registered capital and the merger, division, dissolution or change of corporate form of the Company;
- (7) to study and make recommendations on matters requiring Board's review and approval, such as material investment, financing, provision of guarantee, capital operation, asset reorganization and asset operation and management of the Company;
- (8) to study and make recommendations on proposals to development new markets, businesses and products by the Company;
- (9) to study and make recommendations on material structural reorganization and adjustment plan of the Company;
- (10) to study, discuss and make recommendations on other material matters affecting the development the Company; and
- (11) other duties as assigned by the Board of Directors.

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2. Currently, the Risk Control Committee comprises 5 members: Mr. YU Xuehui and Mr. GAO Zhu as the independent non-executive Directors, Mr. LIANG Zhongwei as an executive Director, and Mr. YIN Ge and Mr. LI Chuanyong as non-executive Directors. Mr. YU Xuehui, as an independent non-executive Director, is currently the chairman of the Risk Control Committee. The main duties of the Risk Control Committee of the Company are as follows:

- (1) to study and assess the risk exposures of the Company;
- (2) to study and assess the risk control conditions of the Company;
- (3) to make recommendations to improve the risk management and internal control systems of the Company;
- (4) to monitor the legality and compliance of the basic management system, decision-making process and risk control system of the Company; and
- (5) other duties as assigned by the Board of Directors.

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

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

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

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

- (2) to supervise the internal audit system of the Company and its implementation.
- (3) to guide and evaluate the work of the internal auditing department, and to make suggestions as to the appointment and removal of the head of internal auditing department of the Company.
- (4) to review the financial information of the Company and its disclosure:

The Committee shall monitor the legitimacy and integrity of the financial statements, annual reports and accounts, interim reports and quarterly reports (if any), and review significant judgements relating to the financial reporting contained therein. For this purpose, when reviewing the financial statements and reports of the annual reports and accounts, interim reports and quarterly reports (if any) of the Company to be submitted to the Board, the Committee shall focus particularly on the following issues:

- a. any changes in the accounting policies and practices;
- b. areas which involve significant judgements;
- c. significant adjustments according to the results of audit;
- d. assumptions on the ongoing operations of the Company and any qualified opinions;
- e. compliance with accounting standards; and
- f. compliance with the listing rules and other legal requirements of the place of listing in relation to financial reporting;

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

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- (5) to review and supervise the effective implementation of the financial reporting system, internal control system and risk management system of the Company, including:
 - a. to review and examine the financial control, internal control and risk management system of the Company;
 - b. to discuss the internal control system with the management about the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting and financial reporting function of the Company so as to ensure the management has performed its duty to establish an effective internal control system;
 - c. to review major findings on internal control matters and the responses of management on its own initiative or as delegated by the Board;
 - d. to ensure co-ordination and communication between the internal and external auditors where an internal audit function exists in the Company; to ensure the internal audit function is provided with adequate resources and has appropriate standing in the Company; and to review and monitor its effectiveness;
 - e. to review the financial and accounting policies and practices of the Company;
 - f. to review the auditing descriptions from the external auditor to the management, any significant queries raised by the auditor to the management regarding the accounting records, financial accounts or supervision systems as well as responses of the management;
 - g. to ensure timely responses of the Board to the issues in the auditing descriptions raised by the external auditor;
 - h. to report to the Board of Directors in respect of the issues set out in this article; and
 - i. to consider other issues raised by the Board of Directors.
- (6) to evaluate and discuss the following arrangements formulated by the Company: whistleblowing system for employees of the Company to report on any potential misconducts regarding the financial reporting, internal control and other aspects of the Company; to ensure that the Company has put in place appropriate arrangements to carry out fair and independent investigation and follow-up actions for such issues; to arrange a suitable personnel as a key representative between the Company and the external auditor and to supervise their relationship.
- (7) to audit and supervise connected transactions and evaluate their appropriateness.
- (8) other duties as assigned by the Board of Directors.

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

5. Currently, the Nomination Committee comprises 5 members: Mr. LIANG Zhongwei as an executive Director, Mr. LI Dapeng, Mr. YU Xuehui and WANG Chuanshun as the independent non-executive Directors, and Mr. YIN Ge as a non-executive Director. Mr. LI Dapeng, as an independent non-executive Director, is currently the chairman of the Nomination Committee. The main duties of Nomination Committee of the Company are as follows:

- (1) to study the standards and procedures for selection of Directors and senior management staff, and make recommendations to the Board;
- (2) the Committee shall study the structure, number of members and composition (including the skills, knowledge and experience of Directors) of the Board at least once a year, and make recommendations concerning changes to the Board arising from strategic changes of the Company, and the Committee has formulated a policy on diversity of members of the Board (for details please refer to the section “Policy on Board Diversity”) under the Corporate Governance Report;
- (3) to make recommendations to the Board of Directors in respect of candidates for Directors and senior management staff and examine their qualifications, and make recommendations to the Board of Directors in respect of the appointment or reappointment of Directors and the succession plans of Directors (in particular the chairman of the Board of Directors and the president);
- (4) to evaluate the independence of the independent non-executive Directors; and
- (5) other duties as assigned by the Board.

(5) Special Committees’ Meetings

1. Risk Control Committee

On 22 March 2016, the 1st meeting of the Risk Control Committee of the 1st session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal to Report of the Interim Regulatory Risk Indicators in 2015” (《關於報告2015年度風險監管指標的議案》) by voting in person.

On 23 August 2016, the 1st meeting of the Risk Control Committee of the 2nd session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal to Report of the Interim Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2016” (《關於報告魯証期貨股份有限公司2016年度風險監管指標的議案》) by voting in person.

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

Name	Number of meetings attended/Number of meetings held
Yu Xuehui (Chairman of Risk Control Committee)	2/2
Gao Zhu	2/2
Liang Zhongwei ⁽¹⁾	1/1
Zhang Yunwei ⁽²⁾	0/1
Yin Ge ⁽³⁾	1/1
Li Chuanyong ⁽⁴⁾	1/1

Note: (1) On 16 June 2016, Mr. Liang Zhongwei was appointed as the member of the Risk Control Committee of the 2nd session of the Board.

(2) On 22 March 2016, Mr. Zhang Yunwei, as a non-executive Director of the 1st session of the Board of Directors, authorized Mr. Gao Zhu, as an independent non-executive Director, to attend the the Risk Control Committee on his behalf. On 16 June 2016, Mr. Zhang Yunwei retired as the non-executive Director of the Company and the member of the Risk Control Committee of the 1st session of the Board.

(3) On 16 June 2016, Mr. Yin Ge was appointed as the member of the Risk Control Committee of the 2nd session of the Board.

(4) On 16 June 2016, Mr. Li Chuanyong was appointed as the member of the Risk Control Committee of the 2nd session of the Board.

2. Audit Committee

On 22 March 2016, the 6th meeting of the Audit Committee of the 1st session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2015” (《關於魯証期貨股份有限公司2015年度利潤分配方案的議案》), the “Annual Results Announcement of LUZHENG FUTURES Company Limited for 2015” (《魯証期貨股份有限公司2015年度業績公告》), the “Annual Report of LUZHENG FUTURES Company Limited for 2015 (International Version)” (《魯証期貨股份有限公司2015年度報告(國際版)》); the “Annual Report of LUZHENG FUTURES Company Limited for 2015 (Domestic Version)” (《魯証期貨股份有限公司2015年度報告(國內版)》) and “Proposal on the Appointment of Accounting Firms in 2015 and 2016” (《關於聘請2015年度及2016年度會計師事務所的議案》) by voting in person.

On 23 August 2016, the 1st meeting of the Audit Committee of the 2nd session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Interim Results Announcement of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年中期業績公告的議案》), the “Interim Report of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016中期報告的議案》) and “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年中期利潤分配預案的議案》) by voting in person.

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

Name	Number of meetings attended/Number of meetings held
Wang Chuanshun (Chairman of Audit Committee)	2/2
Gao Zhu	2/2
Yu Xuehui ⁽¹⁾	1/1
Li Dapeng ⁽²⁾	1/1
Lv Xiangyou	2/2
Liu Feng	2/2

Note: (1) On 16 June 2016, Mr. Yu Xuehui retired as the member of the Audit Committee of the 1st session of the Board.

(2) On 23 June 2016, Mr. Li Dapeng was appointed as the member of the Audit Committee of the 2nd session of the Board.

3. Remuneration and Appraisal Committee

On 22 March 2016, the 1st meeting of the Remuneration and Appraisal Committee of the 1st session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on the Allowance Standards of Directors and Supervisors of LUZHENG FUTURES Company Limited" (《關於魯証期貨股份有限公司董事、監事津貼標準的議案》) by voting in person.

Attendance of the members of the Remuneration and Appraisal Committee at the meetings during the Reporting Period is as follows:

Name	Number of meetings attended/Number of meetings held
Yu Xuehui (Chairman of the Remuneration and Appraisal Committee of the 1st session of the Board)	1/1
Gao Zhu (Chairman of the Remuneration and Appraisal Committee of the 2nd session of the Board)	1/1
Wang Chuanshun	1/1
Liang Zhongwei	1/1
Lv Xiangyou	1/1

4. Nomination Committee

On 11 April 2016, the 3rd meeting of the Nomination Committee of the 1st session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Review on the Non-staff Representative Directors of the Second Session of the Board during the General Meeting" (《關於提請股東大會審議第二屆董事會非職工代表董事的議案》) by voting by telecommunication.

On 8 August 2016, the 1st meeting of the Nomination Committee of the 2nd session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Recommendation of General Manager of LUZHENG FUTURES Company Limited” (《關於推薦魯証期貨股份有限公司總經理的議案》) and the “Proposal on the Recommendation of Deputy General Manager of LUZHENG FUTURES Company Limited” (《關於推薦魯証期貨股份有限公司副總經理的議案》) by voting by telecommunication.

On 23 August 2016, the 2nd meeting of the Nomination Committee of the 2nd session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Recommendation of Chief Risk Officer of LUZHENG FUTURES Company Limited” (《關於推薦魯証期貨股份有限公司首席風險官的議案》), the “Proposal on the Recommendation of the Secretary of the Board of Directors of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司董事會秘書的議案》) and the “Proposal on the Recommendation of the Chief Financial Officer of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司財務負責人的議案》).

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

Name	Number of meetings attended/Number of meetings held
Gao Zhu (Chairman of the Nomination Committee of the 1st session of the Board) ⁽¹⁾	1/1
Li Dapeng (Chairman of the Nomination Committee of the 2nd session of the Board) ⁽²⁾	2/2
Yu Xuehui	3/3
Wang Chuanshun	3/3
Liang Zhongwei	3/3
Zhang Yunwei ⁽³⁾	1/1
Yin Ge ⁽⁴⁾	2/2

Note: (1) On 16 June 2016, Mr. Gao Zhu retired as the Chairman of the Nomination Committee of the 1st session of the Board.

(2) On 23 June 2016, Mr. Li Dapeng was appointed as the Chairman of the Nomination Committee of the 2nd session of the Board.

(3) On 16 June 2016, Mr. Zhang Yunwei retired as the non-executive Director of the Company and the member of the Nomination Committee of the 1st session of the Board.

(4) On 16 June 2016, Mr. Yin Ge was appointed as the member of the Nomination Committee of the 2nd session of the Board.

5. Strategic Development Committee

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

V. CHAIRMAN AND GENERAL MANAGER

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

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

1. Presiding over general meetings and convening and presiding over the board meetings;
2. Supervising and inspecting the implementation of the resolutions of the Board of Directors and debriefing of relevant reports;
3. Supervising and organizing the formulation of rules and regulations on the operation of the Board of Directors, and coordinating the operation of the Board of Directors;
4. Signing the securities certificates issued by the Company;
5. Signing the documents of the Board of Directors and other documents that shall be signed by the Company's legal representative;
6. Exercising the functions and powers of the legal representative;
7. In the occurrence of force majeure and major emergency events, such as extraordinarily serious natural disasters, which renders the Board of Directors unable to convene a meeting in due course, exercising a special right to deal with the Company's affairs in compliance with the law and in the Company's interests, and reporting such to the Board of Directors and Shareholders thereafter; and
8. Exercising any other functions and powers specified in laws, regulations or the Articles of Association or conferred by the Board of Directors.

