



**鲁证期货**  
LUZHENG FUTURES

**LUZHENG FUTURES COMPANY LIMITED**

**鲁证期货股份有限公司**

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

# ANNUAL REPORT 2017



CHAPTER I Definition	2	CHAPTER XI Corporate Governance Report	107
CHAPTER II Risk Warnings	5	I. Overview of Corporate Governance	107
CHAPTER III Company Profile	6	II. General Meeting	108
I. Profile	6	III. Performance of the Directors	109
II. History	9	IV. Work Performance of Board of Directors and Special Committees	116
III. Staff Profile	11	V. Chairman and General Manager	128
IV. Brief Introduction of the Organs and Branches	12	VI. Securities Transactions by the Directors, Supervisors and Senior Management	129
V. Basic Information about the Industry in Which the Company Operates	17	VII. Performance of Duties by Independent Non-executive Directors	130
VI. Business Briefings of the Company	17	VIII. Supervision on Risk Management and Internal Control System	130
VII. Briefings of our Subsidiaries	18	IX. Other Relevant Matters	132
VIII. Honours Awarded to the Company During the Reporting Period	19	CHAPTER XII Internal Control	136
CHAPTER IV Financial Summary	20	I. Establishment of Internal Control Structure	136
I. Major Accounting Data of the Group	20	II. Implementation and Operation of Internal Control System	136
II. Major Financial Indexes of the Group	20	III. Supervision and Inspection of Internal Control	137
III. Net Capital of the Company and Relevant Risk Control Indicators	21	IV. Conclusion of the Assessment of Internal Control	137
IV. Financial Conditions of the Group of the Latest Five Years	22	CHAPTER XIII Independent Auditor's Report	138
CHAPTER V Chairman Statement	23	CHAPTER XIV Notes to the Consolidated Financial Statements	145
CHAPTER VI Management Discussion and Analysis	24	Consolidated Statements of Comprehensive Income	145
I. Economic and Futures Market Analysis during the Reporting Period	24	Consolidated Statements of Financial Position	147
II. Discussion and Analysis of the Group's Development Plans, Results and Prospects	25	Consolidated Statements of Changes In Equity	149
III. Financial Statement Analysis	32	Consolidated Statements of Cash Flows	150
IV. Employees Structure, Remuneration and Training	47		
V. Changes in Branches and Subsidiaries and Impact on Results	49		
VI. Major Investments and Financing	50		
VII. Replacement of Material Assets, Acquisition, Disposal, Spin-off and Reorganization of Other Companies	51		
VIII. Possible Risks, Uncertainties and Countering Measures	51		
CHAPTER VII Report of the Board of Directors	56		
I. Principal Businesses	56		
II. Results and Dividends	56		
III. Business Review	56		
IV. Directors and Directors' Biographies	56		
V. Directors' and Supervisors' Service Contracts	57		
VI. Interests and Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures	57		
VII. Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares	58		
VIII. Penalty and Rectification Imposed on the Company, Directors, Supervisors and the Senior Management	60		
IX. The Company's Commitment to Social Responsibilities	60		
X. The Listing and Use of Proceeds	61		
XI. Closure of Register of Members	63		
XII. Final Dividend	63		
XIII. Other Disclosures	64		
CHAPTER VIII Report of the Supervisory Committee	68		
I. Routine Work of the Supervisory Committee in 2017	68		
II. Major Work in 2017	69		
III. Review Opinions of the Supervisory Committee on Relevant Matters in 2017	70		
IV. Work Plan of the Supervisory Committee in 2018	71		
CHAPTER IX Directors, Supervisors, Senior Management and Staff	73		
I. Briefings of the Directors, Supervisors and Senior Management	73		
II. Change of the Directors, Supervisors and Senior Management during and after the Reporting Period	83		
III. Remuneration of Directors, Supervisors and Senior Management	84		
IV. Staff and Remuneration	85		
CHAPTER X Significant Events	86		
I. Material Litigations and Arbitrations	86		
II. Significant Acquisitions, Reorganisations and Disposals	86		
III. Connected Transactions	86		
IV. Major Contracts and Their Performance	102		
V. Purchase, Sale or Redemption of Listed Securities	105		
VI. Undertakings of the Controlling Shareholders and Their Performance	105		
VII. Appointment, Change and Dismissal of Auditors	106		

## Contents

LUZHENG FUTURES Company Limited  
Annual Report 2017

# Definition

“Articles of Association”	the Articles of Association of LUZHENG FUTURES Company Limited
“Audit Committee”	the Audit Committee of the Board of Directors
“Board” or “Board of Directors”	the board of director(s) of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“China”, “PRC” or “Country”	the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “LUZHENG FUTURES”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a company incorporated in the PRC on 10 December 2012 with limited liability, and its H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 01461)
“Controlling Shareholder(s)”	Zhongtai Securities, Laiwu Steel and Shandong Steel
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, subscribed for or credited as fully paid in Renminbi
“Group”, or “we” or “us”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which were listed on the main board of the Stock Exchange in Hong Kong
“HK\$” or “HK dollars”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a company established in the PRC on 6 May 1999 with limited liability, 80% of which is owned by Shandong Steel and being one of the Controlling Shareholders of the Company
“Listing Date”	7 July 2015, being the date of listing of H Shares on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), a company established in the PRC on 15 February 2015 with limited liability, which is a wholly-owned subsidiary of the Company
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company established in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the Nomination Committee of the Board of Directors
“OTC”	over-the-counter
“PRC Futures Exchanges”	China Financial Futures Exchange (中國金融期貨交易所), Dalian Commodity Exchange (大連商品交易所), Zhengzhou Commodity Exchange (鄭州商品交易所) and Shanghai Futures Exchange (上海期貨交易所)
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board of Directors
“Reporting Period”	the year ended 31 December 2017
“Risk Control Committee”	the Risk Control Committee of the Board of Directors

## Definition

“RMB” or “Renminbi”	the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a company established in the PRC on 17 March 2008 with limited liability, 70% of which is owned by the State-owned Assets Supervision and Administration Commission of the Shandong Provincial Government (山東省人民政府國有資產監督管理委員會) and being one of the Controlling Shareholders of the Company
“Share(s)”	the Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Strategic Development Committee”	the Strategic Development Committee of the Board of Directors
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券股份有限公司), previously known as Qilu Securities Co., Ltd. (齊魯證券有限公司) a company established in the PRC on 15 May 2001 with limited liability, 45.91% owned by Laiwu Steel, being a subsidiary of Laiwu Steel and one of the Controlling Shareholders of the Company

# Risk Warnings

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

The Company may be mainly exposed to the following risks:

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

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

# Company Profile

## I. PROFILE

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

Registered English Name: LUZHENG FUTURES Company Limited

### 2. Registered office

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

### 3. Head office in the PRC

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

### 4. Principal place of business in Hong Kong

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

### 5. Board of Directors

Executive Directors:

Mr. Chen Fang (*Chairman*)  
Mr. Liang Zhongwei

Non-executive Directors:

Mr. Lv Xiangyou  
Mr. Yin Ge  
Mr. Li Chuanyong  
Mr. Liu Feng

Independent Non-executive Directors:

Mr. Gao Zhu  
Mr. Yu Xuehui  
Mr. Wang Chuanshun  
Mr. Li Dapeng

### 6. Authorized representatives

Mr. Chen Fang

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

Mr. Liu Yunzhi

Room 102, Unit 3, Building 61, South Juanmen Lane, Lixia District, Jinan, Shandong Province, the PRC

### 7. Joint company secretaries

Mr. Meng Tao (resigned on 26 January 2018)

Mr. Liu Yunzhi (appointed on 26 January 2018)

Ms. Ng Wing Shan

### 8. Auditors

#### **PRC Auditor**

PricewaterhouseCoopers Zhong Tian LLP

11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai, PRC

#### **International Auditor**

PricewaterhouseCoopers

*Certified Public Accountant*

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

### 9. Legal advisers

As to Hong Kong law: Clifford Chance

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

As to PRC law: Jia Yuan Law Office

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



## Company Profile

### 10. Principal banks

**China Construction Bank (Jinan Shizhong Sub-branch)**

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

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

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

**Bank of China (Jinan Branch)**

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

**Bank of Communications (Jinan Shizhong Sub-branch)**

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

**Agricultural Bank of China (Wanda Plaza Branch)**

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

### 11. H Share registrar

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

### 12. Stock code

01461

### 13. Investor enquiries

Investors' Service Line: +86-531-81678641

+86-531-81678628

Fax: +86-531-81678628

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

E-mail: [investor@luzhengqh.com](mailto:investor@luzhengqh.com)

## II. HISTORY

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

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

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

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

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

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

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

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

## Company Profile

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

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

On 10 December 2012, Luzheng Limited was renamed as LUZHENG FUTURES Company Limited (魯証期貨股份有限公司) (“LUZHENG FUTURES”) upon an overall share conversion based on the audited net assets of Luzheng Limited as of 30 September 2012. After such conversion, the registered capital of the Company amounted to RMB750.0 million.

