
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in LUZHENG FUTURES Company Limited, you should at once hand this circular and the accompanying form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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



LUZHENG FUTURES Company Limited

魯証期貨股份有限公司

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

WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2016
WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2016
ANNUAL REPORT FOR THE YEAR 2016
PROFIT DISTRIBUTION PLAN FOR THE YEAR 2016
REMUNERATION OF ACCOUNTING FIRMS FOR THE YEAR 2016
APPOINTMENT OF ACCOUNTING FIRMS FOR THE YEAR 2017
NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH
ZHONGTAI SECURITIES
ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT WITH
SHANDONG STEEL
BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT WITH
SHANDONG STEEL
GENERAL MANDATE TO ISSUE DOMESTIC BOND FINANCING INSTRUMENTS
GENERAL MANDATE TO ISSUE NEW DOMESTIC SHARES AND H SHARES
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
NOTICE OF ANNUAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee
And
the Independent Shareholders of LUZHENG FUTURES Company Limited



Alliance Capital Partners Limited
同人融資有限公司

A notice convening the AGM to be held at 9:00 a.m. on Thursday, 15 June 2017 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC is set out on pages 56 to 58 of this circular. A letter from the Board is set out on pages 5 to 30 of this circular.

Shareholders who intend to appoint a proxy to attend the AGM shall complete and return the appropriate form of proxy in accordance with the instructions printed thereon. The form of proxy should be returned in person or by post not less than 24 hours before the time appointed for the AGM (i.e., before 9:00 a.m. on Wednesday, 14 June 2017) or any adjournment thereof to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H Shares) and the Board's office of the Company (for holders of Domestic Shares). Completion and return of the form of proxy will not preclude any Shareholder from attending and voting at the AGM or any adjournment thereof in person if such Shareholder so wishes.

Shareholders are requested to complete and return the enclosed reply slip to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H Shares) or the Board's office of the Company (for holders of Domestic Shares) on or before Friday, 26 May 2017, if they wish to attend the AGM either in person or by proxy.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	31
LETTER FROM ALLIANCE CAPITAL	32
NOTICE OF AGM	56
Appendix I WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2016	59
Appendix II WORK REPORT OF SUPERVISORY COMMITTEE FOR THE YEAR 2016	67
Appendix III DETAILS OF ISSUANCE OF DOMESTIC BOND FINANCING INSTRUMENTS	72
Appendix IV COMPARISON TABLE OF THE AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY	74
Appendix V GENERAL INFORMATION	78

DEFINITIONS

Unless the context otherwise requires, the following expressions shall have the following meanings in this circular:

“AGM”	the annual general meeting of the Company for the year 2016 to be convened at 9:00 a.m. on Thursday, 15 June 2017 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC
“Alliance Capital”	Alliance Capital Partners Limited (同人融資有限公司), a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong) and will be appointed as the independent financial advisor of the Company to provide advice on the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective annual caps to the Independent Board Committee and Independent Shareholders
“Articles of Association”	the articles of association of the Company as amended from time to time
“Asset Management Service Framework Agreement”	the asset management service framework agreement entered into between the Company and Shandong Steel on 28 April 2017
“associates(s)”	meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Bulk Commodities Sale and Purchase Framework Agreement”	the framework agreement entered into between the Company and Shandong Steel on 28 April 2017 regarding the sale and purchase of bulk commodities
“China” or “PRC”	the People’s Republic of China (in this circular, it does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
“Company”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a joint stock limited company incorporated in the PRC and its H Shares are listed on the Hong Kong Stock Exchange (stock code: 01461)
“Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法)
“connected person(s)”	meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	meaning ascribed thereto under the Listing Rules
“continuing connected transaction(s)”	meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Controlling Shareholder(s)”	meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary shares(s) issued by the Company, with a nominal value of RMB1.00 per share, which is/are subscribed for and paid up in RMB
“Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and Zhongtai Securities in 2015
“Former Asset Management Service Framework Agreement”	the former asset management service framework agreement entered into between the Company and Zhongtai Securities in 2015
“Framework Agreements”	collectively, the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement
“Group” or “we” or “us”	the Company and its subsidiaries (the Company and any of its subsidiary or various subsidiaries as the context requires)
“H Share(s)”	overseas listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and dealt with in HK\$
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“holder(s) of Domestic Share(s)”	the holder(s) of the Domestic Share(s)
“holder(s) of H Share(s)”	the holder(s) of H Share(s)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hot Rolled Wide Steel Plate Purchase Agreements”	the hot rolled wide steel plate purchase agreements entered into between Luzheng Trading and Laiwu Steel on 21 October 2016 and 5 December 2016 respectively regarding the sale and purchase of hot rolled wide steel plate
“Independent Board Committee”	the Independent Board Committee comprised of all Independent Non-executive Directors, namely Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng. The aim of its establishment is to provide advice for the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sales and Purchase Framework Agreement and their respective proposed annual caps to the Independent Shareholders

DEFINITIONS

“Independent Non-executive Director(s)”	independent non-executive Directors of the Company
“Independent Shareholder(s)”	Shareholders who are not required to abstain from voting on the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps
“Laiwu Steel”	Laiwu Steel Group Ltd. (萊蕪鋼鐵集團有限公司), a limited company incorporated in the PRC on 6 May 1999. 80% of its shares is held by Shandong Steel and it is a Controlling Shareholder of the Company
“Latest Practicable Date”	10 May 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange as amended from time to time
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company incorporated in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
“New Financial Services Framework Agreement”	the new financial services framework agreement entered into between the Company and Zhongtai Securities on 28 April 2017
“Procedural Rules of the Supervisory Committee”	Procedural Rules of the Supervisory Committee as amended from time to time
“Prospectus”	the prospectus of the Company dated on 23 June 2015
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	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 limited company incorporated in the PRC on 17 March 2008. 70% of its shares is held by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government and it is a Controlling Shareholder of the Company
“Share(s)”	the ordinary share(s) of the Company with a nominal value of RMB1.00 each, including Domestic Shares and H Shares
“Shareholder(s)”	the holders of the Share(s)
“Supervisor(s)”	the supervisor(s) of the Company

DEFINITIONS

“Supervisory Committee”	the supervisory committee of the Company
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券股份有限公司, previously known as 齊魯證券有限公司 (Qilu Securities Co., Ltd.)), a company incorporated in the PRC on 15 May 2001 with limited liability, with 45.91% of its shares directly held by Laiwu Steel. It is a subsidiary of Laiwu Steel and is a Controlling Shareholder of the Company
“%”	percentage

In case of any discrepancy between the Chinese version and the English version of this circular, the Chinese version shall prevail.



LUZHENG FUTURES Company Limited

魯証期貨股份有限公司

(A joint stock company incorporated in the PRC with limited liability)

(Stock Code: 01461)

Executive Directors:

Chen Fang (*Chairman*)
Liang Zhongwei

Non-executive Directors:

Lv Xiangyou
Yin Ge
Li Chuanyong
Liu Feng

Independent non-executive Directors:

Gao Zhu
Yu Xuehui
Wang Chuanshun
Li Dapeng

Registered office &

Headquarters in the PRC:

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

Principal Place of Business

in Hong Kong:

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

23 May 2017

To the Shareholders

Dear Sir or Madam,

**WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2016
WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2016
ANNUAL REPORT FOR THE YEAR 2016
PROFIT DISTRIBUTION PLAN FOR THE YEAR 2016
REMUNERATION OF ACCOUNTING FIRMS FOR THE YEAR 2016
APPOINTMENT OF ACCOUNTING FIRMS FOR THE YEAR 2017
NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT
WITH ZHONGTAI SECURITIES
ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT WITH
SHANDONG STEEL
BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT
WITH SHANDONG STEEL
GENERAL MANDATE TO ISSUE DOMESTIC BOND FINANCING INSTRUMENTS
GENERAL MANDATE TO ISSUE NEW DOMESTIC SHARES
AND H SHARES
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
NOTICE OF AGM**

LETTER FROM THE BOARD

INTRODUCTION

This circular, which contains the notice of AGM, sets out the details of the resolutions to be proposed at the AGM, which enable you to make informed decision on whether to vote for or against the resolutions to be proposed at the meeting. The form of proxy and reply slip for the AGM are enclosed with this circular.

MATTERS TO BE RESOLVED AT THE AGM

Ordinary resolutions will be proposed at the AGM to approve: (1) the work report of the Board of Directors for the year 2016; (2) the work report of the Supervisory Committee for the year 2016; (3) the annual report for the year 2016; (4) the profit distribution plan for the year 2016; (5) the remuneration of accounting firms for the year 2016; (6) the appointment of accounting firms for the year 2017; (7) the New Financial Services Framework Agreement with Zhongtai Securities; (8) the Asset Management Service Framework Agreement with Shandong Steel; and (9) the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel.

Special resolutions will be proposed at the AGM to approve: (10) the general mandate to issue domestic bond financing instruments; (11) the general mandate to issue new Domestic Shares and H Shares; and (12) the proposed amendments to the Articles of Association.

Ordinary Resolutions:

1. Work Report of the Board of Directors for the Year 2016

The work report of the Board of Directors for the year 2016 has been approved by the Board and is hereby proposed at the AGM for review and approval. The details of the work report of the Board of Directors are set out in the Appendix I of this circular.

2. Work Report of the Supervisory Committee for the Year 2016

The work report of the Supervisory Committee for the year 2016 has been approved by the Supervisory Committee and is hereby proposed at the AGM for review and approval. The details of the work report of the Supervisory Committee are set out in the Appendix II of this circular.

3. Annual Report for the Year 2016

The annual report for the year 2016 has been approved by the Board and the Supervisory Committee and is hereby proposed at the AGM for review and approval. The annual report has been published on the HKExnews website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.luzhengqh.com>) on 28 April 2017, and will be despatched to the Shareholders in due course.

LETTER FROM THE BOARD

4. Profit Distribution Plan for the Year 2016

According to the audit results for the year 2016, the requirements of the relevant laws, regulations and the Articles of Associations, as well as taking into consideration of comprehensive factors including interests of the Shareholders and future development of the Company, the proposed profit distribution plan for the year 2016 is as follows: on the basis of a total share capital of 1,001,900,000 Shares at the end of 2016, cash dividends of RMB0.048 per Share (inclusive of tax) are proposed to be distributed to the Shareholders. The cash dividends to be distributed amount to RMB48,091,200.00 in total, representing approximately 49.80% of the distributable profit for 2016 of RMB96,558,900. The undistributed profits will be carried forward to the next year.

The dividend to be distributed will be denominated and declared in RMB, and paid in RMB and in Hong Kong dollars to holders of Domestic Shares and holders of H Shares, respectively. The actual amount distributed in Hong Kong dollars will be calculated based on the average benchmark exchange rate of RMB against Hong Kong dollars announced by the People's Bank of China for the five working days prior to the date of the AGM.

The aforesaid profit distribution plan for the year 2016 has been approved by the Board and the Supervisory Committee and is hereby proposed at the AGM for review and approval.

The H Share register of members of the Company will be closed, for the purpose of determining the entitlement of holders of H Shares to receive the 2016 final dividend, from Thursday, 22 June 2017 to Tuesday, 27 June 2017, both days inclusive, during which period no transfer of H Shares will be registered. Any Shareholder whose name is registered in the register of members of the Company on Tuesday, 27 June 2017 will be entitled to receive the 2016 final dividend. In order to qualify for the 2016 final dividend, holders of H Shares should ensure that all the share transfer documents be lodged with the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 21 June 2017.

Subject to the approval of the Shareholders at the AGM, the 2016 final dividend is expected to be paid on or around Thursday, 27 July 2017 to the Shareholders whose names are registered in the register of members of the Company on Tuesday, 27 June 2017.

5. Remuneration of Accounting Firms for the Year 2016

The Company has appointed PricewaterhouseCoopers as the service institution of the Company for the year 2016 for the interim review, annual auditing, results announcement check and connected transactions report prepared in accordance with International Financial Reporting Standards and the service fees shall be RMB1.36 million; the Company has appointed PricewaterhouseCoopers Zhong Tian LLP as the auditor of the Company for the year 2016 for the annual financial report prepared in accordance with China Accounting Standards for Business Enterprises and the audit expenses shall be RMB0.21 million; the aforesaid service expenses shall be RMB1.57 million in total.

The aforesaid remunerations of accounting firms for the year 2016 has been approved by the Board and is hereby proposed at the AGM for review and approval.

LETTER FROM THE BOARD

6. Appointment of Accounting Firms for the Year 2017

The Company intends to continue to engage PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP for the auditing of the annual financial reports of the Company in accordance with International Financial Reporting Standards and China Accounting Standards for Business Enterprises for the year 2017, respectively.

Currently, based on the work time of all levels of staff of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP and combined with market conditions and other factors, for the year 2017, the service fees for the interim review and annual auditing, the verification of the results announcement and the connected transaction report which are prepared under the 2017 International Financial Reporting Standards, shall be RMB1.36 million; the auditing service fee for the auditing of the annual report prepared under China Accounting Standards for Business Enterprises shall be RMB0.21 million; the aforesaid service fees shall be RMB1.57 million in total.

The aforesaid resolution has been approved by the Board and is hereby proposed at the AGM for review and approval.

7. New Financial Services Framework Agreement with Zhongtai Securities

(1) Background

Reference is made to the Prospectus in relation to, inter alia, the non-exempt continuing connected transactions under the Financial Services Framework Agreement between the Company and Zhongtai Securities and their annual caps. As disclosed in the Prospectus, pursuant to the Financial Services Framework Agreement, Zhongtai Securities and/or its associates regularly provide various financial services to the Group in the ordinary and usual course of business of the Group. The aforesaid services mainly include provision of IB services, purchase of asset management schemes by the Group, in which Zhongtai Securities and/or its associates act as the manager, as well as acceptance of securities brokerage and other financial services by the Group from Zhongtai Securities.

As the corresponding annual caps under the Financial Services Framework Agreement will expire on 31 December 2017 and the Group will continue to enter into certain transactions under the aforesaid Financial Services Framework Agreement after 31 December 2017. Therefore, the Company entered into the New Financial Services Framework Agreement with Zhongtai Securities on 28 April 2017 (after trading hours). Pursuant to such agreement, Zhongtai Securities and/or its associates will regularly provide a whole package of financial services to the Group, including the provision of IB services, asset management service, securities brokerage and other financial services. The term of the New Financial Services Framework Agreement is three years with effect from 1 January 2018 to 31 December 2020. The continuing connected transactions thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions for the following three years (from 1 January 2018 to 31 December 2020).

LETTER FROM THE BOARD

(2) *Details of the agreement*

Date: 28 April 2017

Parties: Zhongtai Securities
The Company

A. *Acceptance of IB services provided by Zhongtai Securities and/or its associates*

Principal terms

In the Company's ordinary and usual course of business, Zhongtai Securities and/or its associates provide IB services to the Company, among which, Zhongtai Securities and/or its associates introduce potential clients to the Company for the engagement of the Company's futures brokerage businesses. 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 accounts; (ii) providing latest information about futures, option and other derivative markets to clients; (iii) assisting clients in 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.

Reasons for and benefits of the transaction

The Company (as a futures firm) could effectively share the relatively abundant customer resources of Zhongtai Securities and/or its associates through the acceptance of IB services provided by Zhongtai Securities (as a securities company). Besides, both Zhongtai Securities and the Company could effectively achieve synergies while enhancing the Company's customer service capabilities as well as increasing operating income. In addition, Zhongtai Securities and/or its associates have been providing IB services to the Company for consecutive years and have developed a deep understanding of the Company's business needs. As such, the continuous provision of such services by Zhongtai Securities and/or its associates to the Company will foster the development of the Company's futures brokerage business.

Pricing terms

- (i) the commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company will be 60% of the commission revenue generated from such clients introduced by Zhongtai Securities and/or its associates (the "**Commission Split**"). Based on the enquires on futures commission splits made to other futures companies which receive IB services provided by securities companies, the Company is of the opinion that the Commission Split of 60% falls within the reasonable market range and is in line with market practice. In addition, the Commission Split of 60% has been applied to the IB services provided to the Company by Zhongtai Securities and/or its associates since the listing of the Company in 2015;
- (ii) the commission revenue equals the revenue generated from such clients, with deduction of the trading and clearing fees paid to the futures exchanges in the PRC, including but not limited to, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange and China Financial Futures Exchange; and

LETTER FROM THE BOARD

- (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 IB businesses and on normal commercial terms, and is consistent with market practice.

Historical amounts

In relation to the IB services provided by Zhongtai Securities and/or its associates to the Company, the commissions for the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017 were RMB16,832 thousand, RMB8,162 thousand and RMB1,170 thousand (unaudited), respectively; the Commission Split for the provision of IB services to the Company by Zhongtai Securities and/or its associates was 60%.

Annual caps

The maximum aggregate annual amounts in respect of the commissions for the provision of IB services by Zhongtai Securities and/or its associates to the Company for the three years ending 31 December 2018, 2019 and 2020 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December		
	<i>(RMB'000)</i>		
	2018	2019	2020
Commissions	28,000	36,000	46,000

Basis of caps

The above proposed annual caps are determined on the basis that: (i) commissions received by Zhongtai Securities and/or its associates are expected to increase due to the increasing business opportunities of IB services introduced to the Company by Zhongtai Securities and/or its associates, resulting from the increasing facilitation of the Company's branches which are capable of conducting IB business of the Company with Zhongtai Securities and/or its associates and the further enhancement of synergy effects between both parties; (ii) Chinese stock market has been placing great impact on financial futures businesses including stock index futures businesses which are the principal businesses of the clients introduced to the Company by Zhongtai Securities and/or its associates, while Zhongtai Securities is mainly involved in securities dealing business. In the second half of 2015, Chinese stock market experienced significant fluctuations. China Financial Futures Exchange exercised strict control over stock index futures transactions through sharply raising the levels of margin deposits and handling fees for settling positions and decreasing the daily quantity of open futures contracts, which dramatically reduced the scale of IB business provided to the Company by Zhongtai Securities and/or its associates. In February 2017, China Financial Futures Exchange announced to partially loosen the control on the stock index futures transactions by reducing margin deposits and handling fees of the stock index futures business, and based on the various factors including the market condition of stock index futures, and the industry and regulatory trend, the Company expects that China Financial Futures Exchange will continue to fully loosen the position limit of stock index futures in 2018; (iii) the scale of the Company's futures brokerage services is anticipated to increase as evidenced by the introduction of commodity futures, the preparation of

LETTER FROM THE BOARD

various new varieties of commodity futures as well as the expected implementation of new futures products such as stock index options and 3-year sovereign bond futures contracts by China Financial Futures Exchange. According to the data published by China Financial Futures Exchange, the daily average market transaction amount of stock index futures has been increasing by approximately 67% per annum since the launch in 2010 till 2015. Given that the majority of the clients introduced to the Company by Zhongtai Securities and/or its associates are engaged in stock index futures trading, and considering that the synergy between both parties will be gradually enhanced, the Company prudently estimates that the IB business provided to the Company by Zhongtai Securities and/or its associates will increase by 30% from 2017 to 2020; (iv) as the commission generated from the IB business provided to the Company by Zhongtai Securities and/or its associates was approximately RMB18,000 thousand for the first six months of 2015 before the stock index futures transactions were restricted by China Financial Futures Exchange for the same period, it is expected that the commission to be generated from the IB business provided to the Company by Zhongtai Securities and/or its associates will be approximately RMB46,800 thousand, RMB60,800 thousand and RMB79,100 thousand from 2018 to 2020, respectively; and (v) the Commission Split is 60%, assuming that it remained unchanged as compared with those for the previous three years. As such, the commissions charged to the Company by Zhongtai Securities and/or its associates from the IB business are expected to be RMB28,000 thousand, RMB36,000 thousand and RMB46,000 thousand from 2018 to 2020, respectively.

B. Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager

Principal terms

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

Reasons for and benefits of the transaction

Investment in asset management schemes could enhance the Group’s investment return and, compared with other investments, the return on investment in asset management schemes is relatively more stable and thus in line with the Group’s risk control requirements on its wealth management business. In addition, the Group has invested in various asset management schemes managed by Zhongtai Securities and/or its associates for certain consecutive years and thus has developed a better understanding of their investment strategy and results performance, which effectively foster business cooperation between both parties and improves return on assets of the Group.

LETTER FROM THE BOARD

Pricing terms

- (i) asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management schemes are calculated based on our investment amounts times the Asset Management Fees rate;
- (ii) with the gradual development of futures asset management business, market competition has become more fierce and the management fees rate of relevant collective asset management schemes has been constantly decreasing. 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 the Group and any other independent third party investor participants. Such Asset Management Fees rate is also comparable with the prevailing market rate for collective asset management schemes issued by any other independent third parties with similar scales of investment; and
- (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 to the Group than, those charged by Zhongtai Securities and/or its associates 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 the Group than, the Asset Management Fees rate charged by any other independent third party managers to the Group in other similar targeted asset management schemes the Group 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 Group with reference to the prevailing market commission rates for similar targeted management schemes, on normal commercial terms, and is consistent with market practice.

Historical amounts

For the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017, the Group participated in six asset management schemes in which Zhongtai Securities and/or its associates acted as the manager. For the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017, the highest daily amount invested in such asset management schemes were approximately RMB140,000 thousand, RMB156,000 thousand and RMB105,140 thousand (unaudited), and the Asset Management Fees paid by the Group to Zhongtai Securities and/or its associates were approximately RMB494 thousand, RMB383 thousand and RMB376.11 thousand, respectively. The Asset Management Fees rates for such six asset management schemes were 0.2%, 1.2%, 0.7%, 0.27%, 1.0% and 0.6%, respectively.

LETTER FROM THE BOARD

Annual caps

The maximum aggregate highest daily amount invested by the Group, and the annual Asset Management Fees paid by the Group to Zhongtai Securities and/or its associates for the three years ending 31 December 2018, 2019 and 2020 shall not exceed the caps set out below:

		Proposed annual caps for the year ending 31 December (RMB'000)		
		2018	2019	2020
Purchase of asset management schemes from Zhongtai Securities and/or its associates by the Group	Highest daily amount invested	492,600	591,120	709,340
	Asset Management Fees (based on the Asset Management Fees rate of 1.0% and the subscription fee of RMB10,000)	4,926	5,911	7,093

Basis of caps

The above proposed annual caps are determined on the basis that: (i) pursuant to the audited net assets of the Company in 2016, as well as the warning percentage requirement of net capital and net assets of a futures company under the Administrative Measures on Risk Regulatory Indication of Futures Companies (《期貨公司風險監管指標管理辦法》) promulgated by the CSRC, after the deduction of short-term capital turnovers of RMB10,000 thousand, such as turnovers for off-budget expenses which may affect the net capital of the Company; and proposed injection to subsidiaries of RMB60,000 thousand, including the proposed injection to Luzheng Information Technology Co., Ltd. of RMB10,000 thousand and the proposed injection to Luzheng Trading of RMB50,000 thousand from the total available capital for investment of the Company in 2017, the available capital for financial investment for the Company in 2017 is expected to be approximately RMB609,000 thousand. Together with the available capital for financial investment in 2017 for the Company's subsidiaries of approximately RMB212,000 thousand, the total available capital for financial investment for the Group in 2017 would be approximately RMB821,000 thousand. According to the investment plan of the Group and in order to enhance the capital utilization efficiency of the Group, it is expected that the highest daily amount invested by the Group in the asset management schemes in which Zhongtai Securities and/or its associates act as the asset manager will be not more than 50% of the total available capital for financial investment of the Group in 2017, as such, the highest daily amount invested in 2017 would be RMB410,500 thousand. According to the audited financial data, the profit growth rates of the Group were around 20% when comparing 2015 with 2014 and when comparing 2016 with 2015, respectively. Therefore, It is expected that the investment amount in the asset management schemes in which Zhongtai

LETTER FROM THE BOARD

Securities or its associates act as manager will increase by 20% in the next three years; and (ii) for the purpose of calculating the annual caps of the Asset Management Fees for the next three years, based on the previous Asset Management Fees rates and despite the different standards of Asset Management Fees rates of various asset management products, assuming the Asset Management Fees rate is 1.0%, the expected Asset Management Fees to be paid to Zhongtai Securities and/or its associates by the Group are expected to be RMB4,926 thousand, RMB5,911 thousand and RMB7,093 thousand for the next three years, respectively.

C. *Acceptance of Securities brokerage and other financial services provided by Zhongtai Securities and/or its associates*

Principal terms

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

Reasons for and benefits of the transaction

In consideration of the enhancement of the Group's capital return by securities investment during the Group's treasury management activities, the Group needs to conduct securities investment and other financial businesses through companies which have the necessary qualifications for engaging in securities brokerage business. In addition, the Group has cooperated with Zhongtai Securities and/or its associates for securities brokerage and other financial services for consecutive years. Zhongtai Securities and/or its associates have developed a good understanding of the Group's needs. This is a key factor the Group considers in selecting a provider of securities brokerage and other financial services.

Pricing terms

- (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 Group with reference to the prevailing market commission rate for similar business, and is consistent with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee exceeds RMB5 through calculation by transaction amount times the 0.03% of commission rate, the transaction will be charged at the commission rate of 0.03%). Different commission rates were applied to the bond brokerage business provided by Zhongtai Securities and/or its associates to us as well as to independent third parties, subject to different types of bonds (such as reverse repo of bonds with the term of one day or more than 28 days), ranging from 0.001% to 0.03%; and

LETTER FROM THE BOARD

- (ii) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Group is comparable to, or no less favorable than, those charged by Zhongtai Securities and/or its associates to any other independent third parties.

Historical amounts

For the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates, the historical amounts of commissions for the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017 were approximately RMB205 thousand, RMB9 thousand and RMB24.5 thousand (unaudited), respectively.

Annual caps

The maximum aggregate annual amounts of commissions in respect of the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates for the three years ending 31 December 2018, 2019 and 2020 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December		
	<i>(RMB'000)</i>		
	2018	2019	2020
Commissions	690	690	690

Basis for caps

The above proposed annual caps are determined on the basis that: (i) along with the increase of the Group's revenue, the aggregate amount of financial investment by the Group is expected to increase accordingly. The Group will invest its capital in the stock market or bond market considering the market conditions at discretion; (ii) the securities brokerage business provided by Zhongtai Securities and/or its associates has relatively greater exposure to the Chinese stock market. The Chinese stock market was bullish in the first half of 2015 while it had significant fluctuation in the second half of 2015, and experienced a relative overall slowdown in 2016. As such, the commissions paid to Zhongtai Securities and/or its associates by us in respect of securities brokerage businesses significantly decreased from 2015 to 2016. With the recovery of the stock market in 2017, the Group expects that its investment in the stock market will continue to increase and the commissions paid to Zhongtai Securities and/or its associates will increase accordingly as Zhongtai Securities and/or its associates will provide more securities brokerage and other financial services to the Group; (iii) when the stock market was on the rise in 2015, the maximum amount of the Group invested in the stock market was approximately RMB80 million. Considering that the current market maintains relatively stable and based on the prudent estimation of 70% of the aforementioned investment amount, it is expected that the annual investment amount in the stock market by the Group for each of the next three years will be RMB55 million, as such, the commission to be paid to Zhongtai Securities by the Group is expected to be RMB396 thousand for each year of 2018, 2019 and 2020 based on the handling fees rate of 0.03%; and (iv) since 2017, Zhongtai Securities started to provide reverse repo of bonds to the Group. The investment amounts for conducting reverse repo of

LETTER FROM THE BOARD

bonds by the Group was RMB50 million, and the commission paid to Zhongtai Securities by the Group in respect of the reverse repo of bonds was approximately RMB146.2 thousand for the two months ended 28 February 2017 based on the unaudited management accounts of the Group. Taking into account the current plan of the Group, it is expected that the amount invested for reverse repo of bonds of the Group for each year of 2018, 2019 and 2020 will not be less than twice the amount invested for the two months ended 28 February 2017. As such, the amounts invested for reverse repo of bonds of the Group are expected to be RMB100 million for each year of 2018, 2019 and 2020, respectively, while the commission payable to Zhongtai Securities and/or its associates by the Group is expected to be RMB292.4 thousand for each year of 2018, 2019 and 2020, respectively. Together with the securities brokerage services to be provided by Zhongtai Securities and/or its associates to the Group, the Group shall pay RMB690 thousand to Zhongtai Securities and its associates for each year of 2018, 2019 and 2020, respectively.

Listing Rules Implications

As at the date of this circular, as Zhongtai Securities holds approximately 63.10% of the equity interest of the Company, Zhongtai Securities is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions under the New Financial Services Framework Agreement between the Company and Zhongtai Securities constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the New Financial Services Framework Agreement between the Company and Zhongtai Securities is more than 5% pursuant to the Listing Rules, the continuing connected transactions under the New Financial Services Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Having considered that: (i) according to the commercial arrangement between Zhongtai Securities and the Company, where permitted by competent regulatory authorities and relevant laws and regulations, Zhongtai Securities and/or its associates will provide a whole package of financial services rather than any single service to the Group under the New Financial Services Framework Agreement, including the provision of IB services, asset management schemes service, securities brokerage and other financial services. Meanwhile, the Company will arrange and review such connected financial service transactions provided by Zhongtai Securities and/or its associates as a whole; and (ii) as disclosed in the Prospectus, the aforesaid provisions were also under the Financial Services Framework Agreement entered into between the Company and Zhongtai Securities, which was considered and approved as a single resolution at the general meeting of the Company at the listing stage of the Company, the Company believes that the resolution regarding the New Financial Services Framework Agreement with Zhongtai Securities and the transactions contemplated thereunder to be considered and approved by the AGM could ensure the continuity and consistency with the former arrangement and avoid confusion to the Shareholders, and would not harm the interests of the Shareholders by unduly affecting their judgment and voting decisions on such resolution.

The aforesaid New Financial Services Framework Agreement has been approved by the Board and is hereby proposed at the AGM for review and approval.

LETTER FROM THE BOARD

8. Asset Management Service Framework Agreement with Shandong Steel

(1) *Background*

Reference is made to the announcement of the Company dated 19 October 2015 in relation to the Former Asset Management Service Framework Agreement entered into between the Company and Zhongtai Securities and its annual caps, pursuant to which Zhongtai Securities would continuously purchase the collective asset management schemes in which the Company acted as the manager. Being the asset manager, the Company invests in financial products of various aspects with the collective asset management schemes. As such, Zhongtai Securities would pay asset management fees to the Company. As the corresponding annual caps under the Former Asset Management Service Framework Agreement will expire on 31 December 2017 and the Group will continue to conduct continuing connected transactions under the Former Asset Management Service Framework Agreement after 31 December 2017 and expand its cooperative partners to sell asset management schemes to Shandong Steel and/or its associates, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours), pursuant to which, Shandong Steel and/or its associates would purchase asset management schemes in which the Group acts as the asset manager. The term of the Asset Management Service Framework lasts for three years, valid from 1 January 2017 to 31 December 2019. The Former Asset Management Service Framework Agreement will be terminated once the Asset Management Service Framework Agreement comes into effect. The continuing transactions thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.

(2) *Details of the agreement*

Date: 28 April 2017

Parties: Shandong Steel
The Company

Principal terms

In the ordinary and usual course of business, Shandong Steel and/or its associates continuously purchase collective asset management schemes in which we act as the manager. Being the asset manager, we invest in financial products of various aspects with the collective asset management schemes. As such, Shandong Steel and/or its associates shall pay Assets Management Fees to us.

Reasons for and benefits of the transaction

The Group commenced its operation of asset management business in January 2013. The asset management scale grew from RMB61.0 million as of 31 December 2013 to RMB3,850 million as of 31 December 2016. The successful launch and operation of asset management products of the Group bring actual benefits to our clients, increase the Group's income of asset management business, and gained market recognition and branding effect of the asset management business. Moreover, Shandong Steel and/or its associates have actual investment demand to purchase asset management products and it is expected that they will start purchasing asset management schemes in which the Group acted as the manager since 2017. As the Group is more familiar with the investment demand of Shandong Steel and/or its associates as compared with other asset management companies, the Group is expected to increase the assets return of

LETTER FROM THE BOARD

Shandong Steel and/or its associates as well as the income of the asset management business of the Group. Also, it is expected to facilitate the business cooperation between both parties which is in the interest of the Company and the Shareholders as a whole.

Pricing terms

- (i) as the manager of the asset management schemes, we charge asset management fees based on the calculation of the investment amounts in the asset management schemes by Shandong Steel and/or its associates times the asset management fees rate; and
- (ii) with the gradual development of futures asset management business, market competition has become more fierce and the management fees rate of relevant collective asset management schemes has been constantly decreasing. For collective asset management schemes, the asset management fees rate (1.0% on average) as stipulated in the collective asset management contracts is applicable to all investors participating in such plan, including Shandong Steel and/or its associates and any other independent third party investor participants. Such Asset Management Fees rate to us is also comparable to or no less favorable than the rates we charged to any other independent third parties for comparable collective asset management schemes.

Historical amounts

For the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017, Shandong Steel and/or its associates did not purchase any asset management schemes in which the Group acted as the manager.

Annual caps

The maximum aggregate highest daily amount invested by Shandong Steel and/or its associates from the Group, and the annual asset management fees paid by Shandong Steel and/or its associates to the Group for the three years ending 31 December 2017, 2018 and 2019 shall not exceed the caps set out below:

	Proposed annual caps for the year ending		
	31 December		
	<i>(RMB'000)</i>		
	2017	2018	2019
Highest daily amount invested	200,000	260,000	338,000
Asset management fees (based on the asset management fees rate of 1.0%)	2,000	2,600	3,380

Basis of annual Caps

The above proposed annual caps are determined with the bases that: (i) the Group charges Shandong Steel and/or its associates with asset management fees based on the calculation of: the total amount of the asset management schemes purchased by Shandong Steel and/or its associates times the asset management fees rate (based on annual fee rate of 1.0%); (ii) the reason why Shandong Steel and/or its associates did not purchase the asset management schemes

LETTER FROM THE BOARD

in which the Group acted as the manager before 2017 is, as in comparison with other asset management companies in the market, the asset management business of the Group from 2015 to 2016 was still at the initial stage and its differentiated competitiveness were not embodied in respect to the types of products. In terms of product scale and quantity, there was still a gap between the Company and other asset management companies thus it could hardly satisfy the investment demand of Shandong Steel and/or its associates. However, the Group's asset management business has recorded a significant growth in its scale and gained recognition in the futures industry since 2016. It is expected that the Group will have the ability to provide comprehensive asset management services to Shandong Steel and/or its associates since 2017; (iii) the investment targets of most of the asset management schemes in which the Group acts as the manager are mainly bulk commodities and their derivatives, which are in line with the nature of the business of Shandong Steel as a bulk commodities manufacture enterprise and can better meet the futures-related investment demand of Shandong Steel and/or its associates; (iv) Along with the deepening of the cooperation between the Group and Shandong Steel and its associates, the investment demand of the collective asset management schemes in which the Group acts as the manager to be purchased by Shandong Steel and/or its associates, as well as the financial assets required for investment by Shandong Steel and/or its associates are expected to increase continuously. According to the development plan of the asset management business in which the Group act as the asset manager, as well as the intention of the Company and Shandong Steel and its associates and the communication and commercial negotiation between both parties in respect of their cooperation in asset management business, it is expected that the total amounts of asset management schemes to be purchased by Shandong Steel and/or its associates from the Group for the three years ending 31 December 2017, 2018 and 2019 will increase by 30%, and the highest daily amounts invested are expected to be RMB200 million, RMB260 million and RMB338 million, respectively.

Listing Rules Implications

As at the date of this circular, as Shandong Steel is a Controlling Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules, the transaction under the Asset Management Service Framework Agreement between the Company and Shandong Steel constitutes a continuing connected transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Asset Management Service Framework Agreement between the Company and Shandong Steel is more than 5% pursuant to the Listing Rules, the continuing connected transaction under the Asset Management Service Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

9. Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel

(1) Background

References are made to the announcements of the Company dated 26 October 2016 and 8 December 2016 in relation to the Hot Rolled Wide Steel Plate Purchase Agreement entered into between the Company and Laiwu Steel, 80% shares of which are held by Shandong Steel. In view of the continuing purchase of bulk commodities, such as hot rolled wide steel plates, by Luzheng Trading, a wholly-owned subsidiary of the Company, from Shandong Steel and/or its associates in the future, and that Shandong Steel and/or its associates may continue to purchase raw materials,

LETTER FROM THE BOARD

including coke and iron ores, from Luzheng Trading, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours), pursuant to which the Company and/or its associates would purchase bulk commodities from Shandong Steel and/or its associates, including hot rolled wide steel plates, and Shandong Steel and/or its associates would purchase raw materials, including coke and iron ores from Luzheng Trading in the ordinary and usual course of business. The term of Bulk Commodities Sale and Purchase Framework Agreement lasts for three years, valid from 1 January 2017 to 31 December 2019. The continuing connected transactions thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.

(2) Details of the agreement

Date:

28 April 2017

Parties: The Company
Shandong Steel

Principal terms

In our ordinary and usual course of business, Luzheng Trading purchases bulk commodities including but not limited to hot rolled wide steel plates from Shandong Steel and/or its associates and pays the consideration; Shandong Steel and/or its associates purchase raw materials including but not limited to coke and iron ores from Luzheng Trading and pay the consideration.