Mr. Liu Qingbin, the general manager, is mainly responsible for:

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by all the Directors and Supervisors. In addition, the Company has also established guidelines for dealing in securities of the Company by its senior management on terms which are not less 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 throughout 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.

VII. PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

VIII. SUPERVISION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board understands that it is the responsibility of the Board to maintain the risk management and internal control system at a sufficient level and to review the effectiveness of the system annually to safeguard the investment of the Shareholders and the assets of the Company.

The Company established an internal control management model that covers pre-event, ongoing and post-event periods so as to ensure that various operation and management activities are undertaken in accordance with laws and regulations. The internal monitoring system of the Company comprises the Supervisory Committee, the Audit Committee of the Board, the audit department and the compliance department. The compliance department emphasizes on the monitoring function of compliance management during pre-event and on-going periods. The audit department, led by chief risk officer and is accountable to the Audit Committee of the Board, emphasizes on post-event monitoring including the performance of internal independent audit and assessment. The Company monitors and checks the establishment and implementation of the internal control system of the Company through implementing internal audit and compliance inspection.

The Board has reviewed the risk management and internal control system of the Group and is of the view that the risk management and internal control system is effective and sufficient.

With respect to the process of identifying, assessing and managing significant risk, the Company mainly adopts the following measures:

- (1) Develop various types of risk warning and limit indicator systems according to the risk appetite; continue to monitor risk warning and limit indicator, and report to the Board and senior management the use of the risk limits; formulate relevant correction measures and submit to the risk management and internal control committee under senior management for review and the adoption of necessary risk diversification measures when risk limits are close to the monitoring indicator limits.
- (2) Conduct regularly comprehensive risk stress tests with uniform scenario and irregularly special stress tests to assess the impact of the significant risk events; formulate appropriate risk contingency plan when necessary and apply the stress test results when making the decisions in relation to the risk management of the Company and each of the operation management.
- (3) Identify and assess various risks on regular basis and incorporate the assessment and management advices into the comprehensive risk management report which shall be submitted to management and the Board for review.

Corporate Governance Report

The major characteristics of the risk management and internal control system of the Group are as follow:

- (1) Risk management and compliance requirements cover all. Risk management and internal control system cover every business line: domestic and foreign currencies, on the statements and off the statements, and domestic and overseas businesses; cover all branches of associations, departments, positions and staff; cover every type of risks and the impact of different risks; cover all the management processes, from decision making to execution and monitoring; the risk management and internal control system of the Company cover all the domestic and foreign requirements in relation to internal control and risk management, such as “The Basic Rules on Enterprise Internal Control”, “Enterprise Internal Control Guidelines” and Listing Rules, which are all applicable to the Group;
- (2) The relative independency of risk management and internal control. The Company established an independent organization structure for comprehensive risk management and internal control system, granting sufficient authority, human resources and other resources to the risk management functions, and establishing a scientific and reasonable reporting channel, which forms an operation mechanism of checks and balances with business line;
- (3) Risk-oriented internal control. On the basis that the satisfaction of the internal control requirements set out in Listing Rules are ensured, the Company adopts risk assessment methods with the focus on the high risk areas and management hotspots while selecting the major business flow and critical controlling links for fulfilling the relevant requirements of risk control and implements such methods in relevant business management. Through the comprehensive risk management and the whole-process of internal control system, the Company is committed to reasonably ensure that the business risk appetite is in line with the Company’s strategy and the work on risk management is undertaken in an orderly manner. The Company also aims at effectively identifying risk so as to avoid the unnecessary loss while reasonably ensuring the accuracy of the risk assessment method and timely delivery of the risk report. Meanwhile, the Company also targets to reasonably ensure the effective operation of the supervision mechanism of internal control system to timely identify significant risk.

During the Reporting Period, the Company complied with regulatory requirements and the needs for internal control management and implemented various audit inspections covering different business sections including the Company’s assets management business, clients’ margin deposits and self-owned capital management, the management of the sales department, and the management of risk management subsidiaries, as well as key management procedures. Attention was paid to the regulatory requirements of regulatory authorities and the new rules and system of the Company during audit process and such requirements were included in the scope of audit, which effectively facilitated the enforcement of the Company’s internal control system. During the Reporting Period, the Company formulated its internal control system by taking into consideration of its own business development in accordance with relevant laws and regulatory requirements on securities and futures in the PRC and Hong Kong to accommodate the management requirements of the Company and to ensure the effective implementation with an aim to achieving the target of compliance management of the Company, which reasonably assured the truthfulness and completeness of the financial reports. Such system also serves as an effective preventive measure for managing and responding to significant risks as well as checking against financial frauds, errors of important procedures to eliminate potential significant risks.

The Company is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or when relevant decisions are made unless it falls within “Safe Harbours” as defined under the Securities and Futures Ordinance. Meanwhile, the Company has put in place real time monitor mechanism over information which could be the inside information and determines whether such information is inside information and is practicable for disclosure. If the disclosure standards are met, the information should be disclosed as early as possible. Before the disclosure, the scope of knowledge should be strictly controlled and the fluctuation of the stock price should be monitored until the completion of the disclosure of the inside information. If the disclosure standards are not met, the Company will also maintain strict confidentiality.

IX. OTHER RELEVANT MATTERS

(i) Auditors and remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as auditors of the Company for the financial statements prepared by the Company in accordance with International Financial Reporting Standards and Accounting Standards for Business Enterprises of PRC for the year ended 31 December 2016, respectively. During the period covered by this report, there was no occurrence of disagreement from the Board of Directors to the opinions of selection and appointment of external auditor from the Audit Committee. For details of the auditors’ remuneration, Please refer to “VII. Appointment, Change and Dismissal of Auditors” in Chapter X of this report.

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

The Board of Directors acknowledged its responsibility of preparing the consolidated financial statements of the annual report for the year ended 31 December 2016 of the Group.

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

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

Please refer to “Independent Auditor’s Report” in Chapter XIII of this report for the responsibility declaration of the auditor of the Company concerning the consolidated financial statements.

Corporate Governance Report

(iii) Company secretaries

Mr. Meng Tao and Ms. Ng Wing Shan are joint company secretaries of the Company. Ms. Ng Wing Shan (assistant vice president of SW Corporate Services Group Limited) is one of our joint company secretaries and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Meng Tao, a joint company secretary and the secretary to the Board of Directors, is the main internal contact person between Ms. Ng Wing Shan and the Company. Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2016, Mr. Meng Tao and Ms. Ng Wing Shan had attended more than 15 hours of relevant professional training.

(iv) Rights of shareholders

The general meeting is the supreme authority of the Company. The Shareholders exercise their rights through the general meeting. The Company convenes and holds the general meetings in strict compliance with the relevant requirements to ensure that all Shareholders, especially minority Shareholders, can enjoy equal positions and fully exercise their rights. The Company maintains a healthy and steady development in an orderly way under the restraints of the Articles of Association, the interests of the Company and its Shareholders are effectively protected.

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

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

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

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

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

(v) Investor Relations

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

(vi) Policy on Board Diversity

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

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

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

(vii) Amendments to the Articles of Association

On 10 September 2015, Qilu Securities Co., Ltd., the promotor of the Company, was renamed from "Qilu Securities Co., Ltd." to "Zhongtai Securities Co., Ltd.". Pursuant to the requirements of the Company Law of the PRC, the Company amended the relevant terms regarding the name of shareholders in the Articles of Association of the Company as approved by the annual general meeting of 2015 on 16 June 2016. Save as the disclosed above, the Company did not make any significant changes to the Articles of Association of the Company during the Reporting Period.

Corporate Governance Report

(viii) Remuneration of the Senior Management

The remuneration paid to members of the senior management by bands for the year ended 31 December 2016 is set out below:

Remuneration bands	Year ended 31 December 2016 Number
RMB400,001 to RMB600,000	5
RMB600,001 to RMB800,000	1
RMB800,001 to RMB1,000,000	1
	<hr/>
	7

(ix) Terms of office of non-executive Directors

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

Internal Control

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

I. ESTABLISHMENT OF INTERNAL CONTROL STRUCTURE

The Company establishes and perfects the corporate governance and internal control structures formed by general meetings, the Board of Directors, the Supervisory Committee and the management. General meetings are the most powerful authority of the Company; the Board of Directors is the decisions-making body of the Company which is responsible for the formulation and implementation of the internal control system, and under which are the specific committees such as the Strategic Development Committee, the Audit Committee and the Risk Control Committee to ensure the implementation of the internal control system; the Supervisory Committee is the supervisory body of the Company which is responsible for the supervision of the performance of senior management including Directors and managers and the inspection of the Company’s business and financial conditions, etc. The management serves as the execution body of the Company which is responsible for the execution of resolutions of general meetings and the Board of Directors as well as the Company’s daily management tasks, and under which are certain committees such as the Investment Decision Committee. The management is also equipped with certain departments such as the compliance department and the audit department, which are responsible for inspection and supervision of the implementation and performance of the internal control system.

II. IMPLEMENTATION AND OPERATION OF INTERNAL CONTROL SYSTEM

Pursuant to relevant laws and regulations, requirements on regulatory policies and corporate governance, the Company establishes and implements corresponding levels of internal control system, including the Articles of Association of the Company, the Rules of Procedure of three meetings and relevant business systems, financial systems and administrative systems, and continuously optimizes the control over procedures, improves the appraisal mechanism, and fully exhausts its enforceability of systems. The Company also upholds the principle of decisions-making in a legal, scientific and democratic manner while making decisions on key economic issues such as planning significant investments, and strictly follows the decision-making procedures including transaction approval and responsibility division. While entering into economic contracts, the Company strictly follow the approval procedures to seek for legal advice. The Company tightly follows relevant requirements to perform approval procedures of decisions-making when conducting related party transactions and discloses related information in order to meet relevant requirements.

III. SUPERVISION AND INSPECTION OF INTERNAL CONTROL

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

During the Reporting Period, the Company complied with regulatory requirements and the needs for internal management and implemented various audit inspections covering different business fields including the Company's assets management business, clients' deposits and self-owned capital management, the management of the sales department and the management of risk management subsidiaries, as well as key management procedures. Regulatory requirements of regulatory authorities and the new rules and system of the Company were concerned during audit process and relevant requirements were included in the scope of audit, which effectively facilitated the enhancement of the enforceability of the Company's internal control system.

IV. CONCLUSION OF THE ASSESSMENT OF INTERNAL CONTROL

During the Reporting Period, the Company formulated its internal control system by taking into consideration of its own business development and in accordance with relevant laws and regulatory requirements on securities and futures in the PRC and Hong Kong, adapted to the management requirements of the Company and resulted in the effective implementation of such system, which achieved the compliance management purpose of the Company and reasonably assured the authenticity and completeness of the financial reports. Such system also served as an effective preventive measure against financial frauds, errors of important procedures and there were no potential significant risks in respect of significant risk management.

Independent Auditor's Report



羅兵咸永道

Independent Auditor's Report

To the shareholders of LUZHENG FUTURES Company Limited

(incorporated in China with limited liability)

Opinion

What we have audited

The consolidated financial statements of LUZHENG FUTURES Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 138 to 242, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Consolidation assessment and disclosure of structured entities; and
- Valuation of financial instruments held at fair value.

Key Audit Matter

How our audit addressed the Key Audit Matter

Consolidation assessment and disclosure of structured entities

Refer to notes 3.2.4, 20.3 and 46 to the Group's consolidated financial statements.

The Group has invested in a number of structured entities (primarily asset management schemes, trust schemes, private securities investment funds, and bank wealth management products, etc.) which were managed or invested by the Group itself. As at 31 December 2016, investments in structured entities of approximately RMB 380 million were consolidated by the Group while other structured entities of RMB 803 million were not consolidated.

We placed our audit emphasis on this matter because of the significance of the amounts and the level of management judgement involved in consolidation assessment based on the three elements of control (power, variable returns and linkage between these two elements).