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

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

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

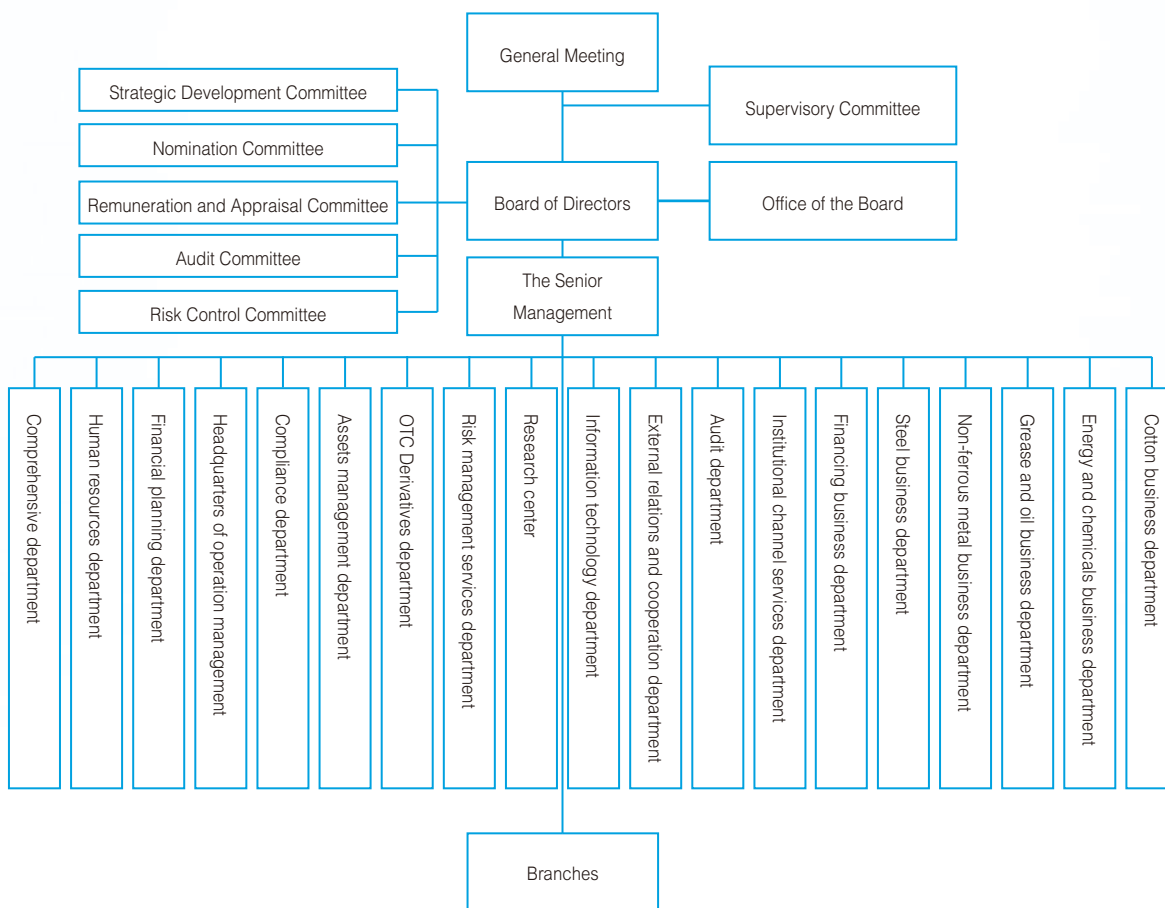
### III. STAFF PROFILE

As of 31 December 2017, the Company had 525 employees in total. The breakdown of the composition of the employees is as follows:

	Category	Number	Proportion (%)
By profession	Administrative management	42	8.00
	Financial planning	16	3.05
	Management of brokerage business	40	7.62
	Information technology	24	4.57
	Clearing	7	1.33
	Compliance and risks control	47	8.95
	Research and development	11	2.10
	Customer services	33	6.29
	Assets management	17	3.24
	Options and OTC businesses	18	3.43
	Marketing	197	37.52
	Luzheng Trading	32	6.10
	Luzheng Information Technology	14	2.67
	Shandong Exchange Markets Clearing House Co., Ltd	27	5.13
		<b>Total</b>	<b>525</b>
By age	Below 30	212	40.38
	31 – 35	165	31.43
	36 – 40	75	14.29
	41 – 45	32	6.10
	Above 45	41	7.81
	<b>Total</b>	<b>525</b>	<b>100</b>
By education background	Post-graduate and above	122	23.24
	Bachelor degree	330	62.86
	College degree and below	73	13.90
	<b>Total</b>	<b>525</b>	<b>100</b>

## IV. BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES

According to the Company Law (《公司法》), the Futures Trading Management Regulations (《期貨交易管理條例》) and the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) of the PRC, the Listing Rules and laws and regulations of Hong Kong, as well as the relevant provisions under the Articles of Association, the Company has established the legal corporate governance structure, namely the structure of “three organisations and one management level”. Under this structure, the general meeting will serve as the highest authority of the Company, with the Board of Directors, Supervisory Committee and senior management serving as the organs of decision-making, supervision and execution, respectively. As at the date of the report, the Company has set 13 functions departments, 6 business segments and 28 branches. The organization structure of the Company is set out below:



As at the end of the Reporting Period, the Company has set up a total of 28 branches operating futures products, among which, 11 are located in Shandong province and the other 17 are out of Shandong Province, with details as follows:

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Jinan Branch	Zhao Dong	41	18 October 2007	Area B, 4/F, Jihua Building, No.19 Yingxian Street, Tianqiao District, Jinan	0531-81678610
Beijing Branch	Hou Chunmei	15	16 April 2007	Unit 202, 2/F, Block No.99, North Third Ring Road West, Haidian District, Beijing	010-64402919
Shanghai Branch	Ren Yifei	12	13 October 2008	Room 1801, No.438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950
Tianjin Branch	Zhang Wei	9	10 April 2007	Units 301A, 301B and 301C, No.39 Third Avenue West, Economy and Technology Development Zone, Tianjin	022-66283471
Dalian Branch	Jiang Hong	13	11 February 2003	Units 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No.129 Huizhan Road, Shahekou District, Dalian	0411-84800770
Shenyang Branch	Song Binbin	6	6 November 2007	Units 701-703, Block C, No.161 Nanjing North Street, Heping District, Shenyang	024-23253298

## Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Hangzhou Branch	Wang Genwang	7	31 July 2008	Unit 4001, Yueming Building, No.231 Moganshan Road, Xihu District, Hangzhou, Zhejiang	0571-28118966
Zhengzhou Branch	Xue Pu	5	11 June 2009	No. DT12, 14/F, Weilai Building, No.69 Weilai Road, Zhengzhou	0371-65629609
Ningbo Branch	Xu Chenyi	6	8 June 2010	Unit 9-1, Block 004, No.475 Jiangdongbei Road, Jiangdong District, Ningbo, Zhejiang	0574-27893883
Qingdao Branch	Liang Dong	10	4 November 2008	No.78 Jiangxi Road, Shinan District, Qingdao	0532-80776050
Yantai Branch	Guo Feng	12	27 May 2002	4/F, Block B, Guanhai Building, No.267 Guanhai Road, Laishan District, Yantai	0535-6605095
Zibo Branch	Xue Liang	7	25 July 2008	9/F, Securities Building, No.66 Renmin West Road, Zhangdian District, Zibo	0533-2187987
Linyi Branch	Xue Xiangxu	9	29 October 2007	Unit 701, Block 3, Aoernuo International Building, No.26 Qiyang Road, Lanshan District, Linyi	0539-8073720
Jining Branch	Li Xiangmin	7	16 May 2008	Unit 807, Xingtang Jinmao Building, No.123, Guanghe Road, Jining	0537-2715707

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Weifang Branch	Mo Zhenqiang	9	30 October 2008	4/F, Office Building, No.166 Dongfeng West Road, Weicheng District, Weifang	0536-8263608
Dongying Branch	Fang Zheng	10	11 November 2008	11/F, Xindu Fortune Center, No.20 Jinan Road, Dongying District, Dongying	0546-8279996
Dezhou Branch	Tang Zhen	7	29 January 2010	11/F, Lijing Building, No.1369 Tianqu Central Road, Decheng District, Dezhou	0534-2617086
Wenzhou Branch	Pang Sen	3	12 August 2011	Unit 103, Block 1-2 Renhe Jiayuan Station Road, Lucheng District, Wenzhou, Zhejiang	0577-85552177
Shenzhen Branch	Lu Zongjian	6	27 December 2011	Units 723, 725, 726 and 728, Xinhua Insurance Building, Southwest of the cross between Shennan Avenue and Mintian Road, Futian District, Shenzhen	0755-83509686
Guangzhou Branch	Xu Jie	6	22 October 2012	904 East, No. 30 Tianhe North Road, Tianhe District, Guangzhou	020-38838558
Changsha Branch	Wang Li	7	12 March 2013	Unit 1522, Heart of the City, Northwest of the cross between Furong Road and Chengnan Road, Tianxin District, Changsha	0731-84637766
Chengdu Branch	Fu Qi	4	25 July 2013	Unit 2, 5/F, No.42 Donghuazheng Street, Jinjiang District, Chengdu	028-85970818



## Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Rizhao Branch	Tong Yanfang	6	26 December 2014	Unit 1801, Block 001, Hangmao Center, No.277 Beijing Road, Rizhao Economy and Technology Development Zone, Rizhao, Shandong	0633-8088272
Tai'an Branch (Completed industrial and commercial deregistration on 13 December 2017)	Fan Chao	2	4 December 2015	Unit 5012, 5/F, No.171 Dongyue Street, Tai'an	0538-6117399
Shanghai Branch Office	Liu Jie	6	1 February 2016	Room 1502A, No. 438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950-8008
Wuxi Branch	Zhang Xiao	4	26 April 2016	Rooms 901-902, No.2 Wuai Renjia, Wuxi	0510-82728370
Wuhan Branch	Liu Xuwang	2	8 June 2017	Rooms 601, 602 and 609, Qingcuiyan Unit 1-2, Qingshan District, Wuhan	027-86681096
Jinan Branch	Niu Baodong	1	27 July 2017	Zone A, 4/F, Main Building, No.19, Yingxian Street, Tianqiao District, Jinan	0531-81916253
Nanjing Branch	Ye Chunhua	10	3 August 2017	Room 4901-03, No.188, Laoshan District, Jianye District, Nanjing (Room 5803, 58/F (Elevator No.))	025-57626667
Haikou Branch (Completed industrial and commercial deregistration on 25 January 2017)	Qu Chao	0	22 December 2010	Unit F, 22/F, Beijing Building, No. 56 Guomao Road, Haikou, Hainan	0898-68503101

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

In 2017, China's futures market developed steadily under the guidance of the policy of futures to serve the real economy. In the past year, the network of financial supervision became more and more dense, and "prevention of risk, management of chaos, strict supervision, and strong supervision" frequently became keywords in the field of financial supervision, reflecting the distinctiveness of supporting finance to serve entities and finance to return to origins. It was against this background that in 2017, the futures market achieved great development under the overall tone of making progress while ensuring stability. From the perspective of market conditions, 2017 was a richer and more mature year for tools and means for the futures market to serve the real economy. The new varieties and new tools accelerated the launch rhythm. Two types of options, namely soybean meal and sugar, were launched. From the perspective of industrial situations, 2017 was the first year of on-exchange options in commodity markets, which enriched the futures derivatives market system; cotton yarn futures and the world's first fresh fruit futures – apple futures were launched. From the perspective of the industrial situation, 2017 was an increasingly mature year for the futures companies' innovative business models. The industry transformation and upgrading was further promoted, and the capabilities and profitability of serving entities and national strategies were significantly enhanced. The net profit of the industry was expected to exceed RMB8 billion, an increase of 24% over the previous year. The net profit of risk management subsidiaries exceeded RMB0.9 billion, which was 16 times that of the previous year; the nominal amount of off-exchange business reached RMB250 billion, which was 17 times that of last year.

## VI. BUSINESS BRIEFINGS OF THE COMPANY

The business scopes of the Company and its subsidiaries cover futures brokerage of commodity, financial futures brokerage, futures investment consulting, futures asset management, basis trading, warehouse receipt services, cooperation insurance, OTC derivatives business, information technology consulting services, commodity transaction, registration and settlement services, and other business activities permitted by the CSRC.

### VII. BRIEFINGS OF OUR SUBSIDIARIES

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

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

Name of the company	Shareholding percentage (%)	Date of establishment	Registered capital	Registered address	Responsible person	Contact number
Luzheng Trading Co., Ltd (魯証經貿有限公司)	100	2013.4.24	RMB350 million	Room 201, Block A, No.1 Qianwanyilu, Shenzhen – Hong Kong Cooperation Zone, Qianhai, Shenzhen, Guangdong Province PRC	Liu Qingbin (劉慶斌)	+86-531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.2.15	RMB50 million	Room 1515, Floor 15 No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province PRC	Pei Yingjian (裴英劍)	+86-531-81678620
Zhongtai Huirong Investment (HK) Company Limited (中泰滙融(香港)有限公司)	100	2013.11.21	HK\$118.82 million	Unit 04, 7/F, Bright Way Tower, No. 33 Mong Kok Road, Kowloon, Hong Kong	Liu Qingbin (劉慶斌)	+86-531-86161199
Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司)	40	2016.10.9	RMB150 million	Floor 16, Building B, Gold Times Square, No. 9999 Jingshi Road, Lixia District, Jinan, Shandong Province PRC	Li Xuekui (李學魁)	+86-531-86517060

## VIII. HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD

During 2017, the Company has been rated by the CSRC as a Class A (Level A) futures firm which makes it rated by the CSRC as a Class A futures firm nine consecutive years.

The Company was honored, for the fifth time consecutively, as the “Best Futures Firm in China (中國最佳期貨公司)” in the 10th session of the “China Best Futures Institution Selection” (第十屆中國最佳期貨經營機構評選) as jointly held by the Futures Daily (期貨日報) and the Securities Times (證券時報), and was also granted the awards of “China Futures Firm Gold Management Team (中國期貨公司金牌管理團隊)”, “Best Brand Establishment and Promotion Award (最佳品牌建設推廣獎)”, “Best Capital Operation Development Promotion Award (最佳資本運營發展推廣獎)”, “Best Futures IT System Construction Award (最佳期貨IT系統建設獎)”, “Annual Best Investor Education Award (年度最佳投資者教育獎)”, “Best Risk Management Subsidiary Service Award (最佳風險管理子公司服務獎)”, “Best Helman of China Futures Companies (中國期貨公司最佳掌舵人)” and “China Gold Futures Institute (中國金牌期貨研究所)”.

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

The Company was honored with “Advanced Grassroots Party Organization of Shandong Provincial Management Enterprises (山東省省管企業先進基層黨組織)” by the State-Owned Assets Supervision Commission Committee, Government of CPC Shandong Province.

The Company was honored with “Excellent Member Gold Award (優秀會員金獎)”, “Industrial Innovation Service Award (產業創新服務獎)”, “Best Institutional Development Award (最佳機構拓展獎)” and “Best Option Market Cultivation Award (最佳期權市場培育獎)” by the Dalian Commodity Exchange.

The Company was honored with “Excellent Gold Medal (優秀會員金獎)” by China Financial Futures Exchange.

The Company was honored with “Talent Cultivation Excellence Member Award (人才培育優秀會員獎)” by Zhengzhou Commodity Exchange.

The Company won the “Golden IT Service Award (金牌IT服務獎)” from Hexun.

The Company was awarded the “2017 Outstanding Unit Award (2017年度優秀單位獎)” by Zhongtai Securities Co., Ltd..

# Financial Summary

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

## I. MAJOR ACCOUNTING DATA OF THE GROUP

Unit: RMB'000

Item	2017	2016	Increase/ decrease over corresponding period of last year	2015
Operating income	<b>465,865</b>	398,915	16.78%	369,898
Operating profit	<b>207,488</b>	154,809	34.03%	115,184
Profit before income tax	<b>206,568</b>	154,926	33.33%	124,910
Profit attributable to shareholders of the Company	<b>158,631</b>	113,003	40.38%	93,583
Net cash outflow from operating activities	<b>(212,046)</b>	(270,552)	21.62%	(32,603)

Unit: RMB'000

Item	31 December 2017	31 December 2016	Increase/ decrease over corresponding period of last year	31 December 2015
Total assets	<b>8,828,934</b>	8,204,293	7.61%	7,433,409
Total liabilities	<b>6,644,231</b>	6,125,765	8.46%	5,455,048
Total equity attributable to shareholders of the Company	<b>2,156,571</b>	2,048,755	5.26%	1,978,361
Total share capital	<b>1,001,900</b>	1,001,900	0.00%	1,001,900

## II. MAJOR FINANCIAL INDEXES OF THE GROUP

Item	2017	2016	Increase/ decrease over corresponding period of last year	2015
Basic earnings per Share (RMB)	<b>0.16</b>	0.11	45.45%	0.11
Diluted earnings per Share (RMB)	<b>0.16</b>	0.11	45.45%	0.11
Weighted average return on net asset	<b>7.36%</b>	5.59%	Increase by 1.77 percentage points	5.94%

Item	31 December 2017	31 December 2016	Increase/ decrease over corresponding period of last year	31 December 2015
Net asset per Share attributable to shareholders of the Company (RMB)	2.15	2.04	5.39% Increase by 3.74 percentage points	1.97
Gearing ratio	19.98%	16.24%		10.88%

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

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

Indicators	31 December 2017	31 December 2016	Regulatory standard
Net capital (RMB)	1,342,240,676.68	1,333,237,575.53	30,000,000.00
Net capital/total risk capital reserves	693.76%	631.40%	100.00%
Net capital/net assets	65.75%	68.12%	20.00%
Current assets/current liabilities	777.03%	795.24%	100.00%
Liabilities/net assets	8.34%	7.80%	150.00%
Settlement reserve funds (RMB)	175,494,527.30	126,652,938.79	10,000,000.00

Note: The relevant data at the end of the previous year has been restated in accordance with the "Circular on Clarifying the Relevant Adjustments in Financial Supervision Reports (《關於明確財務監管報表填報相關調整事項的通知》)" (Jian Kong Han [2018] No. 52). During the Reporting Period, the net capital and other risk regulatory indexes of the Company have been complying with relevant requirements under the Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) (the "Regulatory Standard") promulgated by the CSRC.