Reasons for and benefits of the transactions

For the purchases of bulk commodities including but not limited to hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, when bulk commodity price fluctuates and trading opportunities in the market arise, Luzheng Trading may be entrusted by downstream traders and may on its own initiative purchase bulk commodities including hot rolled steel plates and rebars. Luzheng Trading intends to purchase bulk commodities such as hot rolled steel plates and rebars produced by Shandong Steel and/or its associates. As a trade brand of Shanghai Futures Exchange, the products of Shandong Steel and/or its associates have better liquidity. As a mainstream product of the bulk commodities market in Shandong, the market shares of such bulk commodities are relatively larger with a higher degree of market acceptance. Shandong Steel is a sizable state-owned enterprise with healthy operation. The default risk exposed to Luzheng Trading for its purchase from Shandong and/or its associates is relatively low. Entering into the Bulk Commodities Sale and Purchase Framework Agreement entered into between the Company and Shandong Steel are expected to seize favorable opportunities of prevailing market conditions and secures stable profit margin, which is in the interest of the Company and Shareholders as a whole.

For the purchase of raw materials including but not limited to coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, Luzheng Trading was established in April 2013 and principally engaged in bulk commodities transaction business with its scope of business covering the sales and wholesale of agricultural products, metal products, ore products, chemical products and edible oils. It generally purchases raw materials, such as coke and iron ores at suitable market price and sells such bulk commodities when there is an

LETTER FROM THE BOARD

increase in the market price as compared to the purchase price in order to earn price differences. As a steel producer, Shandong Steel has a great demand of bulk commodities such as coke and iron ores and plans to purchase such bulk commodities from Luzheng Trading from time to time according to its future production demand and market conditions. By entering into the Bulk Commodities Sale and Purchase Agreement with Shandong Steel to sell bulk commodities including iron ores to Shandong Steel, the Company is able to access stable and reliable sales channels, seize market opportunities and acquire stable profit margin, and is in the interest of the Company and Shareholders as a whole.

Pricing terms

For the purchases of bulk commodities including but not limited to hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, as the bulk commodities such as hot rolled wide steel plates and rebars are produced by Shandong Steel and/or its associates themselves, such commodity price is mainly determined with reference to the aggregated cost of steel production. As enterprises operated for the purpose of making profits, Shandong Steel and/or its associates are reluctant to disclose such core confidential commercial information to the Company, which will constitute its commercial secrets. However, the price of the bulk commodities such as hot rolled wide steel plates and rebars purchased by Luzheng Trading from Shandong Steel and/or its associates 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 Shandong Steel and/or its associates to Luzheng Trading are fair, reasonable and such price is comparable to that of similar products paid by independent third parties. Such transaction consideration is payable by the Group through its internal resources in cash.

For the purchase of raw materials including but not limited to coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, Luzheng Trading will determine the price based on arm's length negotiations with Shandong Steel and/or its associates with reference to the comparable price of similar products sold by independent third parties in domestic markets in accordance with the market fair, in order to ensure that the price and terms for the sales of bulk commodities by Shandong Steel and/or its associates to Luzheng Trading are fair, reasonable and such price and terms are comparable to that of similar products offered by independent third parties.

Historical amounts

For the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017, the transaction amounts of bulk commodities purchased by Luzheng Trading from Shandong Steel and/or its associates were approximately nil, RMB2,849 thousand and RMB528 thousand, respectively. Shandong Steel and/or its associates did not purchase raw materials including iron ores or other bulk commodities from Luzheng Trading or the Company in the past.

LETTER FROM THE BOARD

Annual caps

For the three years ending 31 December 2017, 2018 and 2019, the maximum annual amounts of transactions of sales and purchase of bulk commodities and raw materials between the Group and Shandong Steel and/or its associates shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December, (RMB'000)		
	2017	2018	2019
The purchase amount of bulk commodities by the Group from Shandong Steel and/or its associates	200,000	300,000	450,000
The purchase amount of raw materials by Shandong Steel and/or its associates from the Group	100,000	150,000	225,000

Basis of annual caps

The proposed annual caps for transaction contemplated under Bulk Commodities Sales and Purchase Framework Agreement are determined as follows:

For the purchases of bulk commodities including but not limited to hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, (i) the associates of Shandong Steel include Jigang Group Co., Ltd. (濟鋼集團有限公司), Laiwu Steel and other large-scale steel enterprises in Shandong Province. According to the annual report of Shandong Steel (excluding its associates) for the year of 2016, Shandong Steel recorded annual steel production value of approximately RMB45,337 million, and its annual consumption amount of raw materials for steel was approximately RMB16,138 million. As such, Shandong Steel and its associates are the major suppliers of steel market as well as the major consumers of steel raw materials in Shandong Province; (ii) as Shandong Steel and its associates have good market reputation and brand awareness in the steel industry, they have a large loyal customer base in Shandong as well as in the whole country. In the past, the Group mainly purchased and sold bulk commodities in Shandong market. Also, due to the timeliness and opportunistic nature of purchase and sales of bulk commodities as well as relevant restrictive provisions for connected transactions, the Group mainly purchased and sold bulk commodities from and to steel factories other than Shandong Steel and its associates. However, the steel products of Shandong Steel and/or its associates have higher market recognition in Shandong's market, and through further expansion of the Group's market channels, the promotion of market brand and the growing maturity of the marketing team, the Group has already reached preliminary cooperation intentions with several customers which have long-term fixed demands on steel products produced by Shandong Steel and/or its associates. The demand volume of such customers is relatively large and stable. Considering the existing customers with preliminary cooperation intentions to conduct business with us as well as the gradual growth of potential customers, the Group expects that the monthly transaction volume of hot rolled wide steel plate will be approximately 3,000 tons and the transaction volume of structural steel will be approximately

LETTER FROM THE BOARD

5,000 tons, respectively. Based on the average price of RMB3,000 per ton referring to comparable prices of bulk commodities in the current market environment, it is estimated that the monthly transaction amount of purchase of bulk commodities by the Group from Shandong Steel and/or its associates in 2017 will be approximately RMB24 million. As such, the Group prudently expected that the annualized transaction amount of purchase of bulk commodities by the Group from Shandong Steel and/or its associates in 2017 will be approximately RMB200 million; and (iii) as compared with other distributors of Shandong Steel and/or its associates, the Group is advantageous in providing ancillary services such as financing and risk management to downstream customers. Hence, downstream customers are more willing to purchase steel from Shandong Steel and/or its associates through the Group. Based on above, it is expected that the purchase amount of bulk commodities including but not limited to hot rolled wide steel plates by the Group from Shandong Steel and/or its associates will increase significantly within the proposed annual caps above in the next three years.

For the purchase of raw materials including but not limited to coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, according to the Group's research on futures and commodities industry, the Group has a lower purchase cost as compared with other trading enterprises. Hence, the Group can sell raw materials such as iron ores, coking coal and coke at lower prices to Shandong Steel and its associates and to independent third parties. Being large-scale steel production enterprises, Shandong Steel and its associates select their suppliers through consideration of prices as well as the stability and continuity of supplying sources. According to business plan and the communication and commercial negotiation between the Group and Shandong Steel, Luzheng Trading plans to commence selling raw materials, such as iron ores, coking coal and coke to Shandong Steel and/or its associates on continuing basis from 2017, including selling 4,000 tons of iron ores, 3,000 tons of coking coal and 3,000 tons of coke each month. Based on the respective prices of RMB600 per ton, RMB2,000 per ton and RMB1,200 per ton referring to comparable prices of bulk commodities in the current market environment, it is estimated that the monthly transaction amount of purchase of bulk commodities by Shandong Steel and/or its associates from the Group in 2017 will be approximately RMB11 million. As such, the Group prudently expected that the annualized transaction amount of purchase of bulk commodities by Shandong Steel and/or its associates from the Group in 2017 will be approximately RMB100 million.

Based the Group's average annual growth rate of 52.30% for purchase of relevant bulk commodities and the average annual growth rate of 120.07% for sales of relevant bulk commodities when comparing 2015 with 2014 and comparing 2016 with 2015, as well as the comprehensive considerations of the potential rise in the prices of the above bulk commodities and the scale effect after the expansion of related businesses, it is expected that both of the purchase amount of bulk commodities by the Group from Shandong Steel and/or its associates and the purchase amount of raw materials by Shandong Steel and/or its associates from the Group will increase by 50% for the three years ending 31 December 2017, 2018 and 2019.

Listing Rules Implications

As at the date of this circular, Luzheng Trading is a wholly-owned subsidiary of the Company. As Shandong Steel is the Controlling Shareholder of the Company, Shandong Steel is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions under the Bulk Commodities Sale and Purchase Framework Agreement between the Company and Shandong Steel constitute continuing connected transactions of the Company under the Listing Rules.

LETTER FROM THE BOARD

As the highest applicable percentage ratio for the proposed annual caps of the Bulk Commodities Sale and Purchase Framework Agreement between the Company and Shandong Steel is more than 5% pursuant to the Listing Rules, the continuing connected transactions under the Bulk Commodities Sale and Purchase Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Bulk Commodities Sale and Purchase Framework Agreement has been approved by the Board and is hereby proposed at the AGM for review and approval.

Internal Control Procedures and Corporate Governance Measures

The Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of (1) the New Financial Services Framework Agreement with Zhongtai Securities; (2) the Asset Management Service Framework Agreement with Shandong Steel; and (3) the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the requirements of the Listing Rules. The Company has adopted the following internal management procedures to ensure that the above continuing connected transactions are fair and reasonable and on normal commercial terms:

- The Group has formulated a series of measures and policies on, among others, contract policies, project management policies and administration rules of connected transactions in order to ensure that the Company's continuing connected transactions are conducted under such Framework Agreements and the respective pricing policies. These Framework Agreements and the transactions thereunder, in particular the fairness and reasonableness of the pricing terms thereof, would be examined and approved by the Audit Committee of the Board, the Board and various internal departments of the Company (including but not limited to the finance department and audit department of the Company) to ensure that the terms of Framework Agreements are in compliance with relevant regulations and guidelines (if applicable) and market practices and would not deviate from the terms of the Framework Agreements disclosed in this circular.
- When determining the actual prices of services provided by Zhongtai Securities and/or its associates, as well as the products supplied by Shandong Steel and/or its associates, Zhongtai Securities, Shandong Steel and/or their respective associates will provide the Company with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. In addition, the transactions under the Framework Agreements shall be conducted on a non-exclusive basis. Payments shall be calculated on the aforementioned bases. In addition to that, the Group usually seeks quotations or makes enquiries on relevant prices from not less than two other independent third party suppliers providing similar products or services, and refers to such pricing and terms for similar products or services, to make sure that the prices and terms offered by Zhongtai Securities, Shandong Steel and/or their respective associates to the Group are fair, reasonable and are no less favorable than those offered by independent third parties.

LETTER FROM THE BOARD

- When determining the actual prices of services or products provided by the Group to Shandong Steel and/or its associates, the Group will provide Shandong Steel and/or its associates with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. In addition, the transactions under the Framework Agreements shall be conducted on a non-exclusive basis. Payments shall be calculated on the aforementioned bases. However, the Group usually makes enquiries on relevant prices to not less than two other independent third party suppliers providing similar services or products, and makes reference to the pricing and terms we offered to independent third parties for similar services or products, to make sure that the pricing and terms offered by the Group to Shandong Steel and/or its associates are fair, reasonable and are no less favorable than those offered to independent third parties.
- The Audit Committee of the Board, the office of the Board and various internal departments of the Company also regularly monitor the fulfillment status and the transaction updates under the Framework Agreements. In addition, the management of the Company also regularly reviews the pricing policies of the Framework Agreements. The Independent Non-executive Directors conduct annual review for the implementation and execution of continuing connected transactions (including related pricing mechanisms); the auditors of the Company would conduct assessment and evaluation on the internal control measures of the Company and engage annual review of the continuing connected transactions under the Framework Agreements pursuant to the requirements of the Listing Rules, in order to confirm that, among others, the transactions are conducted in accordance to the pricing policies and relevant transaction agreements.

After taking into consideration of aforementioned pricing policies, the basis of, the reasons for and the benefits of determining proposed annual caps and internal control procedures, the Directors (including Independent Non-executive Directors) are in the opinion that the terms of the contemplated transactions under the Framework Agreements and the proposed annual caps thereunder are entered into based on normal commercial terms in the ordinary and usual course of business of the Company that are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In the meantime, the Company considers that it has adequate mechanisms, internal control procedures and external monitoring measures to ensure that the continuing connected transactions are in strict compliance with relevant regulations and guidelines and the terms of the New Financial Services Framework Agreement, the Asset Management Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement.

LETTER FROM THE BOARD

The Opinions of the Board

As Mr. Chen Fang, Mr. Lv Xiangyou and Mr. Yin Ge are holding office at Zhongtai Securities and/or its associates, it is deemed that they are related to the transactions under the New Financial Services Framework Agreement, the Asset Management Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement. Therefore, they have abstained from voting on the resolutions of the Board for the approval of the Framework Agreements and their proposed annual caps. Save as disclosed, there are no other Directors involved in any material interests of the aforementioned Framework Agreements and none of other Directors are required to abstain from voting on the resolutions of the Board for the consideration and approval of the aforementioned Framework Agreements and their proposed annual caps.

In consideration of the pricing policies, the determination basis of the proposed annual caps, the reasons for and benefits of the internal control procedures, the Directors, including Independent Non-executive Directors, are of the view that the terms of the transactions contemplated under the New Financial Services Framework Agreement, the Asset Management Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and the proposed annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Independent Board Committee

The Independent Board Committee (comprised of all Independent Non-executive Directors, namely Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng) has been established to advise on the New Financial Services Framework Agreement, the Asset Management Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps to the Independent Shareholders.

The Company has appointed Alliance Capital as the independent financial advisor to advise the Independent Board Committee and Independent Shareholders in respect of the aforesaid matter.

Information about the transaction parties

(1) Information about the Company and Luzheng Trading

The Company is principally engaged in commodity futures brokerage, financial futures brokerage, futures asset management and futures investment consultancy.

Luzheng Trading, a wholly-owned subsidiary of the Company, is principally engaged in commodity trading, import and export business, technical advice, investment advice and other businesses.

LETTER FROM THE BOARD

(2) Information about Zhongtai Securities

Zhongtai Securities was incorporated in the PRC in May 2001 and holds approximately 63.10% equity interest in the issued share capital of the Company. It is principally engaged in securities brokerage, securities investment consultancy, investment advice related to securities trading and securities investment activities, securities underwriting and sponsoring, securities dealer, margin financing, securities investment fund underwriting, financial products underwriting, futures IB and other businesses.

(3) Information about Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008, and is principally engaged in smelting, processing and sales businesses of ferrous metal.

(4) Information about Laiwu Steel

Laiwu Steel was incorporated in the PRC on 6 May 1999, and is principally engaged in smelting, processing and sales businesses of ferrous metal.

10. General Mandate to Issue Domestic Bond Financing Instruments

In order to satisfy the operation needs of the Company and to lower its financing costs, the Board has resolved to grant an unconditional general mandate to the Board and seek to obtain further approval for the Board's further delegation of the aforesaid mandate to the chairman of the Board and/or other authorized person of the Board to issue one or a portfolio of RMB domestic bond instruments in one or multiple tranches taking into account the prevailing market conditions and the funding needs of the Company, which shall be subject to the Shareholders' approval by way of a special resolution at the AGM. The aggregate principal amount to be repaid of the abovementioned bonds shall not exceed RMB0.6 billion.

The aforesaid resolution has been approved by the Board and is hereby proposed at the AGM for review and approval. Specific details of the issuance of domestic bond financing instrument is set out in Appendix III of this Circular.

11. General Mandate to Issue New Domestic Shares and H Shares

The Board proposed to the AGM to grant an unconditional general mandate by way of a special resolution to the Board and seek to obtain further approval for the Board's further delegation of the aforesaid mandate to the chairman of the Board and/or other authorized person of the Board to issue, allot and deal with, either separately or concurrently, Domestic Shares and H Shares of the Company not exceeding 20% of each of the number of Domestic Shares and/or the number of H Shares in issue at the date of reviewing and passing this resolution at the AGM. As at the Latest Practicable Date, the Company has 724,810,000 Domestic Shares and 277,090,000 H Shares in issue. Subject to the passing of the proposed resolution granting the general mandate to the Directors and on the basis that no Shares will be issued after the Latest Practicable Date and prior to the AGM, the Company will be allowed under the general mandate to issue a maximum of 144,962,000 Domestic Shares and 55,418,000 H Shares.

LETTER FROM THE BOARD

The specific details of authorisation (including but not limited to the following):

- (1) to allot, issue and deal with, either separately or concurrently, Domestic Shares and/or H Shares not exceeding 20% of their respective numbers in issue on the date of passing of this special resolution;
- (2) to formulate and implement detailed issuance plan, including but not limited to the class of new shares to be issued, pricing mechanism and/or issuance price (including price range and the final price), number of shares to be issued, allottees and use of proceeds, time of issuance, period of issuance and whether to place shares to existing Shareholders;
- (3) to review and approve and execute, on behalf of the Company, agreements relating to share issuance, including but not limited to the underwriting agreement of placing and engagement agreements of professional advisers;
- (4) to review and approve and execute, on behalf of the Company, documents relating to share issuance for submission to regulatory authorities, and to carry out approval procedures required by regulatory authorities and place in which the Company is listed;
- (5) to amend, as required by regulatory authorities within or outside the PRC, agreements and statutory documents referred to in (3) and (4) above;
- (6) to affix the seal of the Company on the agreements and statutory documents relating to the proposed issuance;
- (7) to engage the services of professional advisers for share issuance related matters, and to approve and execute all acts, deeds, documents or other matters necessary, appropriate, advisable or required for share issuance; and
- (8) to approve the increase of the registered capital of the Company after new share issuance, and to make corresponding amendments to the Articles of Association relating to share capital and shareholdings etc, and to carry out statutory registrations and filings within and outside the PRC.

Except that the Board may grant offers, agreements, or options during the Relevant Period in relation to the issuance of Domestic Shares and/or H Shares, which might require further promotion or implementation after the end of the Relevant Period, the exercise of the powers referred to above shall not exceed the Relevant Period. “Relevant Period” means the period from the passing of this resolution as a special resolution at the AGM until whichever is the earliest of: (a) the conclusion of the 2017 annual general meeting of the Company; (b) the expiration of the 12-month period following the passing of this resolution as a special resolution at the AGM; (c) the revocation or variation of the authority given to the Board under this resolution by passing of a special resolution by the Shareholders in a general meeting.

The aforesaid resolution has been approved by the Board and is hereby proposed at the AGM for review and approval.

LETTER FROM THE BOARD

12. Proposed Amendments to the Articles of Association

Reference is made to the announcement of proposed amendments to the Articles of Association of the Company dated 26 April 2017.