Our audit procedures in relation to management assessment on consolidation of structured entities included:

- Obtained an understanding of the management's control process over the application of the relevant accounting standards in consolidation assessment of structured entities, including the management's identification and maintenance of the list of structured entities, as well as the preparation and review over consolidation.
- Performed audit sampling of the structured entities that the Group invested and managed by inspecting legal and other supporting documents and evaluating management's consolidation assessment of those structured entities. For these samples selected, the following procedures were performed:
 - Analyzed business architectures and related contract terms, and evaluated whether the Group has the power over structured entities.
 - Obtained contract terms about variable return of structured entities, which contained fixed management fee and performance reward earned in capacity of the asset manager, and return from the Group's investments in structured entities.
 - Re-calculated the magnitude and variability of returns to the Group, analyzed the Group's role as principal or agent, and compared these results with management's assessment.
- Tested the consolidation process to assess whether the extent of disclosures were appropriate.

Based the above procedures performed, we found that the key management judgements in relation to consolidation assessment of structured entities and the related disclosures were supported by the evidence we gathered.

Independent Auditor's Report

Valuation of financial instruments held at fair value

Refer to notes 3.1.8, 22, 27, 28, 36 and 44.2 to the Group's consolidated financial statements.

As at 31 December 2016, the Group's financial instruments held at fair value included various financial assets and liabilities stated at RMB 819 million and RMB 301 million respectively.

Trust schemes, which stated at RMB 138 million, were classified at level 3 and Discounted Cash Flows Model was applied in the valuation. The remaining instruments were classified at either level 1 or level 2 in the fair value hierarchy and were valued through observable market data or net asset value provided by the relevant asset managers.

Valuation of the Group's financial instruments held at fair value was a key area of audit focus due to the materiality of the balances. For those financial instruments that were classified at level 3 (i.e. trust schemes), our audit also focused on the significant management judgments was applied in determining the unobservable parameters to the model, including expected future cash flows, expected recovery date and discount rates that corresponded to the expected risk level.

Our audit procedures in relation to the valuation of financial instruments included the following:

- Understood and evaluated the management procedures and controls over the identification, measurement and oversight of valuation risk of financial instruments.
- Assessed the appropriateness of the valuation methodologies applied by the Group and compared methodologies with our knowledge of the current industry practice.
- For the valuation of level 1 and level 2 non-derivative instruments, we performed sampling test to verify the reasonableness of fair value by independently obtaining the observable market data and the net asset value provided by relevant asset managers, and comparing the prices used by the Group with these data. For derivative instruments (primarily options), we evaluated the key parameters of the options valuation model against open market value, and independently checked the calculation of the fair value.
- For the valuation of trust schemes that were classified at level 3, which depended on unobservable parameters, we challenged the assumptions and judgements made by management with our knowledge of the current industry practice. We assessed the external evidence, e.g., legal documents, updated trustee's credit assessment report on underlying investment and the trustee's credit standing, to corroborate the management's estimation of the future cash flows, expected recovery date and discount rates. In addition, we applied Discounted Cash Flows Model to recalculate the fair value of all the trust schemes that were classified at level 3.

Based on the procedures we performed, management's key judgements applied in its fair value measurement are appropriate and supported by the evidence we gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charge with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LUM KWEI SHAN.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 March 2017

Consolidated Statements of Comprehensive Income

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2016	2015
Commission and fee income	5	264,432	619,500
Commission and fee expense	5	(167,528)	(471,367)
Net commission and fee income		96,904	148,133
Interest income	6	169,125	172,146
Interest expense	6	(16,034)	(26,126)
Net interest income		153,091	146,020
Gains/(losses) on physical commodities trading	7	10,643	(5,708)
Net investment gains	8	51,400	44,228
Other income	9	86,877	37,225
Operating income		398,915	369,898
Staff costs	10	(120,818)	(95,592)
Commission to brokerage agents		(16,912)	(27,102)
Introducing broker commission		(8,162)	(16,832)
Depreciation and amortization	11	(8,358)	(8,169)
Impairment losses	12	(1,562)	(237)
Other operating expenses	13	(88,294)	(106,782)
Operating expenses		(244,106)	(254,714)
Operating profit		154,809	115,184
Share of losses of investment in an associate	19	(1,946)	(2,874)
Other gains, net	14	2,063	12,600
Profit before income tax		154,926	124,910
Income tax expense	15	(42,150)	(31,327)
Profit for the year		112,776	93,583

Consolidated Statements of Comprehensive Income (Continued)

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Notes	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	34	(873)	3,728
– Income tax effect on changes in fair value	34	219	(932)
– Amounts reclassified to profit or loss upon disposal or impairment	34	(614)	(2,869)
Currency translation differences		1,741	234
Other comprehensive income for the year, net of tax		473	161
Total comprehensive income for the year		113,249	93,744
Profit attributable to:			
– Shareholders of the Company		113,003	93,583
– Non-controlling interests	20	(227)	–
		112,776	93,583
Total comprehensive income attributable to:			
– Shareholders of the Company		113,476	93,744
– Non-controlling interests	20	(227)	–
		113,249	93,744
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)			
Basic/Diluted	16	0.11	0.11

Consolidated Statements of Financial Position

As at 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	17	42,239	45,125
Intangible assets	18	7,787	6,157
Investment in an associate	19	28,743	5,811
Other non-current assets	21	1,862	3,137
Available-for-sale financial assets	22	16,514	134,310
Deferred income tax assets	23	5,823	1,983
Refundable deposits	24	25,516	20,138
Total non-current assets		128,484	216,661
Current assets			
Physical commodities	25	72,560	3,640
Other current assets	26	136,825	30,889
Available-for-sale financial assets	22	533,718	303,354
Derivative financial assets	27	609	1,151
Financial assets at fair value through profit or loss	28	269,706	22,857
Financial assets held under resale agreements	29	12,199	—
Deposits with exchange-clearing organizations	30	2,196,722	2,661,676
Bank balances held for clients	31	3,855,245	2,996,241
Cash and bank balances	32	998,225	1,196,940
Total current assets		8,075,809	7,216,748
Total assets		8,204,293	7,433,409
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	33	1,001,900	1,001,900
Share premium	34	650,630	650,630
Other reserves	34	176,354	148,266
Retained earnings		219,871	177,565
Total equity attributable to shareholders of the Company		2,048,755	1,978,361
Non-controlling interests	20	29,773	—
Total equity		2,078,528	1,978,361

Consolidated Statements of Financial Position (Continued)

As at 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2016	31 December 2015
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	23	76	14
Other non-current liabilities		1,783	2,599
Total non-current liabilities		1,859	2,613
Current liabilities			
Other current liabilities	35	76,505	41,530
Current income tax liabilities		23,555	7,298
Derivative financial liabilities	27	606	1,927
Financial liabilities at fair value through profit or loss	36	300,539	188,146
Accounts payable to brokerage clients	37	5,722,701	5,213,534
Total current liabilities		6,123,906	5,452,435
Total liabilities		6,125,765	5,455,048
Total equity and liabilities		8,204,293	7,433,409

Consolidated Statements of Changes in Equity

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company				Non-controlling interests (Note 20.2)	Total equity
	Share capital (Note 33)	Share premium (Note 34)	Other reserves (Note 34)	Retained earnings		
Balance at 1 January 2016	1,001,900	650,630	148,266	177,565	—	1,978,361
Profit for the year	—	—	—	113,003	(227)	112,776
Other comprehensive income for the year	—	—	473	—	—	473
Total comprehensive income for the year	—	—	473	113,003	(227)	113,249
Net appropriation to reserves	—	—	27,615	(27,615)	—	—
Dividends relating to 2015	—	—	—	(43,082)	—	(43,082)
Capital contributions by minority shareholders of a subsidiary	—	—	—	—	30,000	30,000
Balance at 31 December 2016	1,001,900	650,630	176,354	219,871	29,773	2,078,528

	Attributable to shareholders of the Company				Non-controlling interests (Note 20.2)	Total equity
	Share capital (Note 33)	Share premium (Note 34)	Other reserves (Note 34)	Retained earnings		
Balance at 1 January 2015	750,000	290,292	122,525	109,562	—	1,272,379
Profit for the year	—	—	—	93,583	—	93,583
Other comprehensive income for the year	—	—	161	—	—	161
Total comprehensive income	—	—	161	93,583	—	93,744
Issuance of ordinary shares, net	251,900	360,338	—	—	—	612,238
Net appropriation to reserves	—	—	25,580	(25,580)	—	—
Balance at 31 December 2015	1,001,900	650,630	148,266	177,565	—	1,978,361

Consolidated Statements of Cash Flows

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2016	2015
Cash flows from operating activities		
Profit before income tax	154,926	124,910
Adjustments for:		
Depreciation and amortization	8,358	8,169
Impairment losses	1,562	237
Net losses on disposal of property and equipment and intangible assets	66	8
Foreign exchange losses/(gains)	334	(8,176)
Realized gains from disposal of available-for-sale financial assets	(3,795)	(28,048)
Dividends and interest income from available-for-sale financial assets and term deposits	(20,793)	(2,432)
Share of losses of investment in an associate	1,946	2,874
	142,604	97,542
Net increase in operating assets:		
Net increase in bank balances held for clients	(859,004)	(1,009,766)
Net decrease/(increase) in deposits with exchange-clearing organizations	416,891	(267,367)
Net increase in financial assets at fair value through profit and loss and derivative financial assets	(246,307)	(22,413)
Net increase in financial assets held under resale agreements	(12,199)	—
Net increase in other assets	(112,877)	(13,233)
Net (increase)/decrease in physical commodities	(68,920)	12,049
	(882,416)	(1,300,730)
Net increase in operating liabilities:		
Net increase in accounts payable to brokerage clients	509,167	1,008,340
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	(44,394)	190,073
Net increase in other liabilities	34,158	7,511
	498,931	1,205,924
Income tax paid	(29,671)	(35,339)
Net cash outflow from operating activities	(270,552)	(32,603)

Consolidated Statements of Cash Flows

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2016	2015
Cash flows from investing activities		
Payment for investment in an associate	(24,878)	—
Dividends and interest received from available-for-sale financial assets and term deposits	20,793	2,432
Purchases of property and equipment, intangible assets and other long-term assets	(6,005)	(9,460)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	114	408
Payment for purchases of available-for-sale financial assets and term deposits	(1,307,031)	(1,117,650)
Proceeds on maturity and disposal of available-for-sale financial assets and term deposits	1,128,731	727,686
Net cash outflow from investing activities	(188,276)	(396,584)
Cash flows from financing activities		
Net proceeds from issuance of ordinary shares	—	612,238
Proceeds from subscription to consolidated structured entities	299,936	—
Payment for redemption from consolidated structured entities	(144,470)	—
Proceeds from capital contributions by minority shareholders of a subsidiary	30,000	—
Dividends paid to company's shareholders	(43,082)	—
Net cash inflow from financing activities	142,384	612,238
Net (decrease)/increase in cash and cash equivalents	(316,444)	183,051
Cash and cash equivalents at beginning of year	558,656	367,429
Effect of exchange rate changes on cash and cash equivalents	(334)	8,176
Cash and cash equivalents at end of year (Note 38)	241,878	558,656

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016
(All amounts in RMB'000 unless otherwise stated)

1 General information

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

The Company, originally named as Shandong Quaxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), was set up upon approval from the China Securities Regulatory Commission (the "CSRC") in April 1995 as a limited liability company with an initial registered capital of RMB10.2 million. The Company increased its registered capital to RMB50 million after three additional capital contributions and was renamed as Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司) in February 2007. The Company subsequently increased its registered capital to RMB200 million and further changed its name to Luzheng Futures Co., Ltd. (魯証期貨有限公司) in December 2007. After a series of share transfers and capital increases, the Company increased its registered capital to RMB640 million by September 2012. Upon approval by relevant government authorities, the Company was converted from a limited liability company into a joint-stock company in December 2012. After the conversion, the registered share capital of the Company was RMB750 million and the Company's Chinese name was changed accordingly (魯証期貨股份有限公司).

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

The Company holds the futures business licence No. 31190000 and business licence No. 370000018085761. The registered address of the Company is Floor 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province.