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

### 1. Profitability

Unit: RMB'000

Item	2017	2016	2015	2014	2013
Operating income	<b>465,865</b>	398,915	369,898	322,053	315,661
Operating expenses	<b>258,377</b>	244,106	254,714	219,838	219,913
Profit before income tax	<b>206,568</b>	154,926	124,910	105,612	102,422
Profit attributable to shareholders of the Company	<b>158,631</b>	113,003	93,583	80,291	78,674

### 2. Assets Condition

Units: RMB'000

Item	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Total assets	<b>8,828,934</b>	8,204,293	7,433,409	5,527,300	3,816,770
Total liabilities	<b>6,644,231</b>	6,125,765	5,455,048	4,254,921	2,627,231
Total equity attributable to shareholders of the Company	<b>2,156,571</b>	2,048,755	1,978,361	1,272,379	1,189,539
Total share capital	<b>1,001,900</b>	1,001,900	1,001,900	750,000	750,000

### 3. Key financial indexes

Item	2017	2016	2015	2014	2013
Basic earnings per Share (RMB)	<b>0.16</b>	0.11	0.11	0.11	0.1
Diluted earnings per Share (RMB)	<b>0.16</b>	0.11	0.11	0.11	0.1
Weighted average return on net asset	<b>7.36%</b>	5.59%	5.94%	6.53%	6.84%
Net asset per Share attributable to shareholders of the Company (RMB)	<b>2.15</b>	2.04	1.97	1.70	1.59
Gearing ratio	<b>19.98%</b>	16.24%	10.88%	4.11%	3.85%

# Chairman Statement

Dear Shareholders,

In 2017, affected by the political and economic environment and the trend of commodity prices in China and abroad, the trading volume of Chinese futures market declined compared to 2016. It was worth mentioning that the liquidity of stock index futures was restored because the restriction on stock index futures was released twice in 2017. In 2017, soybean meal options and sugar options were successively listed on the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange, representing the official entry into the options era of China's futures market; varieties of commodity futures were further enriched, and cotton yarn futures and apple futures had been listed on the Zhengzhou Securities Exchange.

2017 is the second full fiscal year after the listing of the Company. For 2017, the Company adhered to the strategic target of the leading comprehensive financial service provider in the futures and derivatives markets. Based on the core nature of futures to serve the real economy, we focused on research and services relating to futures market and spot market, and fully utilized the futures and derivatives tools to serve the entities. After one year's efforts, the Company completed its expected business goals and achieved a net profit of RMB156.965 million, a year-on-year increase of 39.18%.

For 2018, the Company will further adhere to the strategic target of the leading comprehensive financial service provider in the futures and derivatives markets, and further follow the mission of "providing entities with pricing, hedging tools and solutions to help China entities make up for risk management weaknesses and improve their international competitiveness." The Company will continue to focus on serving the core nature of serving the real economy, plan risk management and asset management business; adhere to the internationalization strategy, and promote the integration of resources through the international market in real terms; improve the level of information disclosure, improve the investor relations management system, and strictly protect the right to know of investors, especially small and medium-sized investors. It is believed that with your support and all employees' active efforts, the Company will achieve better performance and create better return on investment for all of you in 2018.

**LUZHENG FUTURES Company Limited**

*Chairman*

**Chen Fang**

22 March 2018



# Management Discussion and Analysis

## I. ECONOMIC AND FUTURES MARKET ANALYSIS DURING THE REPORTING PERIOD

### (1) Economic Conditions

In 2017, the global economy accelerated its recovery and there are signs of cyclical recovery in the investment, manufacturing and trading industries. Compared to 2016, the economic recovery in various economies tended to be balanced. Unemployment in the United States market continued to decline. Driven by the manufacturing sector, the Eurozone recorded the best economic growth in the recent decade. Japan's economic growth was also much better than the previous year. China led global economic growth with a 6.9% economic growth. The low interest rate environment since the financial crisis and the momentum of economic recovery have led to a bull market in both equity and commodity markets. As inflationary expectations rose, the monetary policies of some economies shifted. Looking to 2018, global interest rates may further increase, liquidity may tighten, and there is little room for economic growth to exceed expectations.

The year 2017 was a crucial year for China's economic restructuring. In terms of financial policy, under the expectation of the Federal Reserve's rate hike and financial-statement shrinking, China took countermeasures in advance: on the one hand, money supply was controlled, and market interest rates were significantly raised; on the other hand, in order to prevent systemic risks, the financial supervision and administration became increasingly stringent, and the leveraged behavior of the government, enterprises and residents was suppressed. The report of the 19th National Congress pointed out that socialism with Chinese characteristics has entered a new era, which means the focus of the economy on meeting the growing "good life needs" of the people and means changing the past "unbalanced and inadequate development" and turning to "high-quality development". Against this backdrop, the traditional economy was under great downward pressure. However, the new economy, characterized by high and new technologies and creative innovation, was booming. The economic structure continued to be optimized and the endogenous driving force for economic growth was further strengthened.

### (2) Futures Market Analysis

In 2017, the cumulative trading volume of the Chinese futures market was 3.076 billion lots, with cumulative turnover amounting to RMB187.90 trillion, which represented a year-on-year decrease of 25.66% and 3.95%, respectively. In 2017, the restriction on stock index futures was released twice, contributing to the recovery of trading conditions and liquidity of stock index futures. The total trading volume of financial futures for the year was 25 million lots, with cumulative turnover amounting to RMB24.59 trillion, which represented a year-on-year increase of 34.14% and 34.98%, respectively.

Benefiting from supply-side reform and intensified environmental remediation and under the background of economic recovery, bulk commodities remained in a rising trend in 2017, but the differentiation of varieties was significant. In 2017, the Wenhua CCI rose by 4.78%, of which, the performance of industrial products closed at a rise of 10.46%, while agricultural products still suffered a slight decline of 4.83% due to the suppression of high inventory and high yield. In terms of industrial products, thanks to favorable supply-side reform, ferrous metal industry chain witnessed a rise of 18.94% as the highest rise among all commodities, followed by non-ferrous metals with a rise of 16.91% for the year thanks to the recovery in manufacturing. Supply-side reform did not benefit the chemical sector. Crude oil prices also showed signs of weakness in 2017, with the chemical sector performing weak throughout the year under the pressure of overcapacity, and with a decline of 2.57%. Agricultural products rose by 18.62% for the year, with the exception of corn, which rebounded with the substantial reduction of planting area and other de-stocking policies. In 2017, the weather in all the major agricultural producing areas in the world was good, all the major agricultural products achieved high yield, and the demand was basically stable. Other agricultural products performed poorly, with oil and sugar declining the highest by 15.68% and 13.33%, respectively.

## II. DISCUSSION AND ANALYSIS OF THE GROUP'S DEVELOPMENT PLANS, RESULTS AND PROSPECTS

As at 31 December 2017, the Company was rated by the CSRC as a Class A (Level A) futures firm, marking its rating by the CSRC as a Class A futures firm for eight consecutive years. The Company was also named as the "Best Futures Firm in China" (中國最佳期貨公司) for the fifth time by the Futures Daily (期貨日報) and the Securities Times (證券時報), and was further awarded as the "China Futures Firm Gold Management Team" (中國期貨公司金牌管理團隊), the "Best Capital Operations Development" (最佳資本運營發展獎), the "Shandong Province-run Enterprise Advanced Grass-roots Party Organization" (山東省省管企業先進基層黨組織), and the "Provincial Civilized Enterprise" (省級文明單位).

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

# Management Discussion and Analysis

## (1) Futures Brokerage

### **Market Analysis:**

During the Reporting Period, the futures market in China developed steadily. From the perspective of market conditions, the instruments and means in the futures market service real economy were more abundant and mature. The pace of the listing of new varieties and new instruments were accelerated, and the two types of options, soybean meal and sugar as well as two types of futures, cotton yarn and apple, were listed. Under the regulatory background of “risks prevention, chaos control, strict implementation and strong supervision”, the cumulative trading volume in the national futures market was 3.076 billion lots, which represented a 25.66% decline as compared to 2016. Affected by the easing of trading restrictions on stock index futures, the cumulative turnover amounted to RMB187.90 trillion, representing a decrease of 3.95% as compared to 2016.

### **Development Plans and Results:**

For 2017, the Company studied and weighed the situations and solidly promoted various work arrangements, making its futures brokerage business achieve a contrarian growth.

First of all, the Company actively carried out the option brokerage business to seize market share. Based on careful preparation and extensive over-the-counter (“OTC”) options business experience, the Company jumped to the second place in the futures industry and the fourth place of the entire market, in terms of annual trading volume of stock options. The annual trading volume of soybean meal options accounted for 9.19% market share, ranking second in the market. The annual trading volume of sugar options accounted for 7.03% market share, ranking fourth in the market.

Secondly, the Company further optimized the layout of outlets, speeded up the construction of talent team, and improved business development capabilities. The Company established branches in Wuhan, Nanjing and Jinan, closed down sales departments in Haikou and Taian, and changed the heads of sales departments in Ningbo, Jinan, Shanghai, Wenzhou, Zhengzhou and Dongying.

Thirdly, the Company further reduced the size of outlets and lowered operating costs. The Company completed the relocation of Guangzhou, Wenzhou, Rizhao and Tianjin sales departments with the area compressed by 487 square meters and a saving of RMB433,200 in rental.