In accordance with the Constitution of the Communist Party of China (《中國共產黨章程》), the Company Law, and the Model Articles of Association of Companies in which the Shangdong SASAC and Shandong Provincial Council for Social Security Fund Jointly Serve as Promoters (Provisional) (《山東省國資委與山東省社保基金理事會共同履行出資人職責企業章程範本 (試行) 》), and based on the precedents of listed companies and the situation of the Company itself, the Company proposes to amend the Articles of Association. The proposed amendments to the Articles of Association include ten articles, including adding one article and amending nine articles. Specific details of the proposed amendments to the Articles of Association is set out in Appendix IV of this Circular.

In respect of the proposed addition of Article 11 to the Articles of Association, as advised by our PRC legal advisers in their legal opinion, the decisions of the Board could not be overridden by the organization of the CPC in accordance with applicable provisions of PRC laws.

The aforesaid resolution has been approved by the Board and is hereby proposed at the AGM for review and approval.

ANNUAL GENERAL MEETING

A notice convening the AGM to be held at 9:00 a.m. on 15 June 2017 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC is set out on pages 56 to 58 of this circular.

All the resolutions proposed at the AGM will be taken by poll. Zhongtai Securities, a Controlling Shareholder of the Company holding approximately 63.10% interest of the total issued share capital of the Company as at the Latest Practicable Date, had material interest in the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and the transactions contemplated thereunder. Accordingly, Zhongtai Securities will abstain from voting in respect of the resolutions in relation to the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps at the AGM. The number of shares held by Zhongtai Securities and required to be abstained from voting amounted to 632,176,078. Save as disclosed herein, no other Shareholder, to the knowledge and belief of the Directors having made all reasonable enquiries, will be required to abstain from voting in respect of relevant resolutions as at the date of this circular.

A reply slip and a form of proxy to be used at the AGM are also enclosed herein and published on the HKExnews website of Hong Kong Stock Exchange (www.hkexnews.com.hk) and the website of the Company (www.luzhengqh.com). Shareholders who intend to appoint a proxy to attend the AGM shall complete, sign and return the appropriate form of proxy in accordance with the instructions printed thereon.

LETTER FROM THE BOARD

For holders of H Shares, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no less than 24 hours (i.e., before 9:00 a.m. on Wednesday, 14 June 2017) before the time appointed for holding the AGM in order for such documents to be valid. For holders of Domestic Shares, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to the Board's office of the Company in the PRC at Room 1613, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC, not less than 24 hours before the time appointed for holding the AGM (i.e., before 9:00 a.m. on Wednesday, 14 June 2017) in order for such documents to be valid. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM, or any adjournment thereof should you so wish.

Pursuant to the Articles of Association, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM, the register of members of H Shares will be closed from Tuesday, 16 May 2017 to Thursday, 15 June 2017 (both days inclusive), during which period no transfer of H Shares will be registered. Shareholders whose names appear on the register of members of the Company on Thursday, 15 June 2017 are entitled to attend and vote at the AGM.

In order to be eligible to attend the AGM, all transfer documents shall be lodged to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by the holders of H Shares, not later than 4:30 p.m., Monday, 15 May 2017.

RECOMMENDATION

The Directors believe that the resolutions to be proposed at the AGM are all in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the AGM.

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



LUZHENG FUTURES Company Limited

魯証期貨股份有限公司

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

(Stock Code: 01461)

23 May 2017

To the Independent Shareholders

Dear Sir or Madam,

**NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT
ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT
BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT**

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps, details of which are set out in the “Letter from the Board” in the circular dated 23 May 2017 (the “**Circular**”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Alliance Capital to the Independent Board Committee and the Independent Shareholders in respect of the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps as set out in the “Letter From Alliance Capital” in the Circular. Having taken into account the advice of Alliance Capital, we are of the view that the terms of the transactions contemplated under the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the New Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps at the AGM.

Yours faithfully,

for and on behalf of the Independent Board Committee

Gao Zhu	Yu Xuehui	Wang Chuanshun	Li Dapeng
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>

LETTER FROM ALLIANCE CAPITAL

The following is the text of Letter from Alliance Capital Partners Limited to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.



Alliance Capital Partners Limited
同人融資有限公司

Room 1502-03A, 15/F, Wing On House
71 Des Voeux Road Central, Hong Kong

23 May 2017

To: The Independent Board Committee and
the Independent Shareholders of LUZHENG FUTURES Company Limited

CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL CAPS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Three Framework Agreements (as defined below) and the proposed annual caps set out therein, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 23 May 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter form part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to announcement dated 28 April 2017 of the Company, the Company entered into the New Financial Services Framework Agreement with Zhongtai Securities, Asset Management Service Framework Agreement with Shandong Steel and Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel (collectively “**the Three Framework Agreements**”).

(1) New Financial Services Framework Agreement with Zhongtai Securities

As at the date of this Circular, as Zhongtai Securities holds approximately 63.10% of the equity interest of the Company, Zhongtai Securities is a Connected Person of the Company under Chapter 14A of the Listing Rules. As such, the transactions under the New Financial Services Framework Agreement between the Company and Zhongtai Securities constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the New Financial Services Framework Agreement between the Company and Zhongtai Securities is more than 5% pursuant to the Listing Rules, the continuing connected transactions under the New Financial Services Framework Agreement are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(2) Asset Management Service Framework Agreement with Shandong Steel

As at the date of this Circular, as Shandong Steel is a Controlling Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules, the transaction under the Asset Management Service Framework Agreement between the Company and Shandong Steel constitutes a continuing connected transaction of the Company under the Listing Rules.

LETTER FROM ALLIANCE CAPITAL

As the highest applicable percentage ratio for the proposed annual caps of the Asset Management Service Framework Agreement between the Company and Shandong Steel is more than 5% pursuant to the Listing Rules, the continuing connected transaction under the Asset Management Service Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel

As at the date of this Circular, Luzheng Trading is a wholly-owned subsidiary of the Company. As Shandong Steel is the Controlling Shareholder of the Company, Shandong Steel is a Connected Person of the Company under Chapter 14A of the Listing Rules. As such, the transactions under the Bulk Commodities Sale and Purchase Framework Agreement between the Company and Shandong Steel constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Bulk Commodities Sale and Purchase Framework Agreement between Luzheng Trading and Shandong Steel is more than 5% pursuant to the Listing Rules, the continuing connected transactions under the Bulk Commodities Sale and Purchase Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

As at the Latest Practicable Date, the Independent Board Committee, comprising all of the Independent non-executive Directors (namely Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng) has been established to advise the Independent Shareholders on whether the transactions contemplated under the Three Framework Agreements including the respective proposed annual caps are in the ordinary and usual course of the business of the Group, on normal commercial terms, in the interests of the Company and its Shareholders as a whole; and fair and reasonable so far as the Independent Shareholders are concerned. In this regard, we, Alliance Capital Partners Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on this matter.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, there is no relationship or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. We consider that we are independent under Rule 13.84 of the Hong Kong Listing Rules. We have not in the past two years acted as an independent financial adviser to the Company's other transactions.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be true and accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

LETTER FROM ALLIANCE CAPITAL

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided to us so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group, Zhongtai Securities, and Shandong Steel and/or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of Alliance Capital Partners Limited is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the terms of, and proposed annual caps, of the continuing connected transactions under the Three Framework Agreements, we have taken into consideration the following principal factors and reasons:

I. Background of the Company

The Company principally engages in commodities futures brokerage, financial futures brokerage, futures assets management and futures investment consultancy. Luzheng Trading, a wholly-owned subsidiary of the Company, principally engages in commodities trading, import and export business, technical advice and investment advice and other business. Set out below is the financial performance of the Company as extracted from the annual reports for the year ended 31 December 2015 and 2016:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net commission and fee income	96,904	148,133
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
	<hr/>	<hr/>
Operating income	398,915	369,898
Operating expenses	(244,106)	(254,714)
	<hr/>	<hr/>
Operating profit	154,809	115,184
Profit for the year	112,776	93,583

LETTER FROM ALLIANCE CAPITAL

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	128,484	216,661
Current assets		
Physical commodities	72,560	3,640
Other current assets	136,825	30,889
Available-for-sale financial assets	533,718	303,354
Derivative financial assets	609	1,151
Financial assets at fair value through profit or loss	269,706	22,857
Financial assets held under resale agreements	12,199	—
Deposits with exchange-clearing organization	2,196,722	2,661,676
Bank balances held for clients	3,855,245	2,996,241
Cash and bank balances	998,225	1,196,940
	8,075,089	7,216,748
TOTAL ASSETS	8,204,293	7,433,409
Non-current liabilities	1,859	2,613
Current liabilities	6,126,906	5,452,435
TOTAL LIABILITIES	6,125,765	5,455,048

For the year ended 31 December 2016, the Group achieved better operating results. The Group's profit for the year ended 31 December 2016 amounted to approximately RMB112.8 million, representing an increase of 20.5% as compared to the Group's profit for the year ended 31 December 2015.

Both of the Group's total assets and total liabilities as at 31 December 2016 increased as compared to that as at 31 December 2015. The Group's assets totaled RMB8,204.3 million, increased by 10.3% as compared to RMB7,433.4 million at the end of 2015. The Group's liabilities totaled RMB6,126 million, increased by 12.3% as compared to RMB5,455 million at the end of 2015.

II. Background of the Zhongtai Securities

Zhongtai Securities, a holding company of the Company, was incorporated in the PRC in May 2001 and holds approximately 63.10% equity interest in the issued share capital of the Company. Zhongtai Securities principally engages in securities brokerage, securities investment consultancy, investment advice related to securities trading and securities investment activities, securities underwriting and sponsorship, securities dealer, margin financing, securities investment fund underwriting, financial products underwriting, futures introducing broker ("IB") and other businesses.

III. Information related to Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008 is principally engaged in smelting, processing and sales business of ferrous metals.

LETTER FROM ALLIANCE CAPITAL

IV. Reasons for and benefits of entering into the Three Framework Agreements

As advised by the management of the Company, the company management believes that there are adequate commercial reasons for the Company to enter into the Three Framework Agreements with Zhongtai Securities and Shandong Steel. In particular, reference is made to the Prospectus in relation to continuing connected transactions under the Financial Services Framework Agreement between the Company and Zhongtai Securities (then known as “Qilu Securities Co., Ltd”), pursuant to which certain financial services are provided, including mutual provision of IB services, purchase the asset management scheme by the Company, and receipt of securities brokerage and other services by the Company. The Financial Services Framework Agreement will expire by 31 December 2017, and both the Company and Zhongtai Securities would like to continue certain transactions under the Financial Services Framework Agreement, and accordingly the Company and Zhongtai Securities entered into New Financial Services Framework Agreement for three years with effect from 1 January 2018 to 31 December 2010. Reference are also made to the announcement of the Company dated 26 October 2016 and 8 December 2016 in relation to the Hot Rolled Wide Steel Plate Purchase Agreement entered into between the Company and a subsidiary of Shandong Steel. In view of the continuing purchase of bulk commodities by the Group from Shandong Steel and/or its associates in future, and that Shandong Steel and/or its associates may continue to purchase raw materials from the Group, the Company entered into Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours), pursuant to which the Company and/or its associates would purchase bulk commodities (including hot rolled wide steel plates) from Shandong Steel and/or its associates, and Shandong Steel and/or its associates would purchase raw materials (including coke and iron ores) from the Group in the ordinary and usual course of business, for the period from 1 January 2017 to 31 December 2019.

A. *New Financial Services Framework Agreement with Zhongtai Securities*

1. *Acceptance of IB services provided by Zhongtai Securities and/or its associates*

As mentioned in the letter from the Board, Zhongtai Securities and/or its associates provide IB services to the Group in the ordinary and usual course of business of the Company, among which, Zhongtai Securities and/or its associates introduce potential clients to the Group for the engagement of the Company’s futures brokerage businesses.

As advised by the management of the Company and stated in the Letter from the Board, the Group (as a futures firm) could effectively share the relatively abundant customer resources of Zhongtai Securities and/or its associates through the acceptance of IB services provided by Zhongtai Securities (as a securities company). Besides, both Zhongtai Securities and the Group could effectively achieve synergies while enhancing the Group’s customer service capabilities as well as increasing operating income. In addition, Zhongtai Securities and/or its associates have been providing IB services to the Group for consecutive years and have developed a deep understanding of the Group’s business needs. As such, the continuous provision of such services by Zhongtai Securities and/or its associates to the Company will foster the development of the Company’s futures brokerage business.

Having considered the above, we concur with the view of the Directors that acceptance of IB services are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALLIANCE CAPITAL

2. *Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager*

As advised by the management of the Company and stated in the Letter from the Board, investment in asset management schemes could enhance the Group'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 Group's risk control requirements on its wealth management business. In addition, the Group has invested in various asset management schemes managed by Zhongtai Securities and/or its associates for consecutive years and thus has developed a better understanding of their investment strategy and result performance, which effectively fosters business cooperation between both parties and improves return on assets of the Group.

Having considered the above, we concur with the view of the Directors that purchase of asset management schemes contemplated under the New Financial Services Framework Agreement fall within the ordinary and usual course of business and is in the interests of the Company and the Shareholders as a whole.

3. *Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates*

As advised by the management of the Company and stated in the Letter from the Board, in consideration of the enhancement of the Group's capital return by securities investment during the Group's treasury management activities, the Group needs to conduct securities investment and other financial businesses through companies which have the necessary qualifications for engaging in securities brokerage business. In addition, the Group has cooperated with Zhongtai Securities and/or its associates for securities brokerage and other financial services for consecutive years. Zhongtai Securities and/or its associates have developed a good understanding of the Group's needs. This is a key factor the Group considers in selecting a provider of securities brokerage and other financial services.

Having considered the above, we concur with the view of the Directors that securities brokerage and other financial services contemplated under the New Financial Services Framework Agreement fall within the ordinary and usual course of business and is in the interests of the Company and the Shareholders as a whole.

B. Asset Management Service Framework Agreement with Shandong Steel

As advised by the management of the Company, the Group commenced its operation of asset management business in January 2013. The asset management scale grew from RMB61.0 million as of 31 December 2013 to RMB3,850 million as of 31 December 2016. The launch and operation of asset management products of the Group bring actual benefits to its clients, increase the Group's income of asset management business, and gain market recognition and branding effect of the asset management business. Moreover, Shandong Steel and/or its associates have actual investment demand to purchase asset management products and the management of the Group received indication from Shandong Steel and/or its associates that they anticipate that they will start purchasing asset management schemes in which the Group acted as the manager from 2017 onwards.

As discussed with the management of the Company, as the Group is more familiar with the investment demand of Shandong Steel and/or its associates as compared with other asset management companies, the Group is expected to increase the assets return for Shandong Steel and/or its associates as well as the income of the asset management business of the Group.

LETTER FROM ALLIANCE CAPITAL

Having considered the above, we concur with the view of the Directors that the transactions contemplated under the Asset Management Service Framework Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

C. Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel

For purchase of bulk commodities by Luzheng Trading from Shandong Steel and/or its associates

As advised by the management of the Company, when bulk commodity price fluctuates and trading opportunities in the market arise, Luzheng Trading may on behalf of downstream traders or may on its own initiatives, purchase bulk commodities including hot rolled steel plates and rebars. Luzheng Trading intends to purchase these bulk commodities which are produced by Shandong Steel and/or its associates. As a trade brand on Shanghai Future Exchange, the products of Shandong Steel and/or its associates have better liquidity. Also, these bulk commodities are mainstream products in bulk commodity market in Shandong, having relatively larger market share and a higher degree of market acceptance. As discussed with management of the Company, Shandong Steel is a sizable state-owned enterprise with healthy operation. The default risk exposed by Luzheng Trading for its purchase from Shandong and/or its associates is relatively low. The Bulk Commodities Sale and Purchase Framework Agreement entered into between the Company and Shandong Steel facilitates the Group to seize favorable opportunities of prevailing market condition to make profit from pricing difference and arbitrage.

For purchase of raw materials by Shandong Steel and/or its associates from Luzheng Trading

As advised by the management of the Company, as a steel producer, Shandong Steel has a great demand of bulk commodities such as coke and iron ores as raw materials for steel production, and the management of the Group received indication from Shandong Steel and/or its associates that they plan to purchase such bulk commodities from Luzheng Trading from time to time according to their future production demand and market conditions.

Luzheng Trading engages in bulk commodities transaction with a view to earn from different market prices. As discussed with the management of the Company, by entering into the Bulk Commodities Sale and Purchase Agreement with Shandong Steel to sell bulk commodities including iron ores to Shandong Steel and/or its associates, the Company is able to secure stable and reliable sales channels, which in turn facilitates the Group to seize market opportunities to make profit from pricing difference and arbitrage.

Having considered the above, we concur with the view of the Directors that transactions contemplated under to Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel fall within the ordinary and usual course of business and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALLIANCE CAPITAL

IV. Principal Terms of the Three Framework Agreements

A. *New Financial Services Framework Agreement with Zhongtai Securities*

Parties	(1) Zhongtai Securities (2) the Company
Term	1 January 2018 until 31 December 2020
Scope of transactions	Under the New Financial Services Framework Agreement, the Company will enter into certain daily transactions with Zhongtai Securities, including:

- (i) *Acceptance of IB services provided by Zhongtai Securities and/or its associates*

Zhongtai Securities and/or its associates provide IB services to the Group in the ordinary and usual course of business of the Company, among which, Zhongtai Securities and/or its associates introduce potential clients to the Group for the engagement of the Company's futures brokerage businesses. In addition, Zhongtai Securities and/or its associates will also provide the following services to such clients introduced to the Group: (i) assisting clients in opening accounts; (ii) providing latest information about futures, option and other derivative markets to clients; (iii) assisting clients in risk control and management; and (iv) other related financial services. Zhongtai Securities and/or its associates will charge the Company commission for the provision of such IB services.

- (ii) *Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager*

The Company purchases asset management schemes, in which Zhongtai Securities and/or its associates act as the manager, in the ordinary and usual course of business of the Group. Zhongtai Securities and/or its associates, as the manager, will invest in such asset management schemes for investing 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.

LETTER FROM ALLIANCE CAPITAL

(iii) Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates

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

Pricing and payment

Pricing of the transactions under the New Financial Services Framework Agreement shall be determined through arm's length negotiations with reference to the industry practices and in accordance with the following pricing principles:

(i) Acceptance of IB services by Zhongtai Securities and/or its associates

The commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Group will be 60% of the commission revenue generated from such clients introduced by Zhongtai Securities and/or its associates (the "**Commission Split**"). The commission revenue equals the revenue generated from such clients, with deduction of the trading and clearing fees paid to the futures exchanges in the PRC, including but not limited to Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange and China Financial Futures Exchange.

(ii) Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as manager

Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management schemes are calculated based on the Group's investment amounts times the Asset Management Fees rate. 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 the Group and any other independent third party investor participants. Such Asset Management Fees rate is also comparable with the prevailing market rate for collective asset management schemes issued by any other independent third parties with similar scales of investment.