The Company and its subsidiary (the "Group") are principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, futures asset management, commodity trading, 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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.2.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.1 New and amended standards adopted by the Group

The following amendments to standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation — Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012–2014 cycle, and
- 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 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.2 New standards and interpretations not yet adopted (Continued)

IFRS 9, 'Financial instruments' (Continued)

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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.2 New standards and interpretations not yet adopted (Continued)

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 contracts for goods and 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016
(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.2 New standards and interpretations not yet adopted (Continued)

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, see note 40. 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

3 Summary of significant accounting policies and accounting estimates

3.1 Summary of significant accounting policies

3.1.1 Accounting year

The Group's accounting year starts on 1 January and ends on 31 December.

3.1.2 Consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary is consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities ("SEs") in which the Group acts as an asset manager or an investor. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiary, the financial statements of subsidiary are adjusted in accordance with the accounting policies and accounting period of the Group.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.2 Consolidation (Continued)

Inter-company transactions, balances and unrealized profits on transactions between group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognized as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

3.1.3 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.4 Associates (Continued)

The Group's share of post-acquisition profit or loss is recognized in the profit and loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profits/losses of investments in associates' in the profit and loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the profit and loss.

3.1.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The Company assesses at each financial reporting date whether there is objective evidence that investment in subsidiary is impaired. An impairment loss is recognized for the amount by which the investment in subsidiary' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiary's fair value less costs to sell and value in use.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.6 Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Renminbi (RMB), which is the Company's functional and the Group's presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(3) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.1.8 Financial instruments

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

A financial asset or financial liability is recognized on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when one of the following conditions is met: (1) the contractual rights to receive cash flows from the investments have expired; (2) when the Group has transferred substantially all risks and rewards of ownership; (3) when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognized in equity is recognized in profit or loss.

Financial liabilities are de-recognized when they are extinguished that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) *Classification and measurement*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale. The classification of financial assets depends on the Group's intention and ability to hold the financial assets. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss.

Equity securities, funds, debt securities, private securities investment funds, trust schemes and collective assets management schemes for the purpose of selling in the near term are classified as financial assets held for trading. Equity securities, funds, debt securities, private securities investment funds, trust schemes and collective asset management schemes may be designated at fair value through profit or loss upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) Classification and measurement (Continued)

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

- (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39—Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognized and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in the profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss through net investment gains in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including accounts receivable, other receivables, financial assets held under resale agreements, refundable deposits, and deposits with exchange-clearing organizations. Loans and receivables are recognized initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortized cost using effective interest rate method.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) Classification and measurement (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized directly in other comprehensive income, and ultimately in the equity, until the financial assets are de-recognized or impaired at which time the cumulative gains or losses previously recognized in equity should be reclassified from equity to profit or loss. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognized in profit or loss.

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

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

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

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(2) *Classification and measurement (Continued)*

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

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

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

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

(e) *Other financial liabilities*

Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method. Transaction costs and fees of other financial liabilities are included in calculating amortized cost using the effective interest method.

The Group's other financial liabilities mainly comprise "Accounts payable to brokerage clients" and "Other current liabilities" in the statement of financial position. Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(3) *Determination of fair value*

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The Group utilizes the latest market price for both financial assets and financial liabilities where the latest price falls within the bid-ask spread. In circumstances where the latest market price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that substantially the same, and discounted cash flow analysis, among others. In applying valuation techniques to measure fair value, the Group maximizes the use of observable market inputs and minimizes the use of inputs that are specific to the Group.

If the quoted market price is not available and the fair value cannot be reliably measured, a financial asset is measured at cost.

(4) *Derivative financial instruments*

The Group's derivatives are commodities futures contracts, stock index futures contracts, OTC commodities forwards, exchange options and OTC options. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

When entering into physical commodity trading transactions, the Group has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin and the non-financial item that is the subject of the contract is readily convertible to cash. The related OTC commodities forwards are recognized accordingly upon entering into such transactions.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(5) *Resale agreements*

Assets purchased under agreements to resell at a specified future date are not recognised on the statement of financial position at time of acquisition. The corresponding cash paid is recognised on the statement of financial position as “financial assets held under resale agreements”.

The differences between the purchase and resale prices are recognised as interest income which are accrued over the term of the agreement using the effective interest rate method.

(6) *Impairment of financial assets*

Except for financial assets at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

(a) *Financial assets carried at amortized cost*

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

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

- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then collectively assesses financial assets that are not individually significant. The Group performs a collective assessment for individually assessed financial assets with no objective evidence indicating impairment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of loss is recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

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

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for acquiring and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed and the amount of loss is determined. Subsequent recoveries of amounts previously written off are recognized in profit or loss against impairment losses on assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in profit or loss.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

(b) Available-for-sale financial assets

Objective evidence that a debt instrument is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- (i) significant financial difficulty of the borrower or issuer;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (v) disappearance of an active market for financial assets because of significant financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group; and

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(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

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

- (vii) other objective evidence indicating there is an impairment of the financial asset.

A significant or prolonged decline in the fair value of an equity instrument or collective asset management schemes with equity instruments underlying classified as available-for-sale indicates there is objective evidence that the available-for-sale equity instrument is impaired. The Group assesses the fair value of available-for-sale equity instruments individually at statement of financial position date and determines that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, the Company recognize impairment losses in profit or losses if it concludes this decline is prolonged and expected to last for more than one year based on professional judgement of the Company's investment team of finance department.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value subsequent to impairment are recognized as other comprehensive income.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.8 Financial instruments (Continued)

(7) *Offsetting financial instruments*

Financial assets and financial liabilities are separately presented in the statement of financial position without any offsetting, except when:

- (a) the Group has a legally enforceable right to offset the recognized amounts; and
- (b) the Group has intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.1.9 Physical commodities

The Group's physical commodities mainly includes tradable agricultural products and industrial products. These commodities are initially measured at cost. Cost is determined using the first-in, first-out (FIFO) method, including purchase cost and other variable purchase expenses.

At the end of each reporting period, physical commodities are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Any excess of the cost over the net realizable value of each inventories is recognized as an impairment provision for diminution in the value of physically commodities in the statement of financial position and impairment charge within gains/(losses) on physical commodities trading.

If, in a subsequent period, the net realizable value of the impaired physical commodities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.10 Property and equipment

The Group's property and equipment includes buildings, motor vehicles, electronic and other equipment that are used for operation purpose and have useful lives of more than one year.

Property and equipment shall be recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. All other subsequent expenditures are recognized in profit or loss during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of property and equipment are as follows:

	Estimated useful lives	Estimated residual rates	Annual depreciation rates
Buildings	30 years	3%	3.23%
Motor vehicles	6 years	3%–5%	15.83%–16.17%
Electronics and other equipment	3–5 years	3%–5%	19.00%–32.33%

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Group at the end of each reporting period.

Property and equipment is de-recognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of Property and equipment net of its carrying amount and related taxes and expenses is recognized in the profit or loss. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount as set out in Note 3.1.13.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.11 Intangible assets

Intangible assets comprise of computer software, which are initially recognized at cost. The cost less estimated residual values (if any) of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3.1.13.

3.1.12 Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvements and expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortization.

3.1.13 Impairment of non-financial assets

Property and equipment, intangible assets with definite useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognized in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Assets that have an indefinite useful life for example, intangible assets with indefinite useful life that are not subject to amortization are tested at least annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.14 Employee benefits

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

A defined contribution scheme is a pension or social security plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. During the year, the Group's post-employment schemes mainly include basic pension insurance.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social insurance schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labour and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. Contributions are recognized in the profit or loss for the current period.

3.1.15 Revenue recognition

(1) *Commission and fee income*

- (a) Revenue from futures brokerage services is recognized on the date of the transaction;
- (b) Revenue from asset management services is recognized when securities are rendered according to the provisions of the underlying contracts;
- (c) Consultancy and advisory fees are recognized when the relevant transactions have been arranged or the relevant services have been rendered.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.15 Revenue recognition (Continued)

(2) *Interest income is recognized using the effective interest method.*

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

(3) Gain/(loss) on physical commodities trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.

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

3.1.16 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to Property and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.17 Deferred income tax assets and liabilities

(1) *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(2) *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.17 Deferred income tax assets and liabilities (Continued)

(3) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.1.18 Leases

Leases of assets where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

3.1.19 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3.1.20 Provisions

Provisions for matters such as legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

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For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.1.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision-maker in resource allocation and performance assessment of each operating segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

3.1.23 Assets segregated for brokerage clients

Pursuant to requirements of the CSRC, funds deposited by brokerage clients relating to exchange-traded futures contracts must be deposited in designated bank accounts or with exchange-clearing organizations, which are segregated and accounted for separately from the proprietary funds of the Company.

Deposits with exchange-clearing organizations pertain primarily to deposits made to satisfy margin requirements on brokerage clients and to satisfy the requirements set by the futures exchanges for clearing membership.

Deposits with exchange-clearing organizations do not include client-owned securities that are pledged to exchange-clearing organizations. Such client-owned securities are not presented on the Group's statement of financial position.

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(All amounts in RMB'000 unless otherwise stated)

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

3.1 Summary of significant accounting policies (Continued)

3.1.24 Accounts payable to brokerage clients

Accounts payable to brokerage clients represent the total of brokerage client accounts with credit or positive balances. Brokerage client accounts are used primarily in connection with exchange-traded commodity and financial futures transactions and include gains and losses on open futures contracts as well as other deposits made as required by the Group or the exchange-clearing organizations. Brokerage client accounts with credit or positive balances are reported gross of client accounts that contain debit or net deficit balances, except where a right of offset exists.

3.2 Summary of significant accounting estimates and judgments

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

3.2.1 Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

3.2.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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(All amounts in RMB'000 unless otherwise stated)

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

3.2 Summary of significant accounting estimates and judgments (Continued)

3.2.3 Income taxes

The Group is mainly subject to income taxes in China. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

3.2.4 Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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(All amounts in RMB'000 unless otherwise stated)

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

3.2 Summary of significant accounting estimates and judgments (Continued)

3.2.4 Determination of consolidation scope (Continued)

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

A private securities investment fund is established by a third-party asset manager where the Group holds all the units issued. The manager of the private security fund is mainly responsible for fund administration with very low management fee level, while the Group has a substantial power over fund investment. It is concluded that the Group is a principal of the fund with the above features since inception (Note 20.3).

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4 Taxation

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

	Tax basis	Tax rate
Corporate income tax/Profit tax	Taxable profit	25%/16.5%
Value added tax ("VAT")	Taxable value added	
– general taxpayer ⁽¹⁾	(VAT payable is calculated by VAT-output less deductible VAT-input)	17%/13%/6%
Value added tax ("VAT")	Taxable value added	
– small scale taxpayer ⁽²⁾	(VAT payable is calculated by VAT-output)	3%
Business tax ⁽¹⁾	Taxable operating income	5%
City construction and maintenance tax	Business tax and VAT paid	7%
Educational surcharges	Business tax and VAT paid	3%

(1) According to "Notice of overall implementation of the placement of business tax with VAT" issued by the Ministry of Finance ("MOF") and the State Administration of Taxation, the Group's incomes from brokerage service, transfer of financial products, etc. are within the ambit of VAT since 1 May 2016. Before 1 May 2016, incomes from these transactions aforementioned are within the ambit of business tax and the tax rate is 5%.

(2) A subsidiary of the Group and some business departments of the Company are small-scale taxpayers and the tax rate is 3%.

5 Net commission and fee income

	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
	264,432	619,500
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
	167,528	471,367

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6 Net interest income

	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	—
	169,125	172,146
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
	16,034	26,126

7 Gains/(losses) on physical commodities trading

	Year ended 31 December	
	2016	2015
Sales proceeds	814,927	194,333
Costs of purchases	(804,284)	(200,041)
	10,643	(5,708)

A subsidiary of the Company involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized upon the transfer of risks and rewards of the ownership.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

8 Net investment gains

	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 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

(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 commodity trading activities and financial futures.

9 Other income

	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

(1) To improve the sustainable development of futures market, the futures exchanges implement a practice to partially refund trading fees to their clearing members. The policies on the timing and calculation method of refund, are made and adjusted periodically at the discretion of the futures exchanges.