Fourthly, the Company further reduced the number of back-office staff, and improved work efficiency. In order to adapt to the changes in regulatory policies and marketing methods, the Company optimized the allocation of human resources in its branch offices, and reduced the number of back-office by 24 people, contributing to a labor cost saving of over RMB1 million. In the meantime, the Company further strengthened its centralized and unified management and services of branches in financial aspect, helping branches to focus their efforts on market services and development.

Fifthly, the Company actively carried out innovative business and expanded marketing tool methods. Focusing on optimizing business structure and improving value-added services, the Company broadened its revenue-generating channels and led branches to actively carry out innovative businesses such as asset management and OTC transactions, to promote marketing transformation. Branches of the Company organized 98 marketing campaigns throughout the year, representing a year-on-year increase of 164.86%, and achieved good results. During the Reporting Period, the number of branches involved in innovative businesses such as risk management and OTC options increased to 15, three times that of the previous year.

In 2017, the Company's end-of-period futures equity amounted to RMB6.07 billion, representing a year-on-year increase of 4.48%. The stock option business (including stocks) had an end-of-period equity of RMB182 million. The average daily client's futures equity of the Company was RMB6,303 million, representing a year-on-year increase of 4.68%. The average daily equity of stock options business (including spot goods) amounted to RMB106 million. The Company's cumulative trading volume of futures was 92 million lots, with a year-on-year increase of 4.55%, and the total trading volume amounted to RMB6.26 trillion, with a year-on-year increase of 52.68%. The Company's accumulative trading volume of stock options was 11 million lots.

### (2) Futures Assets Management Business

#### **Market Analysis:**

In terms of industry development, the Assets Under Management ("AUM") of the futures industry in 2017 showed a downward trend due to the impact of de-channeling, de-leveraging and other regulatory policies, and declined to RMB214 billion from the RMB285 billion at the beginning of the year, which represented a decline of approximately 24.91%.

#### **Development Plans and Results:**

During the Reporting Period, the Company abandoned all kinds of channel business and structured product business, and actively developed its own trading capabilities based on its research capabilities. The Company also actively cooperated with its counterparts to establish and issue Fund of Funds ("FOF") products. In 2017, the Company successively cooperated with banks to absorb outsourcing funds and consignment funds of banks, and issued four FOF products with AUM of over RMB1 billion. In addition, the Company cooperated with external bodies to accumulate private equity resources, and also cooperated with bank outsourcers, FOFs and subsidiaries. The wealth management funds and consignment products under multi-faceted cooperation with joint-stock banks achieved some breakthroughs. At the end of the Reporting Period, the Company's management business was valued at RMB1.55 billion.

## Management Discussion and Analysis

### (3) Commodity Trading and Risk Management Business

#### Market Analysis:

In 2017, the total assets and net assets of the commodity trading and risk management industry continued to grow, and the operating income and profit of the industry increased significantly. In particular, OTC derivatives pricing services witnessed rapid development. In terms of trading volume of OTC derivatives business, the cumulative new nominal principal amounts of the forward, swap and option businesses were RMB682 million, RMB30,978 million and RMB277,863 million, respectively, which represented a year-on-year increase of 4,188%, 111% and 2,031%, respectively.

#### Development Plans and Results:

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

During the Reporting Period, the Group achieved rapid growth in the scale of commodity trading business. The varieties of product mix of Luzheng Trading’s commodity trading business and its business regions expanded significantly. Its business basically covers all the active products listed on the three domestic commodity exchanges, including agricultural products, non-ferrous metal, ferrous metal, precious metal, and chemical products, etc. Purchase volume of the aforementioned commodities was approximately 1 million tons in 2017. Purchasing amount amounted to RMB2.536 billion for the year, which represented an increase of RMB510 million or 25.17% as compared to RMB2.026 billion for the corresponding period in 2016. Advantages in resources have been integrated to make overall planning for the corn industry. The food in the north was transported to the south through basis trading, warehouse receipt systems, OTC options and other services. In the whole year, nearly 300,000 tons of corn were sold, achieving a breakthrough in quantity and further enhancing its market popularity.

During the Reporting Period, the Group focused on serving entities, agriculture, rural areas, farmers and small and micro enterprises and benefited from credit businesses, such as warehouse receipt services and cooperative hedging, archived and approved by the China Futures Association. It accumulatively raised RMB1.546 billion for entities, an increase of RMB952 million and 160.27% as compared to previous year’s RMB594 million; and it achieved a revenue of RMB12,826,100, an increase of RMB8,072,100 and 169.80% as compared to previous year’s RMB4,754,000. The Group has effectively promoted the customer development and services and realized the comprehensive development of a number of businesses.

During the Reporting Period, OTC business developed to scale of economy and efficiency. The Group actively participated in a number of pilot OTC options businesses in Dalian Commodity Exchange, Zhengzhou Commodity Exchange and Shanghai Futures Exchange. During the year, the Group completed a total of 2,522 OTC options transactions, with nominal size of RMB21.8 billion and operating income of RMB21,345,000, representing a year-on-year increase of 1,173.74%, 1,457.14% and 737.06%, respectively, as compared to the 198 OTC transactions, nominal size of RMB1.4 billion and operating income of RMB2.55 million in the previous year. The Group attained 8% market share, ranking third in the market and participating in more than 20 segments such as rebar, ore, rubber, soybean meal and corn.

#### **(4) Information Technology Business**

The Group always considered information technology (“IT”) infrastructure and information systems essential to the effective management and successful development of its business and hence made continuous investment in IT. The Company has on the one hand further improved and upgraded its IT systems to satisfy the more complicated requirements of its business and clients. In particular, the Company endeavored to develop a comprehensive online platform that is capable of providing one-stop futures and derivatives solutions. In order to improve its IT competitiveness and meet demands of high-volume business on Ultra Fast Trading (“UFT”) system, the Company provided corresponding UFT system according to the different business situations for different exchanges. On the other hand, the Company set up Luzheng Information Technology, the only IT subsidiary in the futures industry. Capitalizing on the Company’s strengths in technical maintenance and operation, the Company offered IT maintenance and operation services to medium and small futures firms. As at the end of the Reporting Period, Luzheng Information Technology had provided trust services for maintenance and operation to two futures firms. At the same time, Luzheng Information Technology established its software development platform and team, which have achieved progress in user-end trading software, high-volume trading software, mobile-end service platform, futures information platform and OTC derivatives trading management platform through independent research and development and external collaborations.

#### **(5) Business development of Shandong Exchange Markets Clearing House Co., Ltd.**

As a financial-based services institution specialized in serving factor transaction markets, Shandong Exchange Markets Clearing House Co., Ltd. (the “House”) had both public and commercial properties, undertook partial regulatory responsibilities and possessed five basic functions, i.e., unified account opening, full registration, centralized settlement, capital supervision and statistics monitoring. The five major functions ensured “safe capital, real transactions and controllable targets” in the trading venues, and on this basis, standardized trading and pricing standards and credit system standards were gradually established. As at the end of the Reporting Period, the House had completed the access of six spot futures in the province into the bulk commodity market, implemented the safe keeping and management of customers’ funds and provided unified registration, settlement check and capital monitoring services to the trading venues. The House actively assisted local financial regulators to carry out frontline supervision, performed a useful role in monitoring electronically and acted as a guardian of the security of the investor’s funds. At the same time, the House intensively explored Shandong factor trading market.

## Management Discussion and Analysis

Based on deepening and consolidation of the registration and settlement business, and guided by “centralized OTC clearing, cloud technical services and financial risk prevention and control”, the House vigorously innovated financial services and comprehensively facilitated the development of the factor trading market, aiming to create a national first-class clearing house with “clear business units, perfect basic functions, complete system architecture and leading industry technologies”.

### (6) Main Work Plan for 2018

In 2018, the Group will carry on its business development in the following aspects:

1. strengthen the concept of compliance and risk control, and firmly adhere to the compliance “red line” (boundary) and risk bottom line;
2. strengthen and expand the Company’s brokerage business, and continue to promote business transformation;
3. adapt to the new situation and new requirements of asset management supervision, optimize team building and enhance the ability of pro-active management;
4. consolidate the leading position in OTC business and realize the development of scale and efficiency;
5. focus on serving the real economy and expand the business of subsidiaries in risk management;
6. strengthen employee capacity building and improve the staff’s overall quality;
7. exert the advantages of information technology and achieve service-driven business growth;
8. fully implement the spirit of responsible reporting, and enhance the Company’s capability in execution; and
9. promote the integration of Party building and business development, and pay adequate attention to the implementation of integrity in the Party’s spirit.

According to the segments of business, the Group’s main work plan for 2018 is as follows:

#### **Futures Brokerage Business**

In 2018, the Company will continue to expand and strengthen the futures brokerage business and continue to promote business transformation. First of all, to strengthen the support services for branches, strengthen key customers’ development with the Company’s power, and strive to achieve major breakthroughs; secondly, to continue to establish and close relevant branches, strengthen the assessment and adjustment of the heads of sales departments, and continuously improve the professional competence and dedication of the heads of branches. Thirdly, to prepare

market reserves and development before the listing of new varieties. In particular, it is necessary to make use of the opportunity of the listing of crude oil futures to promote the rapid growth of the beneficial interest of the Company's customers. Fourthly, according to the thinking of "big brokerage business", the Company will transform itself into a professional integrated service provider through measures such as continuously enhancing training on innovative businesses, intensifying policy incentives and improving business coordination mechanism. Fifthly, to continuously accelerate the Company's introduction of talent, improve staff training programs, enhance the effectiveness of elimination based on assessment, and strive to improve the overall quality of the Company's employees.