LETTER FROM ALLIANCE CAPITAL

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 to the Group than, those charged by Zhongtai Securities and/or its associates to any other independent third parties for similar targeted asset management schemes; and (b) such Asset Management Fees rate is also comparable to, or no less favorable to the Group than, the Asset Management Fees rate charged by any other independent third party managers to the Group in other similar targeted asset management schemes the Group participated in;

(iii) Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates

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 Group with reference to the prevailing market commission rate for similar business, and is consistent with the market practice. The average commission rate of the stock brokerage business is 0.03%, different commission rates are applied to bond brokerage business provided to us by Zhongtai Securities and/or its associates, subject to different types of bonds (reverse repo of bonds with the term of one day or more than 28 days) ranging from 0.001% to 0.03%.

For acceptance of IB services, as confirmed by the management of the Company, the Commission Split of 60% has been determined based on arm's-length negotiations between Zhongtai Securities and the Group with reference to the prevailing market commission rates for similar IB businesses and on normal commercial terms, and is consistent with market practice as far as the management of the Group understands based on the enquiries on commission splits made to other futures companies by other securities companies which provide IB service. As stipulated in "Promulgating the trial measures for the provision of intermediary introduction business to futures companies by securities companies" (證券公司為期貨公司提供中間介紹業務試行辦法) issued by China Securities Regulatory Commission ("CSRC"), a securities company can only apply for introduction business qualifications to provide IB services for futures company which is its wholly-owned subsidiary, or is a subsidiary with controlling interest being held by it, or is fellow subsidiary of the same holding company. In this connection, there is no corresponding acceptance of IB services nor IB agreement between the Group and other Independent Third Parties. As advised by the management of the Company, Zhongtai and/or its associate also did not provide IB services to other independent third parties.

As stated in the Letter from the Board, the management has enquired other market practitioners about the commission split for provision of similar IB services. We understand that certain companies which has provided/accepted IB services have been approached, and the commission split ranged around the region of 60%. Based on the above, and having considered that (i) the Commission Split of 60% has been determined based on arm's length negotiations between Zhongtai Securities and the Group; (ii) the Commission Split of 60% is consistent with market practice as far as the management of the Company understands based on their enquiries with other securities companies; and (iii) acceptance of IB services from Zhongtai Securities help

LETTER FROM ALLIANCE CAPITAL

expand the Group's customer base and the Group can earn additional commission income, we consider that terms of acceptance of IB services under the New Financial Services Framework Agreement with Zhongtai Securities are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

For purchase of asset management schemes, we note that 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 the Group and any other independent third party investor participants. We have reviewed 3 sets of collective asset management contract for collective asset management schemes in which Zhongtai Securities and/or its associates acted as manager, and note that contract terms such as the scope of investment, the risk profile, the method of join and quit the scheme, the fees payable by the scheme, the performance fee (if any) including the calculation formula, and allocation principle, and the Asset Management Fees are explicitly stated in such contracts. According to the "Implementation Measures of collective asset management scheme of securities companies" (證券公司集合資產管理業務實施細則) issued by CSRC effective from June 2013, documents relating to the collective management scheme including the scheme prospectus, scheme contracts and risk disclosure documents are to be filed and registered with Securities Association of China (中國證券業協會) and it is prohibited to promote the scheme by way of supplementary agreement. Based on the above, we note that the terms of collective asset management schemes including Asset Management Fees applied equally to all investors, including the Group, and the Group's position is no less favourable than independent third party investors under the same asset management scheme.

We have reviewed 4 sample asset management contracts provided by the Company for asset management scheme in which different independent third parties acted as fund managers. We note all these independent third party fund managers ("**Independent Fund Managers**") are qualified fund managers registered under the Asset Management Association of China, and the Asset Management Fee rates ranged from 0.27%–2.0%, while the Assets Management Fees for the six asset management contracts with Zhongtai Securities and/or its associates acted as fund manager ranged from 0.2% to 1% as stated in the Letter from the Board. As the low end and high end of fee rates charged by Zhongtai Securities and/or its associates are lower than the low end and high end of the fee rates charged by Independent Fund Managers respectively, we consider that Asset Management Fees rate charged by Zhongtai Securities and/or its associates is also comparable to the Asset Management Fees charged by the other independent third party fund managers to the Group in other similar asset management schemes the Group has participated in. As confirmed by the management of the Company, the Company entered into 6 asset management contracts with independent third party fund managers in total in 2016. Thus we are of the view that our sample size is fair and representative.

As such, we are of the view that the terms of purchase of asset management schemes under in 2016 New Financial Services Framework Agreement with Zhongtai Securities are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

For acceptance of securities brokerage and other financial services, the commissions charged by Zhongtai Securities and/or its associates for the provision of securities brokerage and other financial services to the Group is comparable to, or no less favorable than, those charged by Zhongtai Securities and/or its associates to other independent third parties. We have reviewed all 11 latest annual reports and/or prospectus of securities brokerage companies in the PRC with shares listed on The Stock Exchange of Hong Kong Limited. We note that only Guotai Junan Securities Co., Ltd (2611.HK) and China International Capital Corporation Ltd.(3908.HK) have disclosed explicitly their commission rate in 2016, which was 0.0444% and 0.052%, respectively. The average commission rate charged by Zhongtai Securities for stock brokerage is 0.03%, which is lower than the commission rates of the above mentioned listed securities

LETTER FROM ALLIANCE CAPITAL

brokerage companies. As such, we are of the view that the terms of securities brokerage and other financial services under New Financial Services Framework Agreement with Zhongtai Securities are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

B. Asset Management Service Framework Agreement with Shandong Steel

Parties	(1) Shandong Steel (2) the Company
Term	1 January 2017 until 31 December 2019
Scope of transactions	Under the Asset Management Service Framework Agreement, the Company will enter into certain daily transactions with Shandong Steel and/or its associates whereby Shandong Steel and/or its associates purchase collective asset management schemes in which the Company act as the manager. Being the asset manager, the Company invest in financial products of various aspects with the collective asset management schemes.
Pricing and payment	As the manager of the asset management schemes, the Company charges asset management fees based on the calculation of the investment amounts in the asset management schemes by Shandong Steel and/or its associates times the asset management fees rate (1.0% on average).

For collective asset management schemes, the asset management fees rate (1.0% on average) as stipulated in the collective management contracts is applicable to all investors participating in such plan, including Shandong Steel and/or its associates and any other independent third party investor participants. We have reviewed the management contracts entered into between the Company and other independent third parties in which the Company acted as manager. We note that the management fee are explicitly stated in such contracts and equally applicable to all investors. As such, we concur with the view of the Directors that the asset management fees are no less favorable than those entered into by the Company with independent third parties. As such, we are of the view that the terms of purchase of asset management schemes under Asset Management Service Framework Agreement by Shandong Steel and/or its associates are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM ALLIANCE CAPITAL

C. Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel

Parties	(1) the Company (2) Shandong Steel
Term	1 January 2017 until 31 December 2019
Scope of transactions	Under the Bulk Commodities Sale and Purchase Framework Agreement, Luzheng Trading, a subsidiary of the Company, will enter into certain daily transactions with Shandong Steel and/or its associates whereby Luzheng Trading purchases bulk commodities including hot rolled steel plate and rebars from Shandong Steel and/or its associates and pay the consideration; and Shandong Steel and/or its associates purchase raw materials including coke and iron ores from Luzheng Trading and pay the consideration.
Pricing and payment	<p>For the purchases of bulk commodities including but not limited to hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, the price is determined with reference to comparable prices of similar products sold in domestic markets by independent third parties. Such transaction consideration is payable by the Group through its internal resources in cash.</p> <p>For the purchase of raw materials including but not limited to coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, Luzheng Trading will determine the price based on arm's length negotiations with Shandong Steel and/or its associates with reference to the comparable price of similar products sold in domestic markets by independent third parties.</p>

Given the products to be sold or purchased under Bulk Commodities Sale and Purchase Framework Agreement are commodities which are almost identical, and that market price of these commodities will be referred to for transactions under Bulk Commodities Sale and Purchase Agreement and, for purchase of raw materials by Shandong Steel and/or its associates from Luzheng Trading, the transaction price will be no less favourable to the Group as compared to the transaction price with Independent Third Party customers of the Group, we are of the view that the terms of Bulk Commodities Sale and Purchase Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM ALLIANCE CAPITAL

In determining the pricing under the Three Framework Agreements, the Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of the Three Framework Agreements to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the requirements of the Listing Rules. We have reviewed certain internal management procedures as adopted by the Company and as stated in the Letter from the Board:

- The Group has formulated a series of measures and policies such as contract policies and internal resources investment management measures which stipulated that the responsible staff and relevant internal departments have to ensure the fairness and reasonableness of the proposed contract, including the pricing terms thereof. Audit department will review the proposed contract and ensure that the terms of transactions under the Three Framework Agreements are in compliance with relevant regulations and guidelines (if applicable), market practices and the Three Framework Agreements. Investment proposal with investment amount exceeding certain pre-approved limit will have to be approved by the Board.
- When determining the actual prices of services provided by Zhongtai Securities and/or its associates, as well as the products supplied by Shandong Steel and/or its associates, Zhongtai Securities, Shandong Steel and/or their respective associates will provide the Company with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by finance department, audit department and various relevant business departments of the Company. In addition, as stated in the Three Framework Agreements, the transactions under the Three Framework Agreements shall be conducted on a non-exclusive basis. Payments shall be calculated as prescribed under the Three Framework Agreements. In addition, the Company shall seek quotations from or make enquiries on relevant prices from not fewer than two other independent third party suppliers providing similar products or services, and refer to such pricing and terms for similar products or services, to make sure that the prices and terms offered by Zhongtai Securities, Shandong Steel and/or their respective associates to the Group are fair, reasonable and are no less favourable than those offered by independent third parties.
- When determining the actual prices of products provided by the Group to Shandong Steel and/or its associates, the Group will provide Shandong Steel and/or its associates with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by finance department, audit department and various relevant business departments of the Company. In addition, the transactions under the Three Framework Agreements shall be conducted on a non-exclusive basis. Payments shall be calculated as prescribed under the Three Framework Agreements. The Group shall make enquiries on relevant prices to not fewer than two other independent third parties suppliers providing similar products, and make reference to the pricing and terms offered to independent third parties for similar products, in order to make sure that the pricing and terms offered by the Group to Shandong Steel and/or its associates are fair, reasonable and are no less favourable than those offered to independent third parties.

LETTER FROM ALLIANCE CAPITAL

- The office of the Board and various internal departments of the Company also regularly monitor the fulfillment status and the transaction updates under the Three Framework Agreements. In addition, the management of the Company also regularly reviews the pricing policies of the Three Framework Agreements. The Independent Non-executive Directors conduct annual review for the implementation and execution of continuing connected transactions (including related pricing mechanisms); the auditors of the Company would conduct assessment and evaluation on the internal control measures of the Company and engage annual review of the continuing connected transactions under the Three Framework Agreements pursuant to the requirements of the Listing Rules, in order to confirm that, among others, the transactions are conducted in accordance to the pricing policies and relevant transaction agreements.

We have reviewed the annual reports of the Company and obtained documentations on historical transaction conducted under the Financial Services Framework Agreement between Zhongtai Securities and the Company. We note the auditors' confirmation regarding continuing connected transactions (including those under Financial Services Framework Agreement) and also note that such transactions have been determined and conducted in accordance with the applicable internal control procedures. There is no historical transactions conducted under Asset Management Service Framework Agreement and Bulk Commodities Sale and Purchase Framework Agreement between the Shandong Steel and the Company. We note that the internal control has been already in place and the management of the Company confirmed that going forward, similar transactions will be conducted according to the internal control procedures.

As such, we concur with the Company's view that the methods and procedures adopted above can ensure that the prices and the terms of the transactions under the Three Framework Agreements will be no less favourable than those entered into by the Company with independent third parties.

LETTER FROM ALLIANCE CAPITAL

V. Proposed Annual Caps under the Three Framework Agreements

A. New Financial Services Framework Agreement with Zhongtai Securities

Historical annual caps and utilisation

<i>Historical annual caps and utilisation</i>	For the year ended 31 December		For the 2 months ended 28 February 2017	For the year ending 31 December 2017 (Annualised) (Note 1)
	2015	2016		
IB Services				
Commission charged by				
Zhongtai and/or its associates for provision of IB services to the Group (RMB'000)	22,000	27,000		32,000
<i>Actual utilisation (RMB'000)</i>	16,832	8,162	1,170	7,020
<i>% of utilisation</i>	76.5%	30.2%		21.9%
Purchase of Asset Management Schemes				
Average daily amount invested (RMB'000) (Note 2)	130,000	210,000	260,000	N/A
<i>Highest daily amount invested (RMB'000) (Note 3)</i>	140,000	156,000	105,140	N/A
Asset Management Fees				
charged by Zhongtai and/or its associates (RMB'000)	1,310	2,110		2,610
<i>Actual utilisation (RMB'000)</i>	494	383	376.1	2,257
<i>% of utilisation</i>	37.7%	18.2%		86.5%
Securities Brokerage and other Financial Services				
Commissions charged by				
Zhongtai Securities and/or its associates (RMB'000)	500	600		700
<i>Actual utilisation (RMB'000)</i>	205	9	24.5	147
<i>% of utilisation</i>	41.0%	1.5%		21.0%

Note: 1 Figures annualised as appropriate based on the historical amounts for the two months ended 28 February 2017, for comparison purpose.

2 Historical utilisation of the annual cap under “average daily amount invested” and utilisation rate are not provided, as these are not comparable to the proposed annual cap on “highest daily amount invested” on purchase of asset management scheme.

3 Highest daily amount invested is stated for reference purpose.

LETTER FROM ALLIANCE CAPITAL

We note the utilisation of historical annual caps for year ended 31 December 2016 (“FY2016”) was in general lower than that of the year ended 31 December 2015 (“FY2015”). As advised by the management of the Company, the utilisation of historical annual cap for FY 2016 was affected by restriction measures imposed by China Financial Futures Exchange (中國金融期貨交易所) since late 2015 and thus distorted.

Purposed annual caps

The maximum aggregate annual amounts in respect of the transactions under New Financial Services Framework Agreement with Zhongtai Securities for the three years ending 31 December 2018, 2019 and 2020 shall not exceed the caps set out below:

<i>Proposed annual caps</i>	For the year ending 31 December		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
IB Services			
Commission charged by Zhongtai and/or its associates for provision of IB services to the Group	28,000	36,000	46,000
Purchase of Asset Management Schemes			
Highest daily amount invested	492,600	591,120	709,340
Asset Management Fees charged by Zhongtai and/or its associates (based on the Asset Management Fees rate of 1.0%)	4,926	5,911	7,093
Securities Brokerage and other Financial Services			
Commissions charged by Zhongtai Securities and/or its associates	690	690	690

For the proposed annual caps for acceptance of IB services

As stated in the Letter from the Board and as advised by the management of the Company, the proposed annual caps in respect of Shandong Steel's provision of IB services is determined based on the historical transaction volume for first half of FY2015 (before the implementation of restrictive measures by China Financial Futures Exchange), and taking into account the following:

- (i) increase in product range following the introduction of commodity futures in February 2017, and the potential increase of new types of commodity futures, expected launch of stock index options and 3-year sovereign bond futures contracts by China Financial Futures Exchange.
- (ii) expansion of the Company's capacity in utilising Zhongtai Securities' IB services

LETTER FROM ALLIANCE CAPITAL

- (iii) The Commission Split is identical to commission split under the Financial Services Framework Agreement; and
- (iv) the historical growth of daily average market transaction amount of stock index futures up to 60%, the nature of financial service and buffer for volatility.

We have also considered the following:

1. Expected growth in futures market in the PRC

According to The 2016 Development Report on China's Futures Market issued by Shanghai Institute of Futures and Derivatives (“SIFD”), a subsidiary of Shanghai Futures Exchange, in 2015, the futures market in PRC witnessed a record of RMB554.23 trillion in trading value and 3.578 billion contracts in trading volume, representing an increase of 89.81% and 42.78%, respectively, compared with the RMB291.99 trillion in trading value and 2.506 billion contracts traded in 2014. Also, new futures products, such as Nickel, Tin, 10-Year Treasury Bond futures, SSE 50 Index futures, and CSI 500 Index futures launched during the year, which raised the total number of futures products traded in the PRC.

As discussed with the management of the Company, the growth opportunities created by the internationalisation of Renminbi and the “One Belt, One Road” initiative will help to boost the influence of Renminbi internationally and expand the usage of Renminbi in commerce and financial services, which will set off a positive chain reaction, as wider recognition of RMB-denominated commodities may induce more trading of RMB-priced futures products by overseas investors.

2. Gradually loosening of restrictions of stock index future in the PRC

As announced on the official website of China Financial Futures Exchange (中國金融期貨交易所) on 16 February 2017, it eased the restriction of domestic stock index futures trading in a sound and orderly way. It will double the maximum limit on daily stock index future trading from 10 lots to 20 lots. As discussed with the management of the Company, it is expected that the China Financial Futures Exchange will gradually loosen the restriction, which will help to boost the PRC's futures market.

As such, we are of the view that proposed annual caps for acceptance of IB services by the Group from Shandong Steel is fair and reasonable.

For the proposed annual caps for the purchase of asset management scheme

As stated in the Letter from the Board and as advised by the management of the Company, the proposed annual caps in respect of the purchase of asset management scheme by the Company from Zhongtai Securities is determined based on the historical highest daily amount invested for FY2016 and for the two months ended 28 February 2017, and taking into account the following:

- (i) total available capital for financial investment for the Group in 2017; and
- (ii) the increase in Group's operating income, and thus increase in demand on asset management scheme products.

LETTER FROM ALLIANCE CAPITAL

We note the Company has established policies and procedures regarding risk management and internal control for decision making with respect to purchase of asset management scheme. The investment management department of the Company will be responsible for the seeking approval in accordance with the contract management policy, and make necessary comparison on the prices of other similar products available in the market. Continuing connected transaction related matters have to be considered in accordance with continuing connected transaction policy, and there is explicit requirement to ensure the transactions are fair and reasonable.

We have reviewed prospectus of 11 collective asset management scheme of Zhongtai Securities established and for the subscription by qualified investors (representing all of the publicly available prospectus). It is noted that the fees, the scope of investment, the risk profile, the method of join and quit the scheme, the fees payable by the scheme, the management fee and performance fee including the calculation formula, and allocation principle etc. are explicitly stated in the collective asset management scheme prospectus, and are equally applicable to all participants of the same type under the same collective asset management scheme. In respect of Asset Management Fees, we note it is assumed at 1%, and this is consistent with the average rate of similar fees at 1.007% (ranged from 0% to 5%) as disclosed in the aforesaid prospectus of the collective asset management scheme established and for the subscription by qualified investors.