Notes to the Consolidated Financial Statements

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10 Staff costs

	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

(1) The five highest paid individuals

For the year ended 31 December 2016, the five highest paid individuals include one supervisor (2015: nil). Details of the emoluments for the five highest paid individuals for the year is as follows:

	Year ended 31 December	
	2016	2015
Salaries, allowances and other welfares	2,277	2,277
Bonus	2,872	2,051
	5,149	4,328

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

	Year ended 31 December	
	2016	2015
RMB 600,001 to RMB 800,000	—	1
RMB 800,001 to RMB 1,000,000	2	4
RMB 1,000,001 to RMB 1,200,000	3	—
	5	5

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

Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

11 Depreciation and amortization

	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
	8,358	8,169

12 Impairment losses

	Year ended 31 December	
	2016	2015
Other receivables	1,162	237
Accounts receivable	400	—
	1,562	237

13 Other operating expenses

	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
	88,294	106,782

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For the Year Ended 31 December 2016
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14 Other gains, net

	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
	2,063	12,600

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

15 Income tax expense

	Year ended 31 December	
	2016	2015
Current tax	45,316	29,504
Deferred tax (Note 23)	(3,166)	1,823
	42,150	31,327

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

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15 Income tax expense (Continued)

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

	Year ended 31 December	
	2016	2015
Profit before income tax	154,926	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	1,610	1,905
	42,150	31,327

16 Earnings per share

16.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	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)	1,001,900	854,958
Basic earnings per share (in RMB)	0.11	0.11

16.2 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).

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For the Year Ended 31 December 2016
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17 Property, plant and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2016	40,073	9,661	29,482	79,216
Additions	—	—	2,462	2,462
Disposals	—	—	(2,188)	(2,188)
31 December 2016	40,073	9,661	29,756	79,490
Accumulated depreciation				
1 January 2016	(6,343)	(6,300)	(21,448)	(34,091)
Additions	(1,298)	(859)	(3,011)	(5,168)
Disposals	—	—	2,008	2,008
31 December 2016	(7,641)	(7,159)	(22,451)	(37,251)
Carrying amount				
31 December 2016	32,432	2,502	7,305	42,239
Cost				
1 January 2015	40,073	8,983	23,414	72,470
Additions	—	2,028	6,380	8,408
Disposals	—	(1,350)	(312)	(1,662)
31 December 2015	40,073	9,661	29,482	79,216
Accumulated depreciation				
1 January 2015	(5,045)	(6,316)	(19,189)	(30,550)
Additions	(1,298)	(996)	(2,494)	(4,788)
Disposals	—	1,012	235	1,247
31 December 2015	(6,343)	(6,300)	(21,448)	(34,091)
Carrying amount				
31 December 2015	33,730	3,361	8,034	45,125

For the year ended 31 December 2016, net losses from disposal of property and equipment amounted to RMB66 thousand (2015: net losses of RMB8 thousand).

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For the Year Ended 31 December 2016

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18 Intangible assets

	31 December 2016	31 December 2015
Net Book Value		
Computer software	7,787	6,157

	Year ended 31 December	
	2016	2015
Cost		
At 1 January	10,669	9,937
Additions	2,771	1,051
Disposals	—	(319)
At 31 December	13,440	10,669
Accumulated amortization		
At 1 January	(4,512)	(3,800)
Charges	(1,141)	(1,030)
Disposals	—	318
At 31 December	(5,653)	(4,512)
Carrying amount		
At 31 December	7,787	6,157

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19 Investment in an associate

The Group invested RMB9.8 million in an associate named Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司) (“Rizhao BOT”) for the year ended 31 December 2014. Rizhao BOT is located in Rizhao City, Shandong Province.

Upon completion of the equity restructuring of Rizhao BOT on May 2015, the Group’s equity holding in Rizhao BOT was diluted from 49% to 29.5%. The Group made payment of RMB 24.88 million for the capital increase in April 2016.

The registered capital of Rizhao BOT is RMB120 million as at 31 December 2016. The Group holds 29.5% of its equity and accounts for the associate using equity method.

The carrying amount of the associate and a reconciliation of the associate’s summarized financial information to the carrying amount of the Group’s interest in the associate are as follows:

	Year ended 31 December	
	2016	2015
At 1 January	5,811	8,685
Capital injection	24,878	—
Share of losses for the year	(1,946)	(2,874)
At 31 December	28,743	5,811
Summarized Financial Information		
Opening net assets	82,884	17,725
Capital contributions	26,353	73,648
Losses for the year	(6,596)	(8,489)
Other comprehensive income	—	—
Closing net assets	102,641	82,884
Interest in the associate and carrying value	28,743	5,811

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20 Investments in subsidiaries and consolidated structured entities

20.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specially stated, the Group's interests in these subsidiaries were all ordinary shares.

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid		Interest held	Directly/ Indirectly	Principal activities
				share capital/ registered capital				
Luzheng Economic and Trade Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB250,000,000/ RMB250,000,000		100%	Directly	Commodity trading, OTC derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000		100%	Directly	Information Technology Services, Software Development
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong	21 November 2013	Limited company	HKD47,754,468.62/ HKD118,820,000		100%	Indirectly	Commodity trading, OTC derivatives trading
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有有限公司) ("Lu Clearing")	Jinan, the PRC	9 October 2016	Limited company	RMB50,000,000/ RMB150,000,000		40%	Indirectly	Registration, settlement and derivatives clearing

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20 Investments in subsidiaries and consolidated structured entities (Continued)

20.2 Non-controlling interests

Non-controlling interests amounting to RMB 29,773 thousand (2015: nil) is attributable to Shandong Trading Market Clearing House Co., Ltd as at 31 December 2016.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised balance sheet

	31 December 2016
Current	
Assets	7,188
Liabilities	(1,848)
Total current net assets	5,340
Non-current	
Assets	48,317
Liabilities	(4,034)
Total non-current net assets	44,283
Net assets	49,623

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

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20 Investments in subsidiaries and consolidated structured entities (Continued)

20.2 Non-controlling interests (Continued)

Summarised statement of profit or loss

	From 9 October 2016 (Date of company funded) to 31 December 2016
Revenue	—
Loss before income tax	(378)
Income tax expense	—
Net loss for the period	(378)
Other comprehensive income	—
Total comprehensive income	(378)
Total comprehensive income allocated to Non-Controlling Interests	(227)

Summarised cash flows

	From 9 October 2016 (Date of company funded) to 31 December 2016
Cash flows from operating activities	1,611
Cash flows from investing activities	(50,069)
Cash flows from financing activities	50,000
Net increase in cash and cash equivalents	1,542
Cash and cash equivalents at beginning of the period	—
Cash and cash equivalents at end of the period	1,542

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20 Investments in subsidiaries and consolidated structured entities (Continued)

20.3 Consolidated structured entities

As at 31 December 2016, net assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

	Net assets	Initial investment	Maximum exposure
Investments in consolidated SEs by the Group:			
Huiquan Qingchunbao	156,940	15,000	12,738
SPDB FOF	62,164	6,000	6,152
Huiquan Wantai FOF No. 1	248,011	159,490	157,098
Huiquan Wantai Ruanshangpin	12,168	10,496	11,099
Quanshun Yinxi	20,014	19,000	18,964
Quanshun Huaan	19,357	19,000	18,318
Quanshun Heihuang	19,443	19,000	18,434
Quanshun Hongkai	19,249	18,481	18,263
Huiquan Tianji	10,505	7,000	6,917
Huiquan Wantai Cash No. 1	41,478	41,000	41,361
Heihuang Wantong No. 1	70,939	70,000	70,939
	680,268	384,467	380,283

All of the above consolidated SEs except for "Heihuang Wantong No. 1" are collective asset management schemes where the Company has been involved as manager.

"Heihuang Wantong No.1" is a private securities investment fund established by a third-party asset manager where the Group holds all the units issued (Note 3.2.4).

Notes to the Consolidated Financial Statements

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21 Other non-current assets

	31 December 2016	31 December 2015
Leasehold improvement	1,387	2,608
Long-term prepaid expenses	475	529
	1,862	3,137

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

Changes in leasehold improvement are analyzed as follows:

	Year ended 31 December	
	2016	2015
At 1 January	2,608	3,545
Additions	633	1,169
Amortization	(1,854)	(2,106)
At 31 December	1,387	2,608

Notes to the Consolidated Financial Statements

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22 Available-for-sale financial assets

Available-for-sale financial assets include the following:

	31 December 2016	31 December 2015
Non-current – Unlisted		
At fair value		
Trust schemes (Note 44.2(2))	–	132,910
Collective asset management schemes (Notes 43.3.1 and 44.2(1)) ⁽²⁾	15,114	–
At cost		
Investments in exchange memberships ⁽¹⁾	1,400	1,400
	16,514	134,310
Current – Unlisted		
At fair value		
Collective asset management schemes (Notes 43.3.1 and 44.2(1)) ⁽²⁾	166,246	182,625
Trust schemes (Note 44.2(2))	137,560	–
Private securities investment funds (Notes 43.3.1 and 44.2(1))	129,875	120,729
Bank wealth management products (Notes 43.3.1 and 44.2(3))	100,037	–
	533,718	303,354
	550,232	437,664

(1) The Company is required to hold certain exchange membership seats. Exchange memberships include seats on the Shanghai Futures Exchange, Zhengzhou Commodity Exchange and Dalian Commodity Exchange. Exchange memberships are only transferrable after approved by the respective futures exchanges.

(2) As at 31 December 2016, the collective asset management schemes held by the Group amounted to RMB 181,360 thousand, in which the cost and the changes of fair value amounted to RMB 185,357 thousand and RMB -3,997 thousand respectively. The changes of fair value included an impairment provision of RMB 6,264 thousand (2015: the collective asset management scheme held by the Group amounted to RMB 182,625 thousand, in which the cost and the changes of fair value amounted to RMB 185,739 thousand and RMB -3,114 thousand respectively. The changes of fair value included an impairment provision of RMB 6,264 thousand).

(3) As at 31 December 2016, no securities of the Group were placed as collateral (2015: same).

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23 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

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

	Year ended 31 December	
	2016	2015
Balance at beginning of year	1,983	3,767
Income statement charge (Note 15)	3,418	(1,809)
Tax charge relating to components of other comprehensive income (Note 34)	422	25
Balance at end of year	5,823	1,983

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

	Year ended 31 December	
	2016	2015
Balance at beginning of year	14	—
Income statement charge (Note 15)	62	14
Tax charge relating to components of other comprehensive income (Note 34)	—	—
Balance at end of year	76	14

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For the Year Ended 31 December 2016

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23 Deferred income tax assets and liabilities (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Impairment loss from available- for-sale financial assets	Changes in fair value of available-for- sale financial assets	Interest payable	Deductible tax loss	Tax impart arising from consolidated structured entities	Others	Total
As at 1 January 2015	93	3,557	329	9	—	—	2,094	6,082
Income statement charge	283	(1,991)	—	1,388	1,277	—	(1,908)	(951)
Tax charge relating to components of other comprehensive income	—	—	(329)	—	—	—	—	(329)
As at 31 December 2015	376	1,566	—	1,397	1,277	—	186	4,802
Income statement charge	(376)	—	—	(855)	2,927	528	1,037	3,261
Tax charge relating to components of other comprehensive income	—	—	—	—	—	—	—	—
As at 31 December 2016	—	1,566	—	542	4,204	528	1,223	8,063

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

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23 Deferred income tax assets and liabilities (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest receivable from deposits	Changes in fair value of available-for-sale financial assets	Tax impart arising from consolidated structured entities	Other	Total
As at 1 January 2015	96	934	1,285	—	—	2,315
Income statement charge	(96)	373	—	580	15	872
Tax charge relating to components of other comprehensive income	—	—	(354)	—	—	(354)
As at 31 December 2015	—	1,307	931	580	15	2,833
Income statement charge	154	270	—	(580)	61	(95)
Tax charge relating to components of other comprehensive income	—	—	(422)	—	—	(422)
As at 31 December 2016	154	1,577	509	—	76	2,316

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deductible tax losses of Luzheng Trading amount to nil (2015: 5,028 thousands). Deductible tax losses of Zhongtai Hui Rong amount to RMB25,479 thousands (2015: 119 thousands).