### **Futures Assets Management Business**

The Company will, on the basis of its plans in 2017, still firmly focus on its work with clear objectives on risk management and wealth management with futures characteristics. The Company will continue to expand and strengthen its platforms and channels, further explore the Company's proactive self-management ability, strengthen cooperation with external private equity funds, and broaden product lines and strengthen product design ability in order to strongly secure market share, to enhance its position in the industry and expand its market influence, and to improve profitability of its business lines, so as to upgrade the assets management business comprehensively.

### **Commodity Trading and Risk Management Business**

The Group will continue to provide enterprises with a diversified and customized risk management plan in strict compliance with the overall and general requirements of financial service real economy through various methods such as trading, warehousing etc., gaining in-depth access in the physical commodity industry, analyzing risks faced by the entities, combining its own professional competencies, by using futures, options and various types of instruments. The Group will insist on its industrial customer-oriented strategy, upgrade its overall level of technological proficiency, and further enrich service products and service means, in order to provide pricing, hedging tools and integrated financial solutions for entities, and provide support to integrated financial service providers of bulk commodity futures and derivatives. The Company will further improve its overall understanding and ability to serve the relevant industries based on a deeper development of its current advantages.

### **Information Technology Business**

The Group will take advantage of Luzheng Information Technology's expertise to enhance our core competitiveness and quickly secure market share. Firstly, the Group will broaden the scope of IT trust services for maintenance and operation. Secondly, the Group will provide support to its back-office maintenance and operation as well as software development to achieve digitalization of the Group's middle and back-office management and operation. Thirdly, customized trading software systems will be developed according to clients' needs to support the development and maintenance of the Group's clients in order to enhance the clients' loyalty. The Group will also develop a customer-related management system that can conduct "Big Data" analysis of clients' preference and behavior with the aim of improving the suitability of the Group's customer services.



## Management Discussion and Analysis

### III. FINANCIAL STATEMENT ANALYSIS

#### (1) Profitability Analysis

During the Reporting Period, the Group adhered to compliance management and firmly implemented strategic plans. As a result, it has steadily developed its brokerage business, gradually improved its innovative businesses and achieved remarkable growth of its profitability. As at the end of the Reporting Period, the Group achieved operating income of RMB466 million, which represented an increase of 16.79% as compared to RMB399 million in 2016; net profit attributable to shareholders of the Company amounted to RMB158.631 million, which represented an increase of 40.38% as compared to RMB113.003 million in 2016. Earnings per share attributable to shareholders of the Company were RMB0.16.

#### (2) Asset Structure and Asset Quality

During the Reporting Period, both of the Group's total assets and total liabilities increased at different levels. With the steady professionalized transformation of professionalization of the brokerage business, the Group's total assets and liabilities both increased over the previous year due to an increase in the Group's accounts payable to brokerage clients.

At the end of 2017, the Group's assets totaled RMB8.829 billion, increased by 7.62% as compared to RMB8.204 billion at the end of 2016. The Group's liabilities totaled RMB6.644 billion, increased by 8.46% as compared to RMB6.126 billion at the end of 2016. Net assets attributable to shareholders of the Company were RMB2.157 billion, increased by 5.27% as compared to RMB2.049 billion at the end of 2016.

Total assets increased continuously, and asset quality and liquidity were well maintained. At the end of the Reporting Period, the Group's total assets were as follows: as at 31 December 2017, non-current assets were RMB406 million, which represented an increase of 217.19% as compared to RMB128 million at the end of 2016, and current assets were RMB8.423 billion, which represented an increase of 4.3% as compared to RMB8.076 billion at the end of 2016. During the Reporting Period, adequate provision for bad debts of receivables has been made by the Group. There was no indication of material impairment of other assets.

Gearing ratio increased to a certain extent. At the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients were RMB546 million, representing an increase of 35.48% as compared to RMB403 million at the end of 2016. The Group's gearing ratio was 19.98%, increased by 3.74 percentage points as compared to 16.24% at the end of 2016.

### **(3) Financing Channels and Ability**

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

### **(4) Liquidity Level Management**

The Company places great emphasis on liquidity management based on the principle of “being comprehensive, prudent and predicable” while focusing on the organic combination of the security, liquidity and profitability of capital. The liquidity monitor index of the Company in each month throughout 2017 complied with the regulatory requirements of the CSRC.

### **(5) Cash Flow Situation**

Net cash outflow generated from operating activities in 2017 was RMB212 million, decreased by RMB59 million from the net outflow of RMB271 million in the same period of 2016; net cash inflow generated from investing activities in 2017 was RMB215 million, increased by RMB403 million from the net outflow of RMB188 million in the same period of 2016; net cash outflow generated from financing activities for 2017 was RMB20 million while net cash inflow generated from financing activities for 2016 was RMB142 million; and net decrease in cash and cash equivalents in 2017 was RMB16 million, increased by RMB300 million as compared to the net decrease of RMB316 million in the same period of 2016, which was mainly due to the increase in net cash flow generated from investments.

## Management Discussion and Analysis

### (6) Items of Income Statement

During the Reporting Period, the Group's profit before income tax amounted to RMB206,568 thousand, representing a year-on-year increase of RMB51,642 thousand or 33.33%. The summary of the financial results is as follows:

Stated in RMB'000	Year ended 31 December	
	2017	2016
Commission and fee income	303,568	264,432
Commission and fee expense	(236,904)	(167,528)
<b>Net commission and fee income</b>	<b>66,664</b>	96,904
Interest income	218,430	169,125
Interest expense	(15,159)	(16,034)
<b>Net interest income</b>	<b>203,271</b>	153,091
Gains on physical commodities trading	7,948	10,643
Net investment gains	55,719	51,400
Other income	132,263	86,877
<b>Operating income</b>	<b>465,865</b>	398,915
Staff costs	(133,863)	(120,818)
Commission to brokerage agents	(7,679)	(16,912)
Introducing broker commission	(7,670)	(8,162)
Depreciation and amortization	(9,977)	(8,358)
Impairment losses	(544)	(1,562)
Other operating expenses	(98,644)	(88,294)
<b>Operating expenses</b>	<b>(258,377)</b>	(244,106)

## Management Discussion and Analysis

Stated in RMB'000	Year ended 31 December	
	2017	2016
<b>Operating profit</b>	<b>207,488</b>	154,809
Share of losses of investment in associates	(752)	(1,946)
Other (losses)/gains, net	(168)	2,063
<b>Profit before income tax</b>	<b>206,568</b>	154,926
Income tax expense	(49,603)	(42,150)
<b>Profit for the year</b>	<b>156,965</b>	112,776
<b>Total comprehensive income</b>	<b>154,266</b>	113,249
Profit attributable to:		
– Shareholders of the Company	158,631	113,003
– Non-controlling interests	(1,666)	(227)
	<b>156,965</b>	112,776
Total comprehensive income attributable to:		
– Shareholders of the Company	155,907	113,476
– Non-controlling interests	(1,641)	(227)
	<b>154,266</b>	113,249
<b>Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)</b>		
<b>Basic/Diluted</b>	<b>0.16</b>	0.11

## Management Discussion and Analysis

### 1. Operating Income

During 2017, the Group achieved total operating income of RMB465,865 thousand, which represented a year-on-year increase of 16.78%, among which, net commission and fee income, net interest income and net investment gains amounted to RMB66,664 thousand, RMB203,271 thousand and RMB55,719 thousand respectively. The income structure of the Group is as follows:

Stated in RMB'000	Year ended 31 December				Increase/rate in 2017 compared with 2016	
	2017		2016		Amount	%
	Amount	Percentage (%)	Amount	Percentage (%)		
Net commission and fee income	66,664	14.31%	96,904	24.29%	(30,240)	(31.21%)
Net interest income	203,271	43.63%	153,091	38.38%	50,180	32.78%
Gains on physical commodities trading	7,948	1.71%	10,643	2.67%	(2,695)	(25.32%)
Net investment gains	55,719	11.96%	51,400	12.88%	4,319	8.40%
Other income	132,263	28.39%	86,877	21.78%	45,386	52.24%
<b>Total operating income</b>	<b>465,865</b>	<b>100.00%</b>	<b>398,915</b>	<b>100.00%</b>	<b>66,950</b>	<b>16.78%</b>

#### (1) Net commission and fee income

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

Stated in RMB'000	Year ended 31 December	
	2017	2016
<b>Commission and fee income</b>		
Futures brokerage service	297,485	246,737
Settlement and clearing service income from other futures firms	2,065	3,321
Asset management service	3,982	14,351
Investment consultancy	36	23
	<b>303,568</b>	264,432
<b>Commission and fee expense</b>		
Settlement and clearing fees to exchange-clearing organizations	234,839	164,207
Settlement and clearing service expense to exchange-clearing organizations	2,065	3,321
	<b>236,904</b>	167,528

## Management Discussion and Analysis

During the Reporting Period, the Group achieved commission and fee income of RMB66,664 thousand, representing a year-on-year decrease of 31.21%.

Commission and fee income increased by RMB39,136 thousand, representing a year-on-year increase of 14.8%, while commission and fee expense increased by RMB69,376 thousand, representing an increase of 41.41%. Therefore, after consolidating income and expense factors, net commission and fee income decreased by 31.21%.