Based on the above, we are of the view that proposed annual caps for Asset Management Fees charged by Zhongtai Securities is fair and reasonable.

For the proposed annual caps for securities brokerage and other financial services

As stated in the Letter from the Board and as advised by the management of the Company, the proposed annual caps in respect of securities brokerage and other financial services to be provided by Zhongtai Securities to the Group is determined based on the historical commission charged, and taking into account the following:

- (i) the increase in Group's operating income, and thus the increase in demand on securities brokerage and other financial services;
- (ii) the Group's current plan of expected investment in reverse repo of bonds of the Company of RMB100 million and the corresponding commission being twice of the commission paid for similar transaction during the two months ended 28 February 2017; and the Group's current expected amount of funds available for investment of RMB55 million, the expected number of transactions (being 24 times per year) and the applicable commission rate of 0.03%; and buffer for possible fluctuation in PRC securities market.

The securities brokerage and other financial services required by the Group serves part of the Group's treasury management activities, including trading in securities, bonds and funds, subscription for new shares and reverse repo of treasury bonds, as well as other financial services. Zhongtai Securities charged the Group commission based on normal commercial principles including individual negotiation with reference to prevailing market rates and actual circumstances, and the most favourable rates charged by the Zhongtai Securities to its existing clients. The pricing policy will be based on a fixed percentage (0.03%) of the gross consideration of trade turnover.

LETTER FROM ALLIANCE CAPITAL

We note the historical utilisation of annual caps was low. As advised by the management of the Company, in general the frequency and magnitude of transactions relating to securities brokerage services and other financial services in capital markets depends to a large extent on market sentiments as well as government policies and initiatives. According to the data published by China Securities Regulatory Commission on its official website, transaction value of the PRC securities market for year 2016 amounted to RMB126,726.2 billion, representing a decrease of approximately 50.3% from RMB255,053.8 billion for year 2015. The particular low utilisation of the annual cap in 2016 was in line with the overall market performance.

Having considered the nature of securities brokerage and other financial services, as well as nature of treasury management activities, and that the frequency of transaction depends largely on the performance of the investment and the business need of the Group, which in turn are subject to uncertainties, we are of the view that the explanations for the relevant low utilisation are reasonable. Based on the above, we are of the view that proposed annual caps for securities brokerage and other financial services under the New Financial Services Framework Agreement is fair and reasonable.

B. Asset Management Service Framework Agreement with Shandong Steel

Historical amounts

For the two years ended 31 December 2015 and 2016 and the two months ended 28 February 2017, Shandong Steel and/or its associates did not purchase any asset management schemes in which the Group acted as the manager.

Annual caps

For the three years ending 31 December 2017, 2018 and 2019, the highest daily amount invested in asset management schemes to be purchased by Shandong Steel and/or its associates from the Group, and asset management fees to be paid by them shall not exceed the caps set out below:

	Proposed annual caps for the year ended 31 December (RMB'000)		
	2017	2018	2019
Highest daily amount invested	200,000	260,000	338,000
Asset management fees (based on the asset management fees rate of 1.0%)	2,000	2,600	3,380

As confirmed by the management of the Company, the proposed annual caps for purchase of asset management products by Shandong Steel from the Group is agreed between the Group and Shandong Steel after arm's length negotiation taking into account their respective expectation on market transaction volume and their anticipated growth trend.

LETTER FROM ALLIANCE CAPITAL

As discussed with the management of the Company, the Company has been expanding its asset management business since January 2013. In 2016, the product line of asset management further enriched, with 43 asset management products operated for the year and asset under management of approximately RMB3,850 million, representing an increase of approximately 564% as compared with approximately RMB0.58 billion at the beginning of the year. Income from asset management business was RMB25,417,000, among which management fees accounted to RMB7,510,000, representing a year-on-year increase of 212%. It is expected that the Group will have the ability to provide comprehensive asset management services to Shandong Steel and/or its associates since 2017.

We have also reviewed the annual report of Shandong Steel for year 2016. We note that total asset of Shandong Steel as at 31 December 2015 and 31 December 2016 was RMB53,532 million and RMB54,415 million respectively. We note that the proposed annual caps for the highest daily amount invested by Shandong Steel account for small percentage of its total assets.

Having considered the above, we are of the view that proposed annual caps for Asset Management Service Framework Agreement is fair and reasonable.

C. Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel

Historical amounts

For the two years ended 31 December 2016 and the two months ended 28 February 2017, the transaction amount of bulk commodities purchased by the Group from Shandong Steel and/or its associates were nil, RMB2,849,000 and RMB528,000 respectively. Shandong Steel and/or its associates did not purchase raw materials including iron ores or other bulk commodities from the Group in the past.

Annual caps

For the three years ending 31 December 2017, 2018 and 2019, the maximum annual amounts of transactions of sales and purchase of bulk commodities and raw materials between the Group and Shandong Steel and/or its associates shall not exceed the caps set out below:

	Proposed annual caps		
	for the year ending 31 December,		
	2017	2018	2019
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
The purchase amount of bulk commodities by the Group from Shandong Steel and/or its associates	200,000	300,000	450,000
The purchase amount of raw materials by Shandong Steel and/or its associates from the Group	100,000	150,000	225,000

LETTER FROM ALLIANCE CAPITAL

For the proposed annual caps for purchase of bulk commodities by the Group from Shandong Steel

As disclosed in the Letter from the Board and based on the discussion with the management of the Company, the proposed annual caps for purchase of bulk commodities by the Group from Shandong Steel is agreed between the Group and Shandong Steel after arm's length negotiation taking into account their respective expectation on market transaction volume and their anticipated growth trend. The management of the Company as well as Shandong Steel believe that there is transaction opportunity whereby the Group purchases bulk commodities from Shandong Steel and/or its associates, as evidenced by historical transaction during the year ended 31 December 2016.

As disclosed in the Letter from the Board and discussed with the management of the Company, it is expected that there is growth in bulk commodity markets in general. Furthermore, demand on bulk purchase of commodities by the Group is expected to grow by 50% as the Group has already reached preliminary cooperation intentions with several customers which have long-term constant demands on steel products. We have reviewed two sets of the signed agency framework agreements and noted that the quantity of bulk commodity products such as hot rolled steel plate has been agreed therein, while the unit price is not fixed. Based on the market price of hot rolled steel plate of approximately RMB3,000 per ton as shown in the website of 中國聯合鋼鐵網 (www.custeel.com), the agreed quantity under the said agency framework agreements amounted to over 50% of the proposed annual cap for purchase of bulk commodities by the Group from Shandong Steel for the year ending 31 December 2017.

According to the website of World Steel Association (www.worldsteel.org), Shandong Steel is one of the top steel-producing companies by output tonnage. According to the annual report of Shandong Steel for the year ended 31 December 2016, certain products, which can all be categorised as hot rolled steel plates and are included in the Bulk Commodities Sales and Purchase Framework Agreement, gain awards from China Iron and Steel Association. We concur with the management of the Company that Shandong Steel's products are well recognised by public with good quality and credentials.

As discussed with the management of the Company, despite high demand for purchase of bulk commodities by the Group and recognised reputation of Shandong Steel, due to the timeliness and opportunistic nature of purchase and sales of bulk commodities, as well as relevant restrictive provisions for connected transactions, prior to 2017, the Group mainly purchased and sold bulk commodities from and to steel factories other than Shandong Steel and its associates, even though they considered that the steel products of Shandong Steel and/or its associates have higher market recognition in Shandong's market. As such, we concur with the management of the Company that the historical transaction amount was low and it is of little reference value.

Taking into account the above, and in consideration of (1) market volatility in bulk commodity prices and the necessary buffer, (2) the proposed annual cap for the year ending 31 December 2017 amounted to less than 25% of the Group's purchase of physical commodities during the year ended 31 December 2016 (being RMB804.3 million as disclosed in the Group's annual report for the year ended 31 December 2016), and (3) the internal control policy in place in respect of the transaction price of continuing connected transactions and that market price will be referred to, we are of the view that the proposed annual caps for purchase of bulk commodities by the Group from Shandong Steel and/or its associates is fair and reasonable.

LETTER FROM ALLIANCE CAPITAL

For purchase of raw materials by Shandong Steel from the Group

As disclosed in the Letter from the Board and based on the discussion with the management of the Company, the proposed annual caps for purchase of raw materials by Shandong Steel from the Group is agreed between the Group and Shandong Steel after arm's length negotiation taking into account Shandong Steel's expectation on their demand of raw materials, and the anticipated growth trend.

As discussed with the management of the Company, the Group commenced its commodity trading risk management business since 2013, which encompasses commodity trading and over-the-counter derivatives trading. In commodity trading, the Group takes principal positions in the physical trading and futures trading of commodities to meet the risk management needs of its clients while the Group takes advantage of hedging and arbitrage opportunities to manage its risks and realise gains. The Group has achieved economies of scale and improved profitability of such business since its inception in 2013.

Given (1) the expectation of Shandong Steel and/or its associates that their purchase amount of raw materials from Luzheng Trading will increase by 50% for each of the year ending 31 December 2017, 2018 and 2019, and (2) the proposed annual cap for the year ending 31 December 2017 amounted to less than 1% of Shandong Steel's use of raw materials during the year ended 31 December 2016 (being RMB16,138.1 million as disclosed in the Shandong Steel's annual report for the year ended 31 December 2016), (3) Shandong Steel is a leading corporation in China and one of the Top 500 in 2016 by 中國企業聯合會/中國企業家協會(China Enterprise Confederation/China Enterprise Directors Association); and is one of the top steel-producing companies in 2015 according to the statistics published by Worldsteel Association, and accordingly the demand of raw materials is substantial; (4) market volatility in raw material prices and the necessary buffer, and (5) the internal control policy in place in respect of the transaction price of continuing connected transactions and that market price will be adopted, we are of the view that the proposed annual caps for purchase of raw materials by Shandong Steel from the Group is fair and reasonable.

LETTER FROM ALLIANCE CAPITAL

RECOMMENDATIONS

Having considered the principal factors and reasons above, we are of the opinion that entering into the Three Framework Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and that the terms of the Three Framework Agreements (including the proposed annual caps) are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the AGM for approving the Three Framework Agreements (including the proposed annual caps).

Yours faithfully,
For and on behalf of

Alliance Capital Partners Limited

Andric Yew
Managing Director

Alyssa Ng
Director

Mr. Andric Yew and Ms. Alyssa Ng are licensed persons under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and both of them have more than 10 years' experience in participation and advising in various initial public offerings and transactions involving companies listed in Hong Kong, including but not limited to the provision of independent financial advisory services regarding continuing connected transactions.



LUZHENG FUTURES Company Limited

魯証期貨股份有限公司

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

(Stock code: 01461)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that 2016 annual general meeting (“**AGM**”) of LUZHENG FUTURES Company Limited (the “**Company**”) will be held at Conference Room 1616, 16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the People’s Republic of China (the“**PRC**”) on Thursday, 15 June 2017 at 9:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the work report of the board of directors (the “**Directors**”) of the Company (the “**Board**”) for the year 2016;
2. To consider and approve the work report of the supervisory committee of the Company for the year 2016;
3. To consider and approve the annual report of the Company for the year 2016;
4. To consider and approve the profit distribution plan of the Company for the year 2016;
5. To consider and approve the remuneration of the accounting firms of the Company for the year 2016;
6. To consider and approve the appointment of the accounting firms of the Company for the year 2017;
7. To consider and approve the New Financial Services Framework Agreement with Zhongtai Securities Co., Ltd.;
8. To consider and approve the Asset Management Service Framework Agreement with Shandong Iron & Steel Group Co., Ltd. (“**Shandong Steel**”); and
9. To consider and approve the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel.

SPECIAL RESOLUTIONS

10. To consider and approve the general mandate to issue domestic bond financing instruments;
11. To consider and approve the general mandate to issue new domestic shares and H shares of the Company; and

NOTICE OF AGM

12. To consider and approve the proposed amendments to the articles of association of the Company.

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

Jinan, the PRC, 29 April 2017

Note:

1. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll. As such, each of the resolutions set out in the notice of AGM will be voted by poll. After the closure of AGM, results of the poll voting will be published on the Company's website at www.luzhengqh.com and the HKExnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.
2. Any shareholder of the Company (the "Shareholder") entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a Shareholder.
3. In order to be valid, the form of proxy together with the notarized power of attorney or other documents of authorization, if any, must be completed and returned to the Board's office of the Company (for holders of domestic shares) or the H share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H shares), not less than 24 hours before the time appointed for holding the AGM (i.e., before 9:00 a.m. on Wednesday, 14 June 2017) or any adjournment thereof. The address of Board's office of the Company is Room 1613, 16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC. The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the AGM or any adjournment thereof should he/she so wish.
4. The H share register of members of the Company will be closed, for the purpose of determining the entitlement of holders of H shares to attend the AGM, from Tuesday, 16 May 2017 to Thursday, 15 June 2017, both days inclusive, during which period no transfer of H shares will be registered. Any Shareholder whose name is registered in the H share registrar of members of the Company on Thursday, 15 June 2017 will be entitled to attend the AGM and poll. In order to be eligible to attend the AGM, holders of H shares should ensure that all the share transfer documents must be lodged with the H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 15 May 2017.
5. The H share register of members of the Company will be closed, for the purpose of determining the entitlement of holders of H shares to the final dividend for 2016, from Thursday, 22 June 2017 to Tuesday, 27 June 2017, both days inclusive, during which period no transfer of H shares will be registered. Any Shareholder whose name is registered in the H share register of members of the Company on Tuesday, 27 June 2017 will be entitled to receive the final dividend for 2016. In order to qualify for the final dividend for 2016, holders of H shares should ensure that all the share transfer documents must be lodged with the H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 21 June 2017.

NOTICE OF AGM

6. Where there are joint holders of any shares, the one whose name stands first in the register of members of the Company shall be entitled to attend and vote at the AGM in respect of such shares.
7. Shareholders of the Company intending to attend the AGM in person or by their proxies should return the reply slip for attending the AGM in person or by post to the Board's office of the Company at Room 1613, 16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC (for holders of domestic shares) or the Company's H share registrar, Computershare Hong Kong Investors Services Limited, at Shops 1712–1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) on or before Friday, 26 May 2017.
8. Below is the principal place of business of the Company in the PRC:

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

Tel: +86-531-81678629

Fax: +86-531-81678628

Below is the contact of Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company in Hong Kong:

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

Tel: +852-28628555

Fax: +852-37534662
9. Subject to the approval of the Shareholders at AGM, the final dividend for 2016 is expected to be paid on or around Thursday, 27 July 2017 to the Shareholders whose names are registered in the register of members of the Company on Tuesday, 27 June 2017.

Work Report of the Board of Directors for the Year 2016

Dear Shareholders,

In 2016, affected by both domestic and foreign political and economic factors, the commodities futures transactions and investments of the Chinese futures market was active throughout the year. Trading volume of futures market for the year amounted to 4.138 billion lots, representing an increase of 15.65% year-on-year, which once again set a historical new record. However, under the impact of the control measures on stock index futures, trading amount of the financial futures shrank significantly, resulting in a year-on-year decrease of 64.7% in trading volume of financial futures market for the year.

2016 was the first complete accounting year after the listing of the Company, the first year for the Company to implement the next-stage rapid development plan, and the year of rotation of the Board. At the beginning of the year, after careful analysis, the Board considered that despite the unprecedented stringent regulatory measures introduced by regulatory authorities and the significant impact on futures market after the great fluctuation of stock market, the orientation of futures operation institutions serving the real economy and the commodities market remained unchanged, while the huge market demand for futures and derivatives resulted from economic downturn not only remained unchanged, but became more vigorous instead. The Company shall seize market opportunities, maintain strategic strength, adhere to promote business transformation, and adhere to promote the internationalization progress. After one year of endeavour, the Company completed the expected business objectives, and achieved net profit of RMB112,776 thousand (on consolidated basis) with year-on-year increase of 20.51%. Income structure significant improved, with the proportion of non-channel business income increased to 34%. The market influence and social recognition were further improved.

I. Major work for 2016

In 2016, the Board convened a total of 10 meetings and approved 38 resolutions, in which four were on-site meetings and six were communication voting meetings; and organized and convened one general meeting and approved 11 resolutions. Five special committees under the Board convened a total of eight meetings and reviewed 17 resolutions.

(I) Completed the election of new session of the Board and recruited new senior management team so as to further optimize management structure

On 16 June 2016, the new non-employee representative Directors of the new session of the Board was elected in the 2015 annual general meeting of the Company, and formed the second session of the Board with the employee representative Directors as well as five special committees of the second session of the Board. Thereafter, following the review by the nomination committee of the second session of the Board, the Board has re-elected and engaged the senior management of the Company. With the further optimization of the age structure and knowledge structure of the new session of the Board and the senior management team, the professional capabilities and decision-making standards were further enhanced, which laid a solid foundation for the next-stage rapid development of the Company.

(II) Proposed the strategic deployment of continuous promotion of business transformation and internationalization and achieved results

In order to actively adapt to changes in futures market and further enhance the competitiveness of the Company, the Board clearly proposed the strategic deployment of continuous promotion of business transformation and internationalization at the beginning of 2016 so as to strengthen the overall strength and sustain growth momentum.

1. Promotion of business transformation

According to the deployment of the Board, the major work in 2016 was the enhancement of transaction-based business and industry customer service capabilities, which promoted business transformation and achieved results.

1) Enhancement of intermediary and backstage services of brokerage business

The Company (1) integrated the retailing business department, risk control and settlement department, settlement and financing management department, customer service centre and IB business services department as the headquarters of operation management, which strengthened the guidance, monitoring and examination of the Company's headquarters to the transformation of its brokerage business, enhanced the efforts and efficiency of the support of intermediary and backstage service office to the front office and strengthened the business synergies among departments and among departments and branches; (2) piloted subsidiary for the Company and set up the Shanghai subsidiary, driving the rapid development of the undeveloped branches through sharing of resources and achieving a balanced development in the overall business capabilities of the core areas; (3) introduced a development team for programmed transaction customers, planning to build an institutional channel business department, enhanced the Company's capability of developing services for programmed transaction customers, and provided support for the continuous enhancement of market share in the future; (4) accelerated the integration of internet and traditional businesses, completed the development and launching of mobile phone APP platform, covering the functional sectors such as brokerage business, warehouse receipt pledge financing and over-the-counter options quotation, established e-commerce department, and speeded up customer inflow through building 10 inflow channels with 111 new accounts and a customer interest scale of 30 million; (5) actively applied for stock options business. Currently, the application has been accepted by the exchanges and the Company had expanded its scope of brokerage business services; (6) actively prepared for commodity options. Currently, the Company has been qualified as a soybean meal options market maker in Dalian Commodity Exchange and a sugar options market maker in Zhengzhou Commodity Exchange, becoming one of the eight companies obtaining both qualifications at the same time.