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For the Year Ended 31 December 2016
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23 Deferred income tax assets and liabilities (Continued)

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

	31 December 2016	31 December 2015
Deferred income tax assets	(2,240)	(2,819)
Deferred income tax liabilities	(2,240)	(2,819)

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

	31 December 2016	31 December 2015
Deferred income tax assets	5,823	1,983
Deferred income tax liabilities	76	14

24 Refundable deposits

	31 December 2016	31 December 2015
Security deposit placed with the China Financial Futures Exchange	20,114	20,138
Security deposit placed with the China Securities Depository and Clearing	5,402	—
	25,516	20,138

25 Physical commodities

	31 December 2016	31 December 2015
Trading commodities	75,148	3,640
Less: Impairment	(2,588)	—
	72,560	3,640

As at 31 December 2016, the zinc amounting to 14,113 thousand and the nickel amounting to 5,645 thousand were placed as collateral in Shanghai Futures Exchange. (2015: nil).

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26 Other current assets

	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
	136,825	30,889

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2016		31 December 2015	
	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	56,434	(400)	771	—

27 Derivative financial instruments

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Futures contracts ⁽¹⁾	—	—	—	—
OTC Options ⁽²⁾	609	606	1,151	1,927
	609	606	1,151	1,927

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27 Derivative financial instruments (Continued)

(1) Futures contracts

	31 December 2016		31 December 2015	
	Contractual value	Fair value	Contractual value	Fair value
Commodities futures	144,001	220	300,271	(599)
Stock index futures	—	—	1,439	(3)
Less: Cash paid as settlement		(220)		602
Net position		—		—

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in "deposits with exchange-clearing organizations" as at 31 December 2016 (2015: same).

(2) OTC options

The intrinsic value of the outstanding OTC options at 31 December 2016 amounted to 61 thousand (2015: 1,068 thousand), of which the underlying assets were commodities futures contract (2015: same).

28 Financial assets at fair value through profit or loss

	31 December 2016	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	—
	269,706	22,857

As at 31 December 2016, all the listed equity securities and open-ended funds were listed outside Hong Kong and none of them were placed as collateral (2015: same).

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(All amounts in RMB'000 unless otherwise stated)

29 Financial assets held under resale agreements

	31 December 2016	31 December 2015
Analysed by asset type:		
— Debt securities	12,199	—

	31 December 2016	31 December 2015
Analysed by market:		
— Shanghai Stock Exchange	12,199	—

30 Deposits with exchange-clearing organizations

	31 December 2016	31 December 2015
Clients' margin deposits	2,058,809	1,608,898
Proprietary clearing settlement funds	126,653	174,716
Clients' unrestricted deposits	11,260	878,062
	2,196,722	2,661,676
Represented by		
Deposits with China Financial Futures Exchange	1,113,296	1,412,049
Deposits with Dalian Commodity Exchange	483,947	493,302
Deposits with Shanghai Futures Exchange	445,758	571,918
Deposits with Zhengzhou Commodity Exchange	151,570	184,407
Deposits with China Securities Depository and Clearing	2,151	—
	2,196,722	2,661,676

Notes to the Consolidated Financial Statements

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31 Bank balances held for clients

The Company maintains separate accounts with banks and authorized institutions for clients' monies arising from the normal course of business. The monies mainly consist of individuals, asset management customers and other non-fully licenced futures firms. The Company records these monies as bank balances held for clients or deposits with exchange-clearing organizations under current assets, and recognizes them as due to clients given that the Company is held liable for any loss or misappropriation of these monies. Bank balances held for clients for transaction and settlement purposes are subject to regulatory oversight by authorized depository institutions, primarily large state-owned commercial banks and joint stock commercial banks in the PRC, pursuant to CSRC regulations.

32 Cash and bank balances

	31 December 2016	31 December 2015
Cash	92	81
Term deposit with banks	875,000	834,000
Demand deposit with banks	117,238	325,277
Deposit with securities and futures brokers	5,895	37,582
	998,225	1,196,940

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

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33 Share capital

All shares issued by the Company are fully paid common shares, with a notional value of RMB1.00 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2016	31 December 2015
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900

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

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

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

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

Notes to the Consolidated Financial Statements

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34 Share premium and reserves

	Share premium	Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for-sale financial assets revaluation reserve ⁽³⁾	Currency translation differences	Total
As at 31 December 2014	290,292	14,263	105,393	2,869	—	412,817
Capital contributions received (Note 33)	360,338	—	—	—	—	360,338
Amounts recognized in other comprehensive income	—	—	—	(73)	—	(73)
Appropriation to surplus reserve	—	8,700	—	—	—	8,700
Appropriation to general risk reserve	—	—	8,700	—	—	8,700
Appropriation to futures risk reserve	—	—	8,280	—	—	8,280
Utilization of futures risk reserve	—	—	(100)	—	—	(100)
Currency translation differences	—	—	—	—	234	234
As at 31 December 2015	650,630	22,963	122,273	2,796	234	798,896
Amounts recognized in other comprehensive income	—	—	—	(1,268)	—	(1,268)
Appropriation to surplus reserve	—	9,656	—	—	—	9,656
Appropriation to general risk reserve	—	—	9,656	—	—	9,656
Appropriation to futures risk reserve	—	—	8,315	—	—	8,315
Utilization of futures risk reserve	—	—	(12)	—	—	(12)
Currency translation differences	—	—	—	—	1,741	1,741
As at 31 December 2016	650,630	32,619	140,232	1,528	1,975	826,984

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34 Share premium and reserves (Continued)

(1) Surplus reserve

Pursuant to the Company Law of the PRC, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately after capitalization.

(2) Other risk reserves

In accordance with the requirements of the Notice of the MOF on Issuing the Financial Rules for Financial Enterprises — Implementation Guide (Caijin [2007] No. 23) issued on 30 March 2007, the Company appropriates 10% of its profit net of the previous years' losses to the general risk reserve.

In accordance with the requirements of the Notice of the MOF on Issuing the Tentative Provisions for the Financial Management of Commodities Futures Trading (Caishang [1997] No. 44) issued on 3 March 1997, the futures risk reserve is appropriated based on 5% of the commission and fee income from futures brokerage and clearing service net of relevant expenses payable to futures exchanges, for the purpose of covering potential losses from futures brokerage service. When actual losses occur, the loss amount is charged to the current profit or loss, with the same amount being transferred from futures risk reserve to retained earnings simultaneously. Appropriation for futures risk reserve is recorded as profit distribution, whilst the utilization of futures risk reserve is recorded as the opposite type of transaction.

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34 Share premium and reserves (Continued)

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

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

	Year ended 31 December 2016		
	Pre-tax amount	Income tax effect (Note 23)	After-tax net amount
Balance at beginning of year	3,728	(932)	2,796
Changes in fair value of available-for-sale financial assets	(873)	219	(654)
Amounts reclassified to profits/(losses) upon disposal or impairment of available-for-sale financial assets	(818)	204	(614)
Balance at end of year	2,037	(509)	1,528

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

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35 Other current liabilities

	31 December 2016	31 December 2015
Salaries, bonus, allowance and benefits payables ⁽¹⁾	48,314	24,587
Advance for physical commodity trading	14,335	1,050
Amount collected on behalf of futures asset management schemes ⁽²⁾	5,999	—
Interest payable	2,166	5,589
Margin deposits received on OTC options	869	1,420
Payable to Futures Investor Protection Fund	409	544
Other payables	4,413	8,340
	76,505	41,530

(1) Salaries, bonus, allowance and benefits payables

	1 January 2016	Current year charge	Current year payment	31 December 2016
Salaries and bonus	19,484	97,133	(74,791)	41,826
Other welfare	14	483	(428)	69
Other social securities	72	18,965	(18,896)	141
Labour union funds and employee education funds	5,017	4,237	(2,976)	6,278
	24,587	120,818	(97,091)	48,314

	1 January 2015	Current year charge	Current year payment	31 December 2015
Salaries and bonus	21,434	73,567	(75,517)	19,484
Other welfare	—	1,369	(1,355)	14
Other social securities	101	17,347	(17,376)	72
Labour union funds and employee education funds	3,554	3,309	(1,846)	5,017
	25,089	95,592	(96,094)	24,587

(2) The amount is deposited in the Company's bank account on behalf of a futures asset management schemes in initial fund raising period.

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36 Financial liabilities at fair value through profit or loss

	31 December 2016	31 December 2015
Interests of holders of consolidated SEs	299,936	144,470
Payable to clients for cooperative hedging business	603	43,676
	300,539	188,146

37 Accounts payable to brokerage clients

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at exchange-clearing organizations by the Company. Most of these balances are non-interest bearing.

The majority of the accounts payable balances are repayable on demand except for certain balances relating to margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral are repayable on demand.

38 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents represent cash and bank balances that can be used to meet short-term cash commitments.

	31 December 2016	31 December 2015
Cash and bank balances (Note 32)	998,225	1,196,940
Proprietary deposit with exchange-clearing organizations (Note 30)	126,653	174,716
Less:		
Term deposit with original maturity over three months	(875,000)	(805,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(8,000)	(8,000)
	241,878	558,656

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39 Dividends

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

- (I) Making up cumulative losses from prior years, if any;
- (II) 10% of the Company’s profit is appropriated to the non-distributable statutory surplus reserve;
- (III) 10% of the Company’s profit is appropriated to the non-distributable general risk reserve;
- (IV) Appropriations to the non-distributable futures risk reserve according to the relevant regulation;
- (V) Appropriations to the discretionary reserve with approval from the general meetings of Shareholders. These funds form part of the shareholders’ equity.

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC CAS and (ii) the retained profit determined in accordance with IFRS.

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

40 Commitments and contingent liabilities

(1) Capital commitments

As at 31 December 2016, the Group was not involved in any material capital commitments (2015: same).

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40 Commitments and contingent liabilities (Continued)

(2) Operating lease commitments

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

	31 December 2016	31 December 2015
Within 1 year	9,108	9,249
1 to 3 years	5,353	8,069
Over 3 years	9,385	11,646
	23,846	28,964

(3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2016, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down (2015: same).

41 Related party transactions

41.1 Related parties

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

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41 Related party transactions (Continued)

41.1 Related parties (Continued)

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2016:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. (originally known as Qilu Securities Co., Ltd., "Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Financial International Limited. ("Zhongtai International")	Controlled by the controlling shareholder of the Company
Qilu Securities (Shanghai) Asset Management Co., Ltd. ("Qilu Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The largest and direct controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Controlled by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The indirect controlling shareholder of Zhongtai Securities
Laiwu Xintai Copper Industry Co., Ltd. ("Xintai Copper")	Controlled by Laiwu Steel
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. (originally known as Jinan Steel Co., Ltd., "Shandong Steel")	Controlled by Shandong Steel Group
Rizhao Board of Trade Co., Ltd. ("Rizhao Trade")	Associate invested by the Group

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41 Related party transactions (Continued)

41.2 Related party transactions and balances

41.2.1 The Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2016	2015
Income from providing futures brokerage service	583	3,236
Interest Expense	315	699
Introducing broker commission ⁽¹⁾	8,162	16,832
Commission payable for stocks trading	9	205
Rentals payable	817	693

(1) Introducing broker commission expense relates to commission paid to Zhongtai Securities for introducing futures brokerage clients. It is calculated as a fixed percentage of the commission income from transactions executed by those clients.