### (2) Net interest income

During the Reporting Period, the Group achieved net interest income of RMB203,271 thousand, representing a year-on-year increase of 32.78%. The composition of the Group's net interest income in 2017 is as follows:

Stated in RMB'000	Year ended 31 December	
	2017	2016
<b>Interest income</b>		
Interest income from deposits with banks	202,991	158,792
Interest income from financial assets held under resale agreements	8,679	1,340
Interest income from deposits with exchange-clearing organizations	6,760	8,993
	<b>218,430</b>	169,125
<b>Interest expense</b>		
Interest expense to brokerage clients	13,687	14,383
Interest expense on borrowings	1,056	–
Interest expense on settlement and clearing services to other futures firms	416	1,651
	<b>15,159</b>	16,034

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

Interest income increased by RMB49,305 thousand, representing a year-on-year increase of 29.15%, which was primarily due to the collection of capital by the Company and an increase in the interest rates.

Interest expense decreased by RMB875 thousand, representing a year-on-year decrease of 5.46%, which was primarily due to a decrease in interests payable to clients.

## Management Discussion and Analysis

### 2. Net investment gains

During the Reporting Period, the Group achieved net investment gains of RMB55,719 thousand, representing a year-on-year increase of 8.4%. The composition of the Group's investment gains in 2017 is as follows:

Stated in RMB'000	Year ended 31 December	
	2017	2016
Net realized gains from disposal of available-for-sale financial assets	6,334	3,795
Dividends and interest income from available-for-sale financial assets	20,578	20,793
Net realized gains/(losses) <sup>(1)</sup> from disposal of financial assets at fair value through profit or loss	6,065	(1,774)
Dividends income from financial assets at fair value through profit or loss	1,071	2,833
Net realized gains from derivative financial instruments <sup>(2)</sup>	24,854	20,805
Unrealized fair value change of financial instruments at fair value through profit or loss		
– Financial assets at fair value through profit or loss	3,974	1,079
– Financial liabilities at fair value through profit or loss	(203)	2,039
– Derivative financial instruments	(6,954)	1,830
	<b>55,719</b>	<b>51,400</b>

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

(2) This item represents gains that subsidiaries obtained from futures, exchange options and OTC derivatives transactions related to commodities and finance.

### 3. Other income

Stated in RMB'000	Year ended 31 December	
	2017	2016
Refunds of trading fees <sup>(1)</sup>	111,115	81,126
Exchange service fees	10,529	1,512
Cooperative hedging fees	6,004	1,942
Software service fees	1,680	1,282
Other	2,935	1,015
	<b>132,263</b>	<b>86,877</b>

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

### 4. Operating expenses

During 2017, the Group's operating expenses amounted to RMB258,377 thousand, representing a year-on-year increase of RMB14,271 thousand or 5.85%. The breakdown is as follows:

Stated in RMB'000	Year ended 31 December				Increase/decrease in 2017 compared with 2016	
	2017		2016		Amount	%
	Amount	Percentage (%)	Amount	Percentage (%)		
Staff costs	133,863	51.81%	120,818	49.49%	13,045	10.80%
Commission to brokerage agents	7,679	2.97%	16,912	6.93%	(9,233)	(54.59%)
Introducing broker commission	7,670	2.97%	8,162	3.34%	(492)	(6.03%)
Depreciation and amortization	9,977	3.86%	8,358	3.42%	1,619	19.37%
Impairment losses	544	0.21%	1,562	0.65%	(1,018)	(65.17%)
Other operating expenses	98,644	38.18%	88,294	36.17%	10,350	11.72%
<b>Total operating expenses</b>	<b>258,377</b>	<b>100.00%</b>	<b>244,106</b>	<b>100.00%</b>	<b>14,271</b>	<b>5.85%</b>

#### (1) Staff costs

Stated in RMB'000	Year ended 31 December	
	2017	2016
Salaries and bonus	107,649	97,133
Other social security	10,934	9,953
Pension	10,020	9,012
Labor union funds and employee education funds	4,844	4,237
Other welfare	416	483
	<b>133,863</b>	<b>120,818</b>



## Management Discussion and Analysis

### (2) Depreciation and amortization

Stated in RMB'000	Year ended 31 December	
	2017	2016
Depreciation of property and equipment	6,263	5,168
Amortization of long-term prepaid expenses	2,081	2,049
Amortization of intangible assets	1,633	1,141
	<b>9,977</b>	8,358

### (3) Impairment losses

Stated in RMB'000	Year ended 31 December	
	2017	2016
Other receivables	544	1,162
Accounts receivable	–	400
	<b>544</b>	1,562

### (4) Other operating expenses

Stated in RMB'000	Year ended 31 December	
	2017	2016
Office expenses	21,721	21,476
Marketing and distribution expenses	16,550	15,283
Consulting expenses	13,461	12,810
Rentals	13,422	10,782
Information system maintenance fees	8,898	6,909
Insurance expenses	8,718	2,061
Property maintenance fee	4,310	3,799
Professional service expenses	3,757	4,771
Tax and surcharges	1,798	3,823
Auditors' remuneration – Audit services	1,650	1,650
Futures Investors Protection Fund	402	2,034
Other expenses	3,957	2,896
	<b>98,644</b>	88,294

Other operating expenses increased by RMB10,350 thousand, representing a year-on-year increase of 11.72%, which was primarily due to the increase in insurance expenses of the “futures + insurance” business this year and to the increase in the service fee of option business related software.

## (7) Items of assets

As at 31 December 2017, the Group's total assets were RMB8,828,934 thousand, representing a year-on-year increase of 7.62%, among which cash assets amounted to RMB7,320,428 thousand, representing a year-on-year increase of 3.83%; financial investment assets amounted to RMB750,553 thousand, representing a year-on-year decrease of 6.58%; and other assets amounted to RMB757,953 thousand, representing a year-on-year increase of 116.14%. The Group's total assets are as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016	
			Amount	%
Cash assets	<b>7,320,428</b>	7,050,192	270,236	3.83%
Financial investment assets	<b>750,553</b>	803,424	(52,871)	(6.58%)
Other assets	<b>757,953</b>	350,677	407,276	116.14%
<b>Total</b>	<b>8,828,934</b>	8,204,293	624,641	7.62%

### 1. Cash assets

As at 31 December 2017, the Group's cash assets increased by RMB270,236 thousand, representing a year-on-year increase of 3.83%. The composition of the Group's cash assets is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016	
			Amount	%
Margin deposits held in exchange-clearing organizations	<b>2,737,775</b>	2,196,722	541,053	24.63%
Bank balances held for clients	<b>3,782,507</b>	3,855,245	(72,738)	(1.89%)
Cash and bank balances	<b>800,146</b>	998,225	(198,079)	(19.84%)
<b>Total cash assets</b>	<b>7,320,428</b>	7,050,192	270,236	3.83%

Changes of cash assets were mainly attributed to changes of money held for clients. Bank balances held for clients amounted to RMB3,782,507 thousand, representing 42.84% of the Group's total assets and a year-on-year decrease of RMB72,738 thousand or 1.89%. Cash and bank balances amounted to RMB800,146 thousand, representing 9.06% of the Group's total assets and a year-on-year decrease of RMB198,079 thousand or 19.84%.

## Management Discussion and Analysis

### 2. Financial investment assets

As at 31 December 2017, the Group's financial investment assets decreased by RMB52,871 thousand, representing a year-on-year decrease of 6.58%. The composition of the Group's financial investment assets is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016	
			Amount	%
Available-for-sale financial assets	223,586	533,718	(310,132)	(58.11%)
Financial assets at fair value through profit or loss	526,967	269,706	257,261	95.39%
<b>Total assets of financial investment</b>	<b>750,553</b>	<b>803,424</b>	<b>(52,871)</b>	<b>(6.58%)</b>

#### (1) Available-for-sale financial assets:

As at 31 December 2017, the Group's available-for-sale financial assets decreased by RMB310,132 thousand, representing a year-on-year decrease of 58.11%. The composition of the Group's available-for-sale financial assets is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016
<b>Current – Unlisted At fair value</b>		
Collective asset management schemes	81,938	166,246
Trust schemes	131,625	137,560
Other wealth management products	10,023	–
Private securities investment funds	–	129,875
Bank wealth management products	–	100,037
	<b>223,586</b>	<b>533,718</b>

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

As at 31 December 2017, the Group's financial assets at fair value through profit or loss increased by RMB257,261 thousand, representing a year-on-year increase of 95.39%. The composition of the Group's financial assets at fair value through profit or loss is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016
<b>Investments held for trading</b>		
Listed equity securities	1,530	15,385
Open-ended funds	20,030	848
<b>Financial assets designated at fair value through profit or loss</b>		
Trust schemes	384,866	70,939
Private securities investment funds	84,648	47,873
Collective asset management schemes	24,856	134,661
Bank wealth management products	11,037	–
	<b>526,967</b>	269,706