2) *Enhancement of the ability of conducting transaction-based business*

For futures and spot transaction businesses, the Company (1) enhanced the ability of over-the-counter options in aspects such as product sales, product design, product pricing and hedging transactions. In 2016, the business scope of over-the-counter derivative business increased to over RMB1.4 billion from RMB0.8 billion last year. Operating income increased more than three times from RMB0.7million to RMB2.55 million; (2) further increased the types of spot transactions and the service targets expanded to upstream and downstream enterprises in the industry chain. The accumulative total annual sales of each bulk commodity amounted to almost 0.5 million tons, achieving purchase and sales amounts of RMB2,026 million, representing a year-on-year increase of 362.19%; (3) introduced professional teams, established risk management service department, achieved import and export profits from futures market for the entity through the integration of futures and spot, cross-border arbitrage and cross-variety arbitrage, while avoiding exchange rate risk and adding new service content for industry customers. The trading team achieved annual investment gains of RMB29.06 million and annual investment return of 20.7%; (4) commenced warehouse receipt financing business, and provided a total of RMB630 million of financing for small-medium enterprises through business models such as commodity purchase agent, buyout repurchase, warehouse receipt pledge and cooperation hedging.

For asset management business, on one hand, the Company promoted the transformation of research results into investment strategies and searched for and nurtured internal investment managers in the research department; and on the other hand, the Company leveraged on external resources to improve trading ability and commenced cooperation with reputable private equities. In 2016, the product line of asset management further enriched, with 43 asset management products operated for the year and asset management scale of RMB3,850 million, representing an increase of 564% as compared with the RMB0.58 billion at the beginning of the year. Income from asset management business was RMB25,417 thousand, among which management fees accounted for RMB7,510 thousand, representing a year-on-year increase of 212%.

2. *Promotion of internationalization progress*

In July 2015, the Company was listed on the Hong Kong Stock Exchange, which was the first step for its internationalization, and achieved the internationalization of financing. The promotion of comprehensive internationalization progress was an important strategy for the Company to continuously become larger and stronger, hence long-term perseverance is needed. In 2016, the Company invited international first-class futures and derivatives experts to the Company for residential training, which opened-up the employees' international vision and enhanced their professionalism. In 2016, the Company conducted exchange visits with international market leading futures and derivatives financial institutions for three times to discuss full cooperation of cross-border business and set up trading accounts in the other parties, acquiring the required credit line for cross-border transactions.

(III) Properly utilized funds raised and supported the rapid development of risk management subsidiaries

Currently, the risk management subsidiary of the Company has gradually become an important vehicle for a futures company to serve industry entities. In accordance with the plan for the utilization of funds from listing, the Company successively injected RMB0.13 billion twice to Luzheng Trading, which made its registered capital reaching RMB0.25 billion, and enhanced its capital. In 2016, Luzheng Trading achieved revenue of RMB817,469,300, representing a year-on-year increase of 320.33%, and net profit of RMB11,611,600, representing a year-on-year increase of RMB14,991,200. In 2016, Luzheng Trading was awarded the “Outstanding Risk Management Subsidiary” by Dalian Commodity Exchange, with its development recognized by the market.

(IV) Further enhanced the level of capital management and cost control

For the Company to continue maintaining its competitiveness in the market, it has to constantly enhance its capability on targeted management and continuously pay attention to competitors, and continuously optimize and improve the two ends of income generation and cost reduction. In 2016, through the establishment of bank pricing inquiry mechanism and centralized fund management mechanism, the Company significantly enhanced its efficiency of capital management. Meanwhile, the Company significantly reduced the number of intermediaries and the proportion of brokerage fee returns, in which the number of intermediaries reduced year-on-year by 54.62% and the brokerage fee return costs reduced by 4%, effectively reducing operation costs.

(V) Initiated to establish Lu Clearing in accordance with the development and planning requirements of Shandong province

In 2016, under the strong support of Shandong provincial government, Luzheng Information, a wholly-owned subsidiary of the Company, contributed as a Controlling Shareholder, and cooperated with six companies including Jinan West City Investment and Development Co., Ltd. (濟南西城投資發展有限公司) and Shandong Financial Assets Exchange (山東金融資產交易中心) to jointly initiate and establish Shandong Exchange Markets Clearing House Co., Ltd. (“Lu Clearing”), with registered capital of RMB150 million. As a financial basic service institution specialized in factor trading markets, Lu Clearing has both attributes of public welfare and commercial, and bears some supervisory responsibilities. It has five basic functions: unified account opening, comprehensive registration, centralized settlement, capital supervision and statistical monitoring.

(VI) Promoting charity and fulfilling social responsibilities

In 2016, the Company actively implemented the unified deployment of poverty alleviation work by the CPC Central Committee, the State Council and the CSRC and responded to the Futures Industry Services National Poverty Alleviation Strategic Action Initiative (期貨行業服務國家脫貧攻堅戰略行動倡議) launched by the China Futures Association, as well as signed a Wealth-poverty Pairing Agreement (結對幫扶協議) with Heilongjiang Province Huachuan County and became the first futures company in the industry to sign a wealth-poverty pairing agreement with a state-level poverty county. In addition, with the approval of the Board, the Company cooperated with Zhongtai Securities, a Controlling Shareholder, and other sister companies to jointly establish Shandong Zhongtai Charity Fund (山東中泰慈善基金), in order to dedicate itself to poverty alleviation, charity aid, disaster relief and charity assistance.

(VII) Fulfilled information disclosure obligations in compliance with laws and regulations

In 2016, the Company strictly abided by the laws, regulations and regulatory requirements, and in accordance with the Listing Rules and the Management Measures for Information Disclosure of the Company, fulfilled information disclosure obligations and conveyed the conditions of corporate governance and operation management conditions in a true, accurate, complete and timely manner, earnestly safeguarded the legitimate rights and interests of Shareholders. In 2016, the Company published 36 items of information disclosures on the Stock Exchange and the Company's website at the same time, which mainly involved changes in shares, results announcements, notices and circulars of AGM, connected transactions, replacement of Directors, Supervisors and senior management, insider information, etc.

II. Majors financial indicators and major operating conditions in 2016

In 2016, the Company (on consolidated basis) achieved operating income of RMB399 million, representing an increase of 7.84% as compared with RMB370 million in 2015; net profit of RMB112,776,000, representing an increase of 20.51% as compared with RMB93,583,000 in 2015; and total assets of RMB8.204 billion, representing an increase of 10.37% as compared with RMB7.433 billion in 2015. Revenue structure significantly improved, with the proportion of non-channel business income rising to 34%. In 2016, the Company was rated as a class AA futures company by the CSRC, and was assessed as a "provincial civilized unit" by Shandong Provincial Civilization Commission.

III. Directors' performance of duties in 2016

In 2016, in accordance with the requirements and responsibilities conferred by the Company Law, the Listing Rules and the Articles of Association, all directors diligently fulfilled their duties, carefully reviewed each resolution of the Board, and provided focused and feasible comments and suggestions on various aspects such as the Company's strategic discussions, improvement of governance structure, selection and employment of top management, effectively safeguarded the rights and interests of Shareholders and promoted the healthy sustainable development of the Company. The independent Directors faithfully performed their duties and safeguarded the overall interests of the Company, and was particularly concerned with the legitimate rights and interests of small and medium Shareholders, ensuring the Board's independence and scientificness in decision-making. The special committee of the Board fully leveraged their professional edges and provided professional justifications for the decision-making of the Board.

The Directors' attendance at Board meetings in 2016 was as follows:

Name of Director	Number of meetings should be attended	Attendance in person	Attendance by proxy	Number of resolutions should be voted	Actual number of resolutions voted
Chen Fang	10	10	0	37	37
Lv Xiangyou	10	9	1	37	37
Yin Ge	5	5	0	17	17
Li Chuanyong	10	9	1	38	38
Liu Feng	10	9	1	38	38
Gao Zhu	10	10	0	38	38
Yu Xuehui	10	9	1	38	38
Wang Chuanshun	10	10	0	38	38
Li Dapeng	4	3	1	15	15
Liang Zhongwei	10	10	0	38	38
Zhang Yunwei	5	4	1	20	20
Wei Wei	6	4	2	22	22

Notes: (1) A total of 10 Board meetings were convened in 2016, and 38 resolutions were voted, in which one resolution involved the connected transaction with Zhongtai Securities; (2) the first session of the Board convened five meetings, and the members of the Board were Mr. Chen Fang, Mr. Lv Xiangyou, Mr. Zhang Yunwei, Mr. Li Chuanyong, Mr. Liu Feng, Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, Mr. Wei Wei and Mr. Liang Zhongwei; (3) the second session of the Board convened five meetings, and the members of the Board were Mr. Chen Fang, Mr. Lv Xiangyou, Mr. Yin Ge, Mr. Li Chuanyong, Mr. Liu Feng, Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Liang Zhongwei; (4) in the first meeting of the second session of the Board, as Mr. Li Dapeng, an intended Independent Non-executive Director of the second session of the Board, not yet obtained the qualification approved by the China Futures Association to be an independent non-executive Director of a futures company, Mr. Wei Wei, an Independent Non-executive Director of the first session of the Board, continued to perform his duties.

IV. Major work for 2017

(I) Focus on the core nature of serving real economy and plan risk management and asset management business

In 2017, the Company will adhere to its strategic objectives of being the leading comprehensive financial service provider in futures and derivatives market, focus on the core nature of serving real economy, concentrate on the research of futures and spot market and fully utilize futures and derivatives tools to serve the industry entities. For risk management business, the Company has to leverage on both on-market and over-the-counter market as well as the two channels of futures and spot to provide comprehensive services with selective hedging as the core to industry entities, and to use "insurance + options" as a focus to enhance the market share of over-the-counter options business. The Company will grasp new market opportunities and actively carry out on-market options market making business and engage in cross-border transactions on the basis of risk being controllable to achieve stable profits. The Company will focus on its resource edges and rapidly achieve sizable breakthrough in the advantageous industry, and enhance the profitability and market influence of futures and spot transactions. For asset management business, the primary task in this

year is to establish an independent research team, to launch multi-level cooperation etc., through measures such as internal training and external recruitment, quickly enhancing independent research ability, accelerate the transformation of research results, and to provide asset allocation channels for commodities and derivatives financial products to customers so as to satisfy the asset allocation demand of customers. The Company will focus on the development of investment products with commodity futures as the investment target, and improve the scale of business and market ranking of asset management. The Company will continue to expand the scale of FOF, speed up the design of passive investment products which are based on commodity index.

(II) Urge the management to enhance the comprehensive benchmarking ability and guide the management of business expectations

Benchmarking management has to be further strengthened in 2017. According to the market environment and changes in the Company's development, The Company will continuously introduce new business policies and incentive policies, pay close attention to the changes in regulatory guidance and financial market as well as the demand of industry entities, and constantly search for business opportunities for the increase of effectiveness and cost reduction, in order to effectively stabilize the operating expectations of the Company.

(III) Strengthen risk control under strictly supervised and diversified business environment

Amid a deleveraging financial market as a whole, in 2017, the key note of supervision is law-abiding, strict and comprehensive supervision. In 2017, the Company has to actively adapt to the changes in supervising environment, and proactively overcome the deficiencies in compliance risk management due to the continuous introduction and continuous deepening of new businesses. The Company will strengthen the awareness of compliance risk control, enhance compliance risk management, and particularly focus on the training and implementation of the new regulations and new business rules such as the investor appropriateness system, new regulations on asset management business and regulations of options business, in order to ensure that business development can be promoted under the prerequisites that risk can be predicted, controlled and borne without spillover.

(IV) Adhere to internationalization strategy and substantively promote the integration of resources through international markets

In 2017, the Company will further promote the development of internationalization, search for business cooperation and equity cooperation with overseas futures and derivatives operating institutions, through globally integrating production key elements, improve international business landscape as soon as possible, rapidly expand business space, and achieve sustainable development of the Company.

(V) Continuously fulfill social responsibilities

On the basis of 2016, the Company will continue to fulfill the social responsibilities as a listed company, have the sense of responsibility and mission on social welfare, inherit the corporate cultures of "pursuing both righteousness and benefits" and "helping those in distress and poverty", actively implement the strategic deployment of the CPC Central Committee and State Council on poverty alleviation strategic deployment, and respond to the work deployment and action initiatives of the CSRC and the China Futures Association, making the Company's modest contribution to the full poverty alleviation of the country in 2020.

(VI) Enhance the level of information disclosure and improve investor relations management system

The Company will continue to strictly abide by the laws and regulations and regulatory requirements, fulfill the obligations of information disclosure, further enhance the standard and quality of information disclosure, ensure that investors can understand the Company's financial situation and operation results in a true, accurate, complete and timely manner, and create conditions for investors' rational judgments and decision-makings. The Company will actively receive research investigations, systematically build an effective investor communication platform, and enhance its transparency and market awareness.

Work Report of the Supervisory Committee for the Year of 2016

Dear Shareholders,

In 2016, the Supervisory Committee complied with such laws and regulations as the Company Law, the Supervisory and Administrative Measures on Futures Companies and the Procedural Rules of the Supervisory Committee, as well as regulatory documents and relevant regulations in the Articles of Association. The Supervisory Committee was committed in discharging its duties, while diligently keeping to and independently exercising its supervision duties and responsibilities to actively understand and supervise the Company's operational activities, financial positions, material decisions, the execution of resolutions passed in the general meeting and the Board. The Supervisory Committee also supervised the legal operation of the Company and the Directors and senior managements' performance in their duties, so as to protect the legal rights of the Company and the Shareholders, promoting standardized operations in the Company. The works completed by the Company's Supervisory Committee for the year of 2016 is hereby reported as below:

I. Meetings of the Supervisory Committee during the reporting period

The Supervisory Committee of the Company has convened a total of five meetings during the reporting period, details of the meetings are as below:

- (I) On 22 March 2016, the ninth meeting of the first session of the Supervisory Committee was convened, during which the "Work Report of the General Manager of LUZHENG FUTURES Company Limited in 2015" (《關於魯証期貨股份有限公司2015年度總經理工作報告》), the "Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited in 2015" (《關於魯証期貨股份有限公司2015年度監事會工作報告》), the "Resolution Regarding the Proposal of Profit Distribution of LUZHENG FUTURES Company Limited in 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 of LUZHENG FUTURES Company Limited in 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 in 2015 (CASBE)", the "Annual Report of LUZHENG FUTURES Company Limited in 2015 (HKFRS)", and the "Proposal on the Work Report of Chief Risk Officer of LUZHENG FUTURES Company Limited in 2015" (《關於魯証期貨股份有限公司2015年度首席風險官工作報告的議案》) were considered and approved.
- (II) On 15 April 2016, the tenth meeting of the first session of the Supervisory Committee was convened, during which the "Proposal on the Approval of the Supervisors of the Second Session of the Supervisory Committee for Consideration 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》) was considered and approved.
- (III) On 16 June 2016, the first meeting of the second session of the Supervisory Committee was convened, during which 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》) was considered and approved.

- (IV) On 15 August 2016, the second meeting of the second session of the Supervisory Committee was convened, during which 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》) was considered and approved.
- (V) On 23 August 2016, the third meeting of the second session of the Supervisory Committee was convened, during which the “Interim Results Announcement of LUZHENG FUTURES Company Limited in 2016” (《魯証期貨股份有限公司2016年中期業績公告》), the “Interim Report of LUZHENG FUTURES Company Limited in 2016” (《魯証期貨股份有限公司2016年中期報告》), the “Proposal on the Interim Distribution of Profits of LUZHENG FUTURES Company Limited in 2016” (《魯証期貨股份有限公司2016年中期利潤分配預案》) and 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》) were considered and approved.

The supervisors’ attendance at Supervisory Committee meetings was as follows:

Name of supervisor	Number of Supervisory Committee meetings			Number of resolutions should be voted	Actual number of resolutions voted
	should be attended	Attendance in person	Attendance by proxy		
Li Xuekui	2	2	0	5	5
Ding Mei	3	2	1	6	6
Hu Yuyue	5	5	0	14	14
Mu Yong	5	5	0	14	14
Wang Hairan	5	5	0	14	14
Yu Zhanyong	0	0	0	0	0
An Tie	3	3	0	9	9
Zhang Shouhe	2	0	0	8	8
Yu Dongxin	3	3	0	7	7
Li Xisheng	2	0	0	8	8

Notes: (1) the first session of Supervisory Committee convened two meetings and reviewed eight resolutions, and the members of Supervisory Committee were Mr. An Tie, Mr. Zhang Shouhe, Mr. Hu Yuyue, Mr. Mu Yong, Mr. Li Xisheng and Mr. Wang Hairan; (2) the second session of Supervisory Committee convened three meetings and reviewed six resolutions. As at 16 June 2016, the members of the second session of Supervisory Committee were Mr. An Tie, Mr. Ding Mei, Mr. Hu Yuyue, Mr. Mu Yong, Mr. Yu Dongxin and Mr. Wang Hairan. On 15 August 2016, there were changes in the members of the Supervisory Committee: Mr. An Tie was no longer a supervisor and the chairman of the Supervisory Committee, and Mr. Li Xuekui was elected as a staff representative supervisor in the eighth meeting of the second session of staff representative meeting and was elected as the chairman of the second session of Supervisory Committee in the second meeting of the second session of Supervisory Committee. (Supplementary information: On 15 March 2017, there were changes in the members of Supervisory Committee: Mr. Yu Dongxin was no longer a staff representative supervisor, and Mr. Yu Zhanyong was elected as a staff representative supervisor in the ninth meeting of the second session of staff representative meeting.)