Balances at the end of the year

	31 December	31 December
	2016	2015
Accounts payable to brokerage clients	45,766	30,964
Deposit with securities brokers	37	5,391
Other current liabilities		
— Introducing broker commission payable	809	710
— Other payables	276	43
Other receivable		
— Rental prepayment	75	108

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41 Related party transactions (Continued)

41.2 Related party transactions and balances (continued)

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

Transactions during the year

	Year ended 31 December	
	2016	2015
Income from providing futures brokerage service	625	9
Purchase of collective asset management schemes managed by Qilu Asset Management		
— Jintaishan No. 1	—	20,000
— Wengu 21 Days	7,500	93,851
Purchase of listed open-ended fund managed by Wanjia Funds		
— Wanjia Funds-Xianjinbao	5,097	—
Sponsor fee		
— Zhongtai International	—	2,621
Consulting fee		
— Qilu Asset Management	38	886
— Zhongtai International	—	187
Proceeds from disposal of listed open-ended fund and collective asset management scheme managed by Wanjia Funds		
— Wanjia Funds-Luzheng Futures-Tongxin	—	29,699
— Wanjia Funds-Xianjinbao	5,059	—
Proceeds from disposal of collective asset management schemes managed by Qilu Asset Management		
— Wengu 21 Days	35,645	—
— Jintaishan No. 1	—	22,242
— Qilu Huiquan B	—	8,674
Interest income from bank deposit		
— Laishang Bank	14,734	9,780
Income of sale of physical commodities		
— Yongfeng Trade	3,675	—
Cost of purchase of physical commodities		
— Laiwu Steel	2,849	—
Income of cooperative hedging business		
— Laigang yongfeng	193	—

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41 Related party transactions (Continued)

41.2 Related party transactions and balances (Continued)

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

Balance at the end of year

		31 December 2016	31 December 2015
Accounts payable to brokerage clients		53,467	28,440
Cash and bank balance — Laishang Bank		424,233	279,780
Listed open-ended fund and collective asset management scheme managed by Wanjia Funds			
— Wanjia Funds-Xianjinbao	Financial asset at fair value through profit or loss	38	—
— Wanjia Funds — Luzheng Futures — Tongxin	Available-for-sale financial assets	—	40
Collective asset management schemes managed by Qilu Asset Management			
— Wengu 21 Days	Available-for-sale financial assets	64,756	93,851
— Jintaishan No. 2	Available-for-sale financial assets	17,236	18,605
— Jinqun 7 Days	Available-for-sale financial assets	1,000	—
Prepayments			
— Laiwu Steel		666	—
— Laigang Yongfeng		251	—
Other payable			
— Rizhao Trade		—	90
Consulting fee payable			
— Qilu Asset Management		45	6

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41 Related party transactions (Continued)

41.2 Related party transactions and balances (Continued)

41.2.3 Key management personnel

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, board of supervisors and other members of the senior management.

	Year ended 31 December	
	2016	2015
Key management compensation	4,837	3,823

There is no loan or advance to key management during the financial years ended 31 December 2016 and 2015.

42 Segment analysis

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

- (a) Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- (b) Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- (c) Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- (d) Headquarters and others: including headquarters operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the year.

Expenses for each segment mainly contains depreciation cost allocated based on the area of the office, actual expense of salaries, bonus, and other relevant staff cost which is directly related.

The Group mainly operates in Shandong Province, the PRC.

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42 Segment analysis (Continued)

	Year ended 31 December 2016					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	
Net commission and fee income						
– external	82,530	–	14,351	23	–	96,904
– internal	2,608	–	2,542	–	(5,150)	–
Net interest income						
– external	106,874	1,398	9,353	35,466	–	153,091
– internal	(1,526)	1,526	–	–	–	–
Gains on physical commodities trading						
– external	–	10,643	–	–	–	10,643
Net investment gains						
– external	–	24,448	(608)	27,560	–	51,400
– internal	–	(2,203)	(396)	(9)	2,608	–
Other income						
– external	81,125	2,542	175	3,035	–	86,877
Total operating income	271,611	38,354	25,417	66,075	(2,542)	398,915
Total operating expenses	(150,298)	(19,641)	(18,182)	(58,527)	2,542	(244,106)
Share of losses of investment in an associate	–	(1,946)	–	–	–	(1,946)
Other gains, net	–	2,007	–	56	–	2,063
Profit before income tax	121,313	18,774	7,235	7,604	–	154,926
Total assets	6,022,060	196,627	621,036	1,717,479	(352,909)	8,204,293
Total liabilities	5,783,532	27,824	314,617	41,725	(41,933)	6,125,765
Supplemental information						
Depreciation and amortization	3,767	165	18	4,408	–	8,358
Impairment provision	–	1,259	–	303	–	1,562
Capital expenditure	1,520	6	–	4,478	–	6,004

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42 Segment analysis (Continued)

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

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43 Financial risk management

43.1 Risk management policies and structure

(1) Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximize the shareholders' value. The Group's risk management strategy is to identify and analyze the risks to which the Group is exposed, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Operating risks to which the Group is exposed to mainly include: credit risk, market risk, liquidity risk and capital management risk. The Group has designed a comprehensive system, internal control policies and procedures to identify, assess, monitor and manage the financial risks. The Group reviews the risk management policies and systems regularly, and revises according to the market environment, as well as changes in products and services. The Group is devoted to establish a control environment consisting of a clear framework, normative process and specific responsibilities.

(2) Policies and structure for the Company

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee, Risk Control Committee and Audit Committee; (ii) the top management; (iii) Compliance and Internal Audit departments; and (iv) risk management functions in operating departments.

Level 1: Board, Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for the Company's overall risk strategy, risk preference, risk management policies and business progress. The Board is responsible for the Company's overall risk control efficiency. The Supervisory Committee focuses on monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons. The Risk Control Committee is responsible for accessing, suggesting and supervising the Company's risk management progress.

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43 Financial risk management (Continued)

43.1 Risk management policies and structure (Continued)

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

Level 2: Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee

The Risk Control Committee is responsible for ensuring that the decision making procedures and risk control system are in compliance with applicable laws and regulations. The Audit Committee is principally responsible for the overall audit related matters. The Asset Management Investment Decision Committee is principally responsible for reviewing the investment scale, major issues in product design, operations, liquidation and other major issues raised by the Asset Management Department. The Treasury Operations Investment Decision Committee principally responsible for reviewing the scale of the treasury operations, prospective investment portfolio, stop-loss measures and other major issues raised by the Treasury Department.

Level 3: Compliance and Internal Inspection departments

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

Level 4: Frontline operation teams at our business departments and branches

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.

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

Luzheng Trading's risk management structure constitutes board, supervisory committee, Risk Management Department and relevant business department:

Level 1: The board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.

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43 Financial risk management (Continued)

43.1 Risk management policies and structure (Continued)

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

Level 2: Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.

Level 3: Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

43.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, financial assets held under resale agreements, bank balances held for clients, deposits with exchange-clearing organizations, available-for-sale financial assets, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

In terms of the Group's investment in trust schemes which are debt in nature, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances, bank balances held for clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

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43 Financial risk management (Continued)

43.2 Credit risk (Continued)

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation.

To mitigate the credit risk from futures brokerage service, the Group usually requires the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's credit exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 31 December 2016, the fair value of such collateral was nil (2015: RMB 52,003 thousand).

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43 Financial risk management (Continued)

43.2 Credit risk (Continued)

(1) Maximum credit risk exposure

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	31 December 2016	31 December 2015
Refundable deposits	25,516	20,138
Other current assets	65,018	20,049
Available-for-sale financial assets	138,960	134,310
Financial assets held under resale agreements	12,199	—
Deposits with exchange-clearing organizations	2,196,722	2,661,676
Bank balances held for brokerage clients	3,855,245	2,996,241
Bank balances	998,225	1,196,859
	7,291,885	7,029,273

(2) Credit risk from brokerage service

Client Risk Ratio	31 December 2016		31 December 2015	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,514,284	5,124,705	1,301,950	4,876,665
80%–100%	542,686	596,549	302,976	333,283
Above 100%	1,839	1,447	3,972	3,586
	2,058,809	5,722,701	1,608,898	5,213,534
Coverage ratio		278%		324%

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43 Financial risk management (Continued)

43.3 Market risk

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

43.3.1 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives, collective asset management schemes, private securities investment funds, bank wealth management products and trust schemes in nature of equity. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

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

As at 31 December 2016, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, derivatives, listed equity securities, listed open-ended funds, private securities investment funds, bank wealth management products, trust schemes in nature of equity, interests of holders of consolidated SEs, payable to clients for cooperative hedging business.

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43 Financial risk management (Continued)

43.3 Market risk (Continued)

43.3.1 Price risk (Continued)

Sensitivity analysis

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

	Year ended 31 December	
	2016	2015
Profit before income tax		
Increase by 5%	5,689	10,007
Decrease by 5%	(5,689)	(10,007)

	Year ended 31 December	
	2016	2015
Other comprehensive income before income tax		
Increase by 5%	20,564	15,168
Decrease by 5%	(20,564)	(15,168)

43.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for brokerage clients, deposits with exchange-clearing organizations and available-for-sale trust schemes. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

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43 Financial risk management (Continued)

43.3 Market risk (Continued)

43.3.2 Interest rate risk (Continued)

Finance departments of the Company and its subsidiary monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

	Within 1 month	1–3 months	3 months to 1 year	1 year to 3 years	Non-interest bearing	Total
As at 31 December 2016						
Refundable deposits	25,516	—	—	—	—	25,516
Other current assets	—	—	—	—	65,018	65,018
Available-for-sale financial assets	31,114	—	106,446	—	412,672	550,232
Derivative financial assets	—	—	—	—	609	609
Financial assets at fair value through profit or loss	—	—	—	—	269,706	269,706
Financial assets held under resale agreements	12,199	—	—	—	—	12,199
Deposits with exchange-clearing organizations	1,247,210	—	—	—	949,512	2,196,722
Bank balances held for brokerage clients	3,855,245	—	—	—	—	3,855,245
Cash and Bank balances	163,225	—	555,000	280,000	—	998,225
Sub-total	5,334,509	—	661,446	280,000	1,697,517	7,973,472
Other current liabilities	—	—	—	—	(19,984)	(19,984)
Accounts payable to brokerage clients	(1,295,604)	—	—	—	(4,427,097)	(5,722,701)
Derivative financial liabilities	—	—	—	—	(606)	(606)
Financial liabilities at fair value through profit or loss	—	—	—	—	(300,539)	(300,539)
Other non-current liabilities	—	—	—	—	(1,783)	(1,783)
Sub-total	(1,295,604)	—	—	—	(4,750,009)	(6,045,613)
Interest rate sensitivity gap	4,038,905	—	661,446	280,000	(3,052,492)	1,927,859

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43 Financial risk management (Continued)

43.3 Market risk (Continued)

43.3.2 Interest rate risk (Continued)

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

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43 Financial risk management (Continued)

43.3 Market risk (Continued)

43.3.2 Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 50 basis points increase or decreases in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2016	2015
Net interest income		
Increases by 50bps	20,593	15,794
Decreases by 50bps	(20,593)	(15,794)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand depots moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

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43 Financial risk management (Continued)

43.3 Market risk (Continued)

43.3.3 Currency risk

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

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

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

43.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading position, or an excessive high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be faced with penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause bad effects on the Group's operations and reputation.

The Group manages and controls its funds in a centralized manner. The Group's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity could be met timely with an appropriate cost.

The Group's finance department organize the cash budget annually and set up the fund plan based on it. Under the approval of the Company, the funds will be scheduled and arranged uniformly in order to ensure the consistence of funds demand and cost of the capital control.

After approved by the board of directors, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

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43 Financial risk management (Continued)

43.4 Liquidity risk (Continued)

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at 31 December 2016, the Group held cash and cash equivalents of approximately RMB 242 million that are expected to readily generate cash inflows for managing liquidity risk (2015: RMB 559 million).

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for brokerage clients.

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2016						
Non-derivative cash flow						
Accounts payable to brokerage clients	5,722,701	—	—	—	—	5,722,701
Other current liabilities	17,124	2,051	—	809	—	19,984
Financial liabilities at fair value through profit or loss	602	—	—	148,098	151,839	300,539
Other non-current liabilities	—	—	—	—	1,783	1,783
	5,740,427	2,051	—	148,907	153,622	6,045,007
Derivative cash flow						
Derivative financial instruments settled on a gross basis						
(a) total inflow	—	348	153	—	—	501
(b) total outflow	—	(40)	(320)	(376)	—	(736)

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43 Financial risk management (Continued)

43.4 Liquidity risk (Continued)

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2015						
Non-derivative cash flow						
Accounts payable to brokerage clients	5,213,534	—	—	—	—	5,213,534
Other current liabilities	12,046	3,563	—	710	—	16,319
Financial liabilities at fair value through profit or loss	—	—	—	188,146	—	188,146
Other non-current liabilities	—	—	—	—	2,599	2,599
	5,225,580	3,563	—	188,856	2,599	5,420,598
Derivative cash flow						
Derivative financial instruments settled on a gross basis						
(a) total inflow	—	197	944	—	—	1,141
(b) total outflow	—	(566)	(496)	—	—	(1,062)

43.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiary to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiary;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

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43 Financial risk management (Continued)

43.5 Capital management (Continued)

According to the Notice of “Decision on Revising <Futures company’s regulatory risk management index pilot scheme>” (《關於修改〈期貨公司風險監管指標管理試行辦法〉的決定》) issued by the CSRC on 21 February 2013, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB15,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 40%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB8,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

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44 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

44.1 Financial instruments not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, bank balances held for brokerage clients, financial assets held under resale agreements, deposits with exchange-clearing organizations, refundable deposits, accounts payable to brokerage clients, their fair values approximate their carrying amounts.

44.2 Financial instrument measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

Level I — Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level II — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level III — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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44 Fair value of financial assets and liabilities (Continued)

44.2 Financial instrument measured at fair value (Continued)

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2016 and 2015.

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Collective asset management schemes ⁽¹⁾	—	134,661	—	134,661
— Trust schemes ⁽¹⁾	—	70,939	—	70,939
— Private securities investment funds ⁽¹⁾	—	47,873	—	47,873
— Listed equity securities	15,385	—	—	15,385
— Listed open-ended funds	848	—	—	848
Derivative financial assets				
— OTC Options	—	609	—	609
Available-for-sale financial assets				
— Collective asset management schemes ⁽¹⁾	—	181,360	—	181,360
— Trust schemes ⁽²⁾	—	—	137,560	137,560
— Private securities investment funds ⁽¹⁾	—	129,875	—	129,875
— Bank wealth management products ⁽³⁾	—	100,037	—	100,037
	16,233	665,354	137,560	819,147
Financial liabilities at fair value through profit or loss	—	(300,539)	—	(300,539)
Derivative financial liabilities	—	(606)	—	(606)
	—	(301,145)	—	(301,145)

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44 Fair value of financial assets and liabilities (Continued)

44.2 Financial instrument measured at fair value (Continued)

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Listed equity securities	19,910	—	—	19,910
— Listed open-ended funds	2,948	—	—	2,948
Derivative financial assets				
— OTC Options	—	1,151	—	1,151
Available-for-sale financial assets				
— Collective asset management schemes ⁽¹⁾	—	182,625	—	182,625
— Private securities investment funds ⁽¹⁾	—	120,729	—	120,729
— Trust schemes ⁽²⁾	—	—	132,910	132,910
	22,858	304,505	132,910	460,273
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	—	(188,146)	—	(188,146)
	—	(1,927)	—	(1,927)
	—	(190,073)	—	(190,073)

(1) As at 31 December 2016, collective asset management schemes, trust schemes in nature of equity and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by Qilu Asset Management, other non-related financial institutions, as well as unregulated private fund managers, with the underlying investments mainly in stocks and bonds that are listed on stock exchanges, bonds that are quoted on the interbank market and listed financial and commodity futures in the PRC. Fair value of the asset management schemes, trust schemes in nature of equity and private securities investment funds are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 43.3.1.

(2) As at 31 December 2016, trust schemes that are classified as level 3 in fair value hierarchy are issued by Shandong International Trust Corporation (山東省國際信託有限公司), with the underlying investments mainly in loans and receivables. Such trust schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within trust schemes where principal and return of senior tranche is guaranteed by junior tranche investors. Fair value of the trust schemes is determined using discounted cash flows that are estimated based on expected future cash flows of the trust schemes discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 43.2 (1) and 43.3.2.

(3) As at 31 December 2016, bank wealth management products that are classified as level 2 in fair value hierarchy are issued and managed by Bank of Communications (交通銀行股份有限公司). The bank wealth management products can be purchased and redeemed on each work day with the investment return calculated by the expected yield published by the bank. They are mainly exposed to price risk as disclosed in Note 43.3.1.

For the year ended 31 December 2016, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (2015: same).

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44 Fair value of financial assets and liabilities (Continued)

44.2 Financial instrument measured at fair value (Continued)

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

(c) Valuation methods for specific investments

As at 31 December 2016 and 2015, the Group's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (2) For exchange-listed open-ended funds, fair value is determined based on the closing price of the listed funds as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (3) For collective asset management schemes, trust schemes in the nature of equity, private securities investment funds and bank wealth management products, fair value is determined based on the net asset value as at the reporting date.

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(All amounts in RMB'000 unless otherwise stated)

44 Fair value of financial assets and liabilities (Continued)

44.2 Financial instrument measured at fair value (Continued)

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the years ended 31 December 2016 and 2015.

	Available-for-sale financial assets
Balance at 1 January 2016	132,910
Increase	11,387
Decrease	(6,737)
Balance at 31 December 2016	137,560
Total gains or losses for the year included in profit or loss for assets held at end of year, under "Net investment gains"	11,387
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	—

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

44 Fair value of financial assets and liabilities (Continued)

44.2 Financial instrument measured at fair value (Continued)

(d) Financial instruments in Level 3 (Continued)

Financial assets	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Available-for-sale financial assets — Trust schemes	Level 3	Discounted cash flows that are estimated based on expected future cash flows, discounted at rates that reflect management's best estimation of the expected risk level.	Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value. The earlier the recovery date, the higher the fair value. The lower the discount rate, the higher the fair value.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

45 Offsetting financial assets and financial liabilities

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

	As at 31 December 2016				
		Gross amounts			Net amount of
	Gross amounts of recognized financial assets	of recognized financial assets/ (liabilities)	Net amounts of financial assets/ (liabilities)	Cash (received)/ paid as settlement	financial assets/ (liabilities) presented in the statements of financial position
Derivative financial instruments	—	220	220	(220)	—

	As at 31 December 2015				
		Gross amounts			Net amount of
	Gross amounts of recognized financial assets	of recognized financial assets/ (liabilities)	Net amounts of financial assets/ (liabilities)	Cash (received)/ paid as settlement	financial assets/ (liabilities) presented in the statements of financial position
Derivative financial instruments	—	(870)	(870)	870	—

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing organizations for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

46 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include collective asset management schemes, private securities investment funds, Bank wealth management products and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 31 December 2016 and 2015, the interests in unconsolidated structured entities held by the Group included investment recognized as available-for-sale financial assets and financial assets at fair value through profit or loss. The related carrying amount and the maximum exposure were as follows:

	31 December 2016	31 December 2015
Available-for-sale financial assets	548,832	436,264
Financial assets at fair value through profit or loss	254,283	2,948
	803,115	439,212

For the years ended 31 December 2016 and 2015, the income from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December 2016	2015
Net investment gains	28,552	29,850

As at 31 December 2016, the Group had no financial support provided to these unconsolidated structured entities, and there was no plan of providing financial support by the Group to these unconsolidated structured entities (2015: same).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

47 Statements of financial position and reserve movement of the Company

	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property and equipment		40,287	43,919
Intangible assets		4,822	5,915
Investment in subsidiaries		301,000	196,700
Other non-current assets		1,793	2,969
Available-for-sale financial assets		16,514	134,310
Deferred income tax assets		355	1,243
Refundable deposits		25,516	20,138
Total non-current assets		390,287	405,194
Current assets			
Other current assets		47,641	12,848
Available-for-sale financial assets		492,017	299,654
Financial assets at fair value through profit or loss		66,456	8,996
Financial assets held under resale agreements		7,899	—
Deposits with exchange-clearing organizations		2,196,722	2,661,676
Bank balances held for brokerage clients		3,787,062	2,996,241
Cash and bank balances		976,999	1,124,860
Total current assets		7,574,796	7,104,275
Total assets		7,965,083	7,509,469

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

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

	Notes	31 December 2016	31 December 2015
Equity and liabilities			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Reserves	Note (a)	174,379	148,032
Retained earnings	Note (a)	212,786	178,621
Total equity		2,039,695	1,979,183
Liabilities			
Non-current liabilities			
Other non-current liabilities		1,783	2,599
Total non-current liabilities		1,783	2,599
Current liabilities			
Other current liabilities		53,829	37,560
Current income tax liabilities		13,035	7,312
Accounts payable to brokerage clients		5,856,741	5,482,815
Total current liabilities		5,923,605	5,527,687
Total liabilities		5,925,388	5,530,286
Total equity and liabilities		7,965,083	7,509,469

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016
(All amounts in RMB'000 unless otherwise stated)

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

Note (a) Reserve movement of the Company

	Retained earnings	Other reserves
Balance at 1 January 2015	109,021	118,669
Profit for the year	95,180	—
Other comprehensive income for the year	—	3,783
Total comprehensive income	95,180	3,783
Net appropriation to reserves	(25,580)	25,580
Balance at 31 December 2015	178,621	148,032
Balance at 1 January 2016	178,621	148,032
Profit for the year	104,862	—
Other comprehensive income for the year	—	(1,268)
Total comprehensive income	104,862	(1,268)
Net appropriation to reserves	(27,615)	27,615
Dividends recognized as distribution	(43,082)	—
Balance at 31 December 2016	212,786	174,379

The financial statements on pages 237 to 239 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf:

Name of Director

Name of Director

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

48 Benefits and interests of directors

The emoluments of the directors and supervisors of the Company paid by the Group for the years ended 31 December 2016 and 2015 are set out below:

Name	Year ended 31 December 2016				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Chen Fang ⁽¹⁾	—	—	—	—	—
Liang Zhongwei	178	61	71	48	358
Non-executive Directors					
Lv Xiangyou ⁽²⁾	—	—	—	—	—
Yin Ge ^{(2) (6)}	—	—	—	—	—
Zhang Yunwei ^{(2) (5)}	—	—	—	—	—
Li Chuanyong ⁽²⁾	—	—	—	—	—
Liu Feng ⁽²⁾	—	—	—	—	—
Yu Xuehui	100	—	—	—	100
Wang Chuanshun	100	—	—	—	100
Gao Zhu	100	—	—	—	100
Li Dapeng ⁽⁶⁾	50	—	—	—	50
Wei Wei ⁽⁵⁾	—	—	—	—	—
Supervisors					
An Tie ^{(2) (7)}	—	—	—	—	—
Li Xuekui ⁽⁸⁾	194	65	77	630	966
Zhang Shouhe ^{(2) (9)}	—	—	—	—	—
Ding Mei ^{(2) (10)}	—	—	—	—	—
Hu Yuyue	45	—	—	—	45
Mou Yong	45	—	—	—	45
Li Xisheng ⁽⁹⁾	30	14	13	—	57
Yu Dongxin ⁽¹⁰⁾	117	48	33	—	198
Wang Hairan	155	54	43	83	335
	1,114	242	237	761	2,354

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

48 Benefits and interests of directors (Continued)

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2016

(All amounts in RMB'000 unless otherwise stated)

48 Benefits and interests of directors (Continued)

- (1) Chen Fang was appointed by Zhongtai Securities and his emolument was paid by Zhongtai Securities, and no allocation of the emoluments between the shareholder and the Group has been made during the year.
- (2) Those non-executive directors and supervisors were appointed by shareholders and their emoluments were paid by shareholders for the years ended 31 December 2016 and 2015.
- (3) Cui Pengpeng ceased to be non-executive director effective from February 2015.
- (4) Meng Tao ceased to be supervisor effective from February 2015.
- (5) Zhang Yunwei and Wei Wei ceased to be non-executive director effective from June 2016.
- (6) Yin Ge and Li Dapeng were elected to be non-executive director effective from June 2016.
- (7) An Tie ceased to be supervisor and Chairman of the Supervisory Board effective from August 2016.
- (8) Li Xuekui was selected to be supervisor and Chairman of the Supervisory Board effective from August 2016.
- (9) Zhang Shouhe and Li Xisheng ceased to be supervisor effective from June 2016.
- (10) Ding Mei and Yu Dongxin were selected to be supervisor effective from June 2016.