II. Major work for 2016

- (I) **Completed general election of Supervisory Committee in accordance with legal procedures.** On 16 June 2016, the new session of non-staff representative supervisors were elected in the AGM, which formed the second session of Supervisory Committee with non-staff representative supervisors. On the same day, the first meeting of the second session of Supervisory Committee was convened, and Mr. An Tie was elected as the chairman of Supervisory Committee. Thereafter, Mr. An Tie resigned as a supervisor and the chairman of Supervisory Committee due to work. On 15 August 2016, as reviewed in the eighth meeting of the second session of staff representative meeting, Mr. Li Xuekui was elected as a staff representative supervisor, and in the second meeting of the second session of Supervisory Committee, Mr. Li Xuekui was elected as the chairman of the second session of Supervisory Committee.
- (II) **Attended relevant meetings to supervise the important business activities and performance of duties of directors and senior management of the Company.** During the reporting period, the members of Supervisory Committee attended a total of four on-site Board meetings, reviewed the off-site meeting materials of the Board for six times, and carefully supervised the procedures for convening, attendance of meetings, analysis of justifications voting of resolutions and voting of resolutions, in order to objectively, openly and fairly supervise the directors' performance of duties. Through attending the Company's operation meetings, the Supervisory Committee accessed the relevant meeting materials, understood and grasped the information of the Company's operation and business development in a timely manner, and supervised the Board and management to fully implement various resolutions of the 2015 annual general meeting and the Board. Attaching importance to procedures and process, we supervised the performance of duties of the senior management of the Company including attendance of meetings and statements, and revealed and reminded them of the problems in their performance of duties.
- (III) **Constantly kept in view the execution of the Company's financial system as well as its major investments.** Taking into account both the Company's recent development after listing and the regulatory requirements, and through regularly reviewing the Financial Statements of the Company, the Supervisory Committee understood the financial information of the Company such as its assets condition, operation results and cash flows, and continued to pay attention to the execution of the Company's financial system, the operation of funds, the management of liquidity risks arising from client's margin and the legal compliance and scientific validity of the decision-making processes involved in major investments. The Supervisory Committee considers that the financial management of the Company and each subsidiary were in compliance with the Accounting Law, the Accounting Standard for Business Enterprise and the related financial systems. The financial statements give a true and accurate view of the actual condition of the Company. During the reporting period, the Company injected the capital to its subsidiaries Luzheng Trading and Luzheng Information, the capital injection was in line with the planned use of proceeds stated in the Prospectus of the Company upon listing. Each major investment in financial assets was reviewed by The Treasury Operations Investment Decision Committee, and such investments fulfilled the requirements of the decision-making process.

- (IV) **Appointed the Audit Department to conscientiously conduct supervision and inspection in relation to compliancy and internal control.** In order to understand the compliancy of the Company's operation and development as well as the effectiveness in executing internal control measures, the Supervisory Committee appointed the Audit Department to conduct on-site supervision and inspection in 11 branches and trading subsidiaries of the Company; inspect the compliance with the customer suitability system of the Company; and continue to supervise the asset management business of the Company. By having access to the compliance management report, the Supervisory Committee gave focused its attention on understanding the enforcement of laws and regulations, regulatory requirements of the country, the Articles of Association, the implementation of internal control measures and the risk management system in each business lines of the Company. In light of the drastic fluctuations in the futures market, the Supervisory Committee will pay close attention to the operation and development of the Company, and enhance its understanding of the Company's response to market fluctuations, promoting a healthy development of the Company according to its standards.

III. The Supervisory Committee's opinions on related matters

During the Reporting Period, the Supervisors attended the general meeting as requested, and on-site meetings of the Board and the meetings of the operation 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, and issued the following opinions thereon:

- (I) The Supervisory Committee considers that: The overall operating activities of the Company was consistent with the related laws, regulations and regulatory policies, and the Board had effectively fulfilled each resolutions, while the decision-making process of significant events were in line with the requirements under the Company Law and the Articles of Association; the Directors and senior management were able to discharge their duties conscientiously in accordance with the laws and regulations of the country and the requirements under the Articles of Association, and strictly executed each resolutions passed in the general meeting and the meetings of the Board. There was no discovery of the Directors and senior management engaging in activities that violate the laws, regulations and the Articles of Association and that which prejudice the Company's interest while performing their duties in the Company.
- (II) The Supervisory Committee considers that: The financial accounting system of the Company is robust, with excellent financial operation standard and financial position. The financial statement prepared by the Company is true, objective and accurate. PricewaterhouseCoopers has furnished an unqualified opinion on the standard of the Company in the Audit Report, which gave a true and fair view of the financial position and operation results of the Company for the year of 2016.
- (III) The Supervisory Committee considers that: The Company has developed a relatively well-covered internal control regime which could be executed effectively. The establishment of the regime had been useful in preventing risks and maintaining control in each link of the Company's operation management. The self-assessment report of the Company's internal control gave a true and objective view of the internal control system's construction and operation in the Company.
- (IV) The Supervisory Committee considers that: The connected transactions entered into between the Company and the Controlling Shareholder Zhongtai Securities and its connected parties were in line with the general trading principles in the market, while having a fair price and without any compromise to the interest of the Company and non-related shareholders.

IV. Work arrangement of the Supervisory Committee for the year of 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 its duties on the supervision and inspection of all level 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 main operation management 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 raised meaningful questions and recommendations.
- (II) **Develop specific inspection projects and focus on key matters.** The Committee will conduct research and identify specific supervision and inspection projects with reference to the Company's business operation, in order to achieve better supervision, inspection and implementation. The Committee will also focus on ensuring the Company to thoroughly comply with laws and regulations, requirements of regulatory policies, 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 regime as well as the innovative business system, etc.
- (III) **Strengthen routine supervision and inspection and develop business researches.** The Committee 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.
- (IV) **Maintain further facilitation of the Supervisory Committee.** The Committee will put strenuous efforts on studying the policies on listing regulatory policies, the development on futures regulation and new business regulations so as to adapt new requirements of the Company' business development; keep close contact with the Directors and senior management and continue to improve the members' knowledge of futures; and actively seek for refining the methods of supervision and inspection of the Supervisory Committee and enhancing the efficiency of supervision and inspection conducted by the Supervisory Committee.

Details of issuance of domestic bond financing instruments**1. Issuance Plan**

The Company proposed to issue bonds financing instruments denominated in RMB with an aggregate outstanding principal not exceeding RMB0.6 billion.

2. Principal Terms of Issuance

- (1) Issuer: the Company.
- (2) Size of issuance: the specific size of issuance will be determined in line with the capital requirements and market conditions with the total outstanding amount of the bonds not exceeding an aggregate amount equivalent to RMB0.6 billion, provided that requirements of relevant laws and regulations and regulatory documents are complied with.
- (3) Term(s) and category(ies): the instruments shall have a term not exceeding 10 years and can take the form of single term instrument or a combination of multiple categories with different terms. The specific composition of such terms and the issuance size of each category with a specific term will be determined in accordance with relevant requirements and the market conditions, and the issuance size of each category of bonds shall not exceed the limit applicable to the issuance of such category of bonds by the Company in accordance with relevant requirements of the PRC.
- (4) Use of proceeds: the proceeds to be raised from such issuance will be used for satisfying the operation needs of the Company, supplement to the net capital, undertake financial investment, and enhance the economies of scale of the Company's assets.
- (5) Validity term of the resolution: the relevant period is from the approval date of this resolution as a special resolution at the AGM to the earliest of the following: (a) the conclusion of the 2017 annual general meeting; (b) the expiration of the 12 months period following the passing of this resolution as a special resolution at the AGM; (c) the revocation or variation of the authority given to the Board under this resolution by passing a special resolution by the Company's Shareholders in the general meeting.

In the event that the Company has resolved to carry out such issuance within the validity period of the resolution and the Company has obtained the approval, permit or registration in relation to the issuance from the regulatory authorities of the above resolution, the Company may complete such issuance so far as such approval, permit or registration remains valid.

3. Authorizations

It is proposed to the AGM to grant to the Board a general mandate to deal with, within the scope of the principal terms of the issuance as set out in paragraph 2 above in compliance with the relevant laws and regulations and the opinions and recommendations of the regulatory authorities, the operation needs of the Company and the prevailing market conditions at the time of issuance:

- (1) to determine the type(s), specific category(ies), specific terms and conditions as well as other matters of the bonds, including but not limited to all the matters in relation to the issuance such as the size of issuance, actual total amount, issuance price, interest rate or the determination

method thereof, place of issuance, timing of issuance, term(s), whether to issue in tranches and the number of tranches, whether to adopt any terms for repurchase and redemption, rating arrangements, guarantee matters, term of repayment of the principal and interests, use of proceeds, as well as listing and underwriting arrangements;

- (2) to carry out all necessary and incidental actions and procedures for the issuance of bonds, including but not limited to, engaging intermediary agencies to handle, on behalf of the Company, the approval, registration and filing procedures with relevant regulatory authorities relating to the application for the issuance, executing all necessary legal documents relating to the issuance and dealing with other matters relating to the issuance and trading of the bonds;
- (3) to approve, confirm and ratify any of the aforesaid actions or procedures relating to the issuance of the bonds already taken by the Company;
- (4) to execute and publish/dispatch relevant announcement(s) and circular(s) in relation to the issuance of the bonds and to comply with, any relevant information disclosure and/or approval procedures, pursuant to the requirements of domestic regulatory authorities and the Listing Rules;
- (5) to make relevant adjustments to the relevant matters of the issuance of the bonds and to determine whether to proceed with the issuance with reference to the opinions from relevant domestic regulatory authorities and the changes in policies and market conditions, provided that such adjustments and decision shall be within the scope of the authorisation of the AGM and shall be subject to re-voting at an AGM of the Company if otherwise required by the relevant laws and regulations and the Articles of Association of the Company;
- (6) to determine and deal with all relevant matters in relation to the listing of the issued bonds upon the completion of the issuance;
- (7) to deal with other specific matters in relation to the issuance of the bonds and to execute all the required documents; and
- (8) to approve the Board's further delegation of the aforesaid authorisation to the chairman of the Board and/or other authorized person of the Board.

**Comparison Table of the Amendments to the Articles of Association of
LUZHENG FUTURES Company Limited**

Chapter of Articles of Association	Original Clause	Amended Clause
Chapter 1: General Provisions	Article 9 Upon the approval of relevant government departments, the Company may set up subsidiaries or branch institutions such as branches, representative offices and offices overseas or in Hong Kong, Macau and Taiwan, in line with its needs for business development.	Article 9 Upon the approval of relevant government departments, the Company may set up subsidiaries or branch institutions such as branches, representative offices and offices in foreign overseas countries or in Hong Kong, Macau and Taiwan, in line with its needs for business development.
		Article 11 <u>In accordance with the provisions of the Constitution of the Communist Party of China, the Company sets up a Party organization to carry out Party activities. In respect of aspects including decision-making on major issues, the Party's management of officials and talents, the main body responsibilities for the construction of the Party's working style and a clean and honest administration, ideological and political work, the construction of spiritual civilization and the mass organizations, the Company shall promote the core functions of leadership and politics of the Party organization and ensure the thorough implementation of the Party's and national guidelines, policies and major deployment.</u>

Chapter of Articles of Association	Original Clause	Amended Clause
Chapter 10: Board of Directors	<p>Article 99 The Company shall have a board of directors comprising of 10 directors. There shall be one chairman and vice chairman(s) if necessary. Among these members, 4 shall be independent non-executive directors.</p>	<p>Article 10099 The Company shall have a board of directors comprising of <u>9 to 12</u>10 directors. There shall be one chairman and vice chairman(s) if necessary. <u>The appointment and dismissal of the chairman and vice chairman(s) shall be subject to the approval of a majority of all the directors. The term of office of each of the chairman and the vice chairman shall be three years, renewable upon reelection and re-appointment. The number of independent non-executive directors shall not be less than one-third of the number of directors.</u> Among these members, 4 shall be independent non-executive directors.</p>
	<p>Article 100 Directors shall be elected at a shareholders' general meeting with a term of three years. Upon the expiration of the term of office, a director shall be eligible to offer himself for re-election and reappointment. The term of office of a director shall commence from the date of his appointment and end upon the expiration of the term of the current board of directors.</p> <p>The chairman and vice chairman shall be elected and removed by more than one-half of all the directors. The term of office of the chairman and vice-chairman, who shall be entitled to re-election and reappointment, shall be three years.</p> <p>The directors need not hold share(s) of the Company.</p>	<p>Article 1010 <u>Directors who are not staff representatives shall be elected and removed by shareholders at general meetings, while directors as staff representatives shall be elected and removed through democratic means by the staff of the Company</u> Directors shall be elected at a shareholders' general meeting with a term of three years. Upon the expiration of the term of office, a director shall be eligible to offer himself for re-election and reappointment. The term of office of a director shall commence from the date of his appointment and end upon the expiration of the term of the current board of directors.</p> <p>The chairman and vice chairman shall be elected and removed by more than one-half of all the directors. The term of office of the chairman and vice-chairman, who shall be entitled to re-election and reappointment, shall be three years.</p> <p>The directors need not hold share(s) of the Company.</p>

Chapter of Articles of Association	Original Clause	Amended Clause
	<p>Article 112 The board of directors shall be accountable to the shareholders' general meeting and exercise the following functions and powers:</p> <p>.....</p> <p>(11) pursuant to the general manager's nominations to appoint or dismiss deputy general managers, financial controller and other senior management officers of the Company and fix their remuneration, bonus and punishment;</p> <p>.....</p>	<p>Article 1132 The board of directors shall be accountable to the shareholders' general meeting and exercise the following functions and powers:</p> <p>.....</p> <p>(11) pursuant to the general manager's nominations to appoint or dismiss deputy general managers and financial controller and other senior management officers of the Company and fix their remuneration, bonus and punishment;</p> <p>.....</p>
	<p>Article 112 The board of directors shall be accountable to the shareholders' general meeting and exercise the following functions and powers:</p> <p>.....</p> <p>(15) to determine the establishment of special committees under the board of directors and to appoint or dismiss the chairmen of these committees;</p> <p>.....</p>	<p>Article 1132 The board of directors shall be accountable to the shareholders' general meeting and exercise the following functions and powers:</p> <p>.....</p> <p>(15) to determine the establishment of special committees under the board of directors and to nominate the chairmen of these committees appoint or dismiss the chairmen of these committees;</p> <p>.....</p>
	<p>Article 125 In principle, board meetings shall be held at the legal address of the Company.</p> <p>It may also be held at any other places inside or outside China with the resolution of the board of directors.</p>	<p>Article 1265 In principle, bBoard meetings may shall be held at the legal address of the Company and. It may also be held at any other places inside or outside China with the resolution of the board of directors.</p>
<p>Chapter 11: Secretary to the Board of Directors</p>	<p>Article 127 The Company shall have a secretary to the board of directors. As a senior management officer of the Company, the secretary to the board of directors shall be accountable to the board of directors.</p>	<p>Article 1287 The Company shall have a secretary to the board of directors. As a senior management officer of the Company, the secretary to the board of directors shall be accountable to the board of directors.</p> <p><u>The appointment or dismissal of the secretary to the board of directors shall be nominated by the chairman and considered and approved by the board of directors.</u></p>

Chapter of Articles of Association	Original Clause	Amended Clause
<p>Chapter 12: General Manager and Deputy General Manager of the Company</p>	<p>Article 130 The Company shall have one general manager and several deputy general managers to be appointed or dismissed by the board of directors. The deputy general managers shall assist the general manager in his work and be accountable to the general manager.</p> <p>The general manager and several deputy general managers shall be appointed or dismissed by the board of directors. The term of office of each session shall be three years, renewable upon re-appointment.</p> <p>The total number of people from abroad appointed as management officers (general manager, deputy general managers and chief risk officer) shall not exceed 30% of the Company's total number of management officers.</p> <p>There shall not be a close relative relationship between the chairman, general manager and chief risk officer. The offices of the chairman and the general manager may not be held concurrently by one person.</p>	<p>Article 1310 The Company shall have one general manager and several deputy general managers to be appointed or dismissed by the board of directors. The deputy general managers shall assist the general manager in his work and be accountable to the general manager.</p> <p>The general manager and several deputy general managers shall be appointed or dismissed by the board of directors. The term of office of each session shall be three years, renewable upon re-appointment.</p> <p>The total number of people from abroad appointed as management officers (general manager, deputy general managers and chief risk officer) shall not exceed 30% of the Company's total number of management officers.</p> <p>There shall not be a close relative relationship between the chairman, general manager and chief risk officer. The offices of the chairman and the general manager may not be held concurrently by one person.</p>
<p>Chapter 14: Supervisory Committee</p>	<p>Article 141 The supervisory committee shall comprise six (6) supervisors, of whom no less than two (2) shall be independent supervisors. The term of office of supervisors shall be three years, renewable upon re-election and re-appointment.</p> <p>The supervisory committee shall have one chairman, whose appointment and dismissal shall be subject to the approval of two-thirds or more of its members by voting.</p>	<p>Article 1421 The supervisory committee shall comprise six (6) to <u>nine (9)</u> supervisors, of whom no less than two (2) shall be independent supervisors. The term of office of supervisors shall be three years, renewable upon re-election and re-appointment.</p> <p>The supervisory committee shall have one chairman, whose appointment and dismissal shall be subject to the approval of two-thirds or more of its members by voting.</p>

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

- (1) As at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors or chief executives or their respective associates were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 the Listing Rules.
- (2) As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2016 (being the date on which the latest published audited consolidated accounts of the Company were prepared) been acquired or disposed of by or leased to by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to by the Company or any of its subsidiaries.
- (3) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.
- (4) As at the Latest Practicable Date, none of Directors are directors or employees of a company having an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors and their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as was known to any Directors, as at the Latest Practicable Date, the following persons (not being a Director, a Supervisor or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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. (formerly known as Qilu 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	44,806,967 (long position)	4.47%	16.17%
CM International Capital Limited ⁽³⁾	H Shares	Beneficial owner	28,022,000 (long position)	2.80%	10.11%
CM International Capital Limited (中民國際資本有限公司) ⁽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%
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%

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
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 the Latest Practicable Date.

Notes:

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

Saved as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, there were no other persons (except for a Director, a Supervisor and the chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company, which were required to be notified 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.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into any service contracts with the Company or any of its subsidiaries, excluding contracts expiring or terminable within one year without payment of compensation other than statutory compensation.

6. EXPERT'S DISCLOSURE OF INTEREST AND CONSENTS

- (1) As at the Latest Practicable Date, Alliance Capital, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (2) As at the Latest Practicable Date, Alliance Capital did not have any direct or indirect interests in any assets which have been acquired or disposed of or leased to or which were proposed to be acquired or disposed of by or leased to by any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated accounts of the Company were made up.
- (3) Alliance Capital issued a letter dated 23 May 2017 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the Independent Shareholders.
- (4) Alliance Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of recommendation and reference to its name in the form and context in which they appear.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any working day (public holidays excepted) at the Company's principal place of business in Hong Kong at 18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from the date of this circular up to and including the date of the AGM:

- (1) the New Financial Services Framework Agreement;
- (2) the Asset Management Service Framework Agreement;
- (3) the Bulk Commodities Sale and Purchase Framework Agreement;
- (4) the letter from the Independent Board Committee to the Independent Shareholders as set out on page 31 of this circular;
- (5) the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 32 to 55 of this circular;
- (6) the written consent of Alliance Capital referred to in paragraph 6 of this appendix; and
- (7) this circular.

8. GENERAL

- (1) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group's financial or trading position since 31 December 2016, being the date on which the latest published audited consolidated accounts of the Company were prepared.
- (2) The registered office of the Company is 15–16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC and the postal code is 250001.
- (3) The H Share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (4) The company secretaries of the Company are Mr. Meng Tao and Ms. Ng Wing Shan. Ms. Ng Wing Shan is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (5) If there is any discrepancy between the English text and Chinese text of this circular, the Chinese text shall prevail.