### 3. Other assets

As at 31 December 2017, the Group's other assets amounted to RMB757,953 thousand, representing a year-on-year increase of RMB407,276 thousand or 116.14%. The composition of the Group's other assets is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016 Amount	%
Property, plant and equipment	44,966	42,239	2,727	6.46%
Intangible assets	14,735	7,787	6,948	89.23%
Investment in associates	45,491	28,743	16,748	58.27%
Other non-current assets	3,432	1,862	1,570	84.32%
Available-for-sale financial assets	264,820	16,514	248,306	1,503.61%
Deferred income tax assets	7,017	5,823	1,194	20.50%
Refundable deposits	25,599	25,516	83	0.33%
Physical commodities	62,397	72,560	(10,163)	(14.01%)
Other current assets	113,877	136,825	(22,948)	(16.77%)
Derivative financial assets	63,087	609	62,478	10,259.11%
Financial assets held under resale agreements	112,532	12,199	100,333	822.47%
<b>Total other assets</b>	<b>757,953</b>	350,677	407,276	116.14%

## Management Discussion and Analysis

### (8) Items of liabilities

As at 31 December 2017, the Group's total liabilities amounted to RMB6,644,231 thousand, representing a year-on-year increase of RMB518,466 thousand or 8.46%, among which accounts payable to brokerage clients amounted to RMB6,098,731 thousand, representing a year-on-year increase of 6.57%, which was primarily due to the growing scale of approved margin. The Group's key changes of total liabilities are as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016 Amount	%
Borrowings	13,000	–	13,000	–
Deferred income tax liabilities	2,573	76	2,497	3,285.53%
Other non-current liabilities	3,810	1,783	2,027	113.68%
Other current liabilities	114,460	76,505	37,955	49.61%
Current income tax liabilities	14,074	23,555	(9,481)	(40.25%)
Financial liabilities at fair value through profit or loss	326,899	300,539	26,360	8.77%
Derivative financial liabilities	70,684	606	70,078	11,564.03%
Accounts payable to brokerage clients	6,098,731	5,722,701	376,030	6.57%
<b>Total liabilities</b>	<b>6,644,231</b>	<b>6,125,765</b>	<b>518,466</b>	<b>8.46%</b>

#### 1. Accounts payable to brokerage clients

As at 31 December 2017, the Group's accounts payable to brokerage clients amounted to RMB6,098,731 thousand, representing 91.79% of the Group's total liabilities and a year-on-year increase of RMB376,030 thousand or 6.57%, which was primarily due to the growing scale of margin, in particular the considerable growth of margin from individual clients. The composition of the Group's accounts payable to brokerage clients is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016 Amount	%
Domestic				
Individual clients	3,035,819	2,339,583	696,236	29.76%
Corporate clients	3,062,912	3,383,118	(320,206)	(9.46%)
Overseas	–	–	–	–
<b>Total</b>	<b>6,098,731</b>	<b>5,722,701</b>	<b>376,030</b>	<b>6.57%</b>

## Management Discussion and Analysis

2. Financial liabilities at fair value through profit or loss increased by RMB26,360 thousand on a year-on-year basis, up 8.77% as compared to the same period of 2016.

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016
Interests of holders of consolidated structured entities	316,262	299,936
Payable to clients for cooperative hedging business	10,637	603
	<b>326,899</b>	<b>300,539</b>

### (9) Items of equity

As at 31 December 2017, the Group's total equity amounted to RMB2,184,703 thousand, representing a year-on-year increase of 5.11%. The composition of Group's equity is as follows:

Stated in RMB'000	As at 31 December 2017	As at 31 December 2016	31 December 2017 compared with 31 December 2016 Amount	%
Share capital	1,001,900	1,001,900	–	–
Share premium	650,630	650,630	–	–
Other reserves	209,798	176,354	33,444	18.96%
Retained earnings	294,243	219,871	74,372	33.83%
Total equity attributable to shareholders of the Company	2,156,571	2,048,755	107,816	5.26%
Non-controlling interests	28,132	29,773	(1,641)	(5.51%)
Total equity	<b>2,184,703</b>	<b>2,078,528</b>	<b>106,175</b>	<b>5.11%</b>

## Management Discussion and Analysis

### (10) Charges over assets

As at 31 December 2017, physical commodities amounted to RMB11,094 thousand were placed as collateral by the Group in the Shanghai Futures Exchange.

### (11) Risk of fluctuation of exchange rate and mitigation measures

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

### (12) Contingent liabilities and commitments

The Group had no contingent liabilities as at 31 December 2017.

### (13) Gearing ratio

Item	As at 31 December 2017	As at 31 December 2016	Increase/ decrease in 2017 compared with the same period of 2016	As at 31 December 2015
Gearing ratio (%)	19.98	16.24	increased by 3.74 percentage points	10.88

#### IV. EMPLOYEES STRUCTURE, REMUNERATION AND TRAINING

As at 31 December 2017, the Group had 525 employees in total. The composition of employees is as follows:

Category		Number	Percentage (%)
By profession	Administrative management	42	8.00
	Financial planning	16	3.05
	Management of brokerage business	40	7.62
	Information technology	24	4.57
	Clearing	7	1.33
	Compliance and risks control and auditing	47	8.95
	Research and development	11	2.10
	Customer services	33	6.29
	Assets management	17	3.24
	Options and OTC business	18	3.43
	Marketing	197	37.52
	Luzheng Trading	32	6.10
	Luzheng Information Technology	14	2.67
	Shandong Exchange Markets Clearing House Co., Ltd.	27	5.13
	Total		525
By age	Below 30	212	40.38
	31-35	165	31.43
	36-40	75	14.29
	41-45	32	6.10
	Above 45	41	7.80
	Total		525
By education background	Post-graduate and above	122	23.24
	Bachelor degree	330	62.86
	College degree and below	73	13.90
Total		525	100



## Management Discussion and Analysis

The total remuneration expenses of the Group in 2017 were RMB133.863 million, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2017	2016
Salaries and bonus	107,649	97,133
Other social security	10,934	9,953
Pension	10,020	9,012
Labor union funds and employee education funds	4,844	4,237
Other welfare	416	483
	<b>133,863</b>	<b>120,818</b>

The five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals include one supervisor of the Company ("Supervisor") (2016: one Supervisor). Details of the emoluments for the five highest paid individuals for the year are as follows:

Stated in RMB'000	Year ended 31 December	
	2017	2016
Salaries, allowances and other welfares	5,186	2,277
Bonus	8,953	2,872
	<b>14,139</b>	<b>5,149</b>

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

	Year ended 31 December	
	2017	2016
RMB500,001 to RMB1,000,000	–	2
RMB1,000,001 to RMB1,500,000	–	3
RMB1,500,001 to RMB2,000,000	–	–
RMB2,000,001 to RMB2,500,000	1	–
RMB2,500,001 to RMB3,000,000	3	–
RMB3,000,001 to RMB3,500,000	1	–
	<b>5</b>	<b>5</b>

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

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

During the Reporting Period, the Company enhanced its training system and provided training in line with our business transformation in a timely manner. Such initiative is built on our effort in strengthening fundamental work and focusing on the research on market demand. During 2017, a total of 71 internal training sessions on various aspects were held, covering OTC businesses, options, assets management, subsidiaries for risk control business, information technology, compliance, types of futures, futures market analysis and training for new staff. In addition, selected staff members were sent out to attend 63 external training sessions held by exchanges, associations and industrial organizations. Such training covers types of futures, derivatives of options, finance, information technology and other business activities.

## **V. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS**

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

#### **1. Details on changes in branches of the Company**

During the Reporting Period, the Company established Wuhan Branch, Jinan Branch and Nanjing Branch on 8 June 2017, 27 July 2017 and 3 August 2017, respectively. Intracity relocation of Wenzhou Branch and Guangzhou Branch was completed on 21 September 2017 and 7 November 2017, respectively. The reduction of operating area for Jinan Branch and Beijing Branch was completed on 25 September 2017 and 30 November 2017, respectively.

Taian Branch was deregistered on 13 December 2017.

## Management Discussion and Analysis

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

During the Reporting Period, there were no changes in subsidiaries of the Company.

### (2) Effects of changes in branches and subsidiaries on the results

#### 1. Effects of changes in branches of the Company on the results

During the Reporting Period, the Company's Jinan Branch did not carry out any business and therefore had no impact on the business of the Company. The trading volume of Wuhan Branch and Nanjing Branch was 80,500 board lots, accounting for 0.09% of the total volume while the turnover was RMB5,004 million, accounting for 0.08% of the total turnover.

#### 2. Effects of changes in subsidiaries of the Company on the results

During the Reporting Period, the Group did not experience any effect on the results due to changes in the subsidiaries.

## VI. MAJOR INVESTMENTS AND FINANCING

### (1) Major investments

On 28 March 2017, the Company used its listing proceeds of RMB50 million for the capital increase of Luzheng Trading.

### (2) Major financing

During the Reporting Period, the Group's accumulated external borrowings amounted to RMB48 million; of which RMB18 million was trust and entrusted loans obtained through a trust fund plan and RMB30 million was raised through the issuance of short-term financing instruments. As of 31 December 2017, the Group's credit loan balance was RMB14 million. This loan is a trust loan issued by Luzheng Trading to the collective funds trust plan of the Shangdong Trust-Luzheng Trading loan project managed by Shangdong International Trust Co., Ltd. (hereinafter referred to as "Shangdong Trust"). The loan period is from 4 December 2017 to 5 March 2018 with an annual interest rate of 8% (31 December 2016: No).

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

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

### **VIII. POSSIBLE RISKS, UNCERTAINTIES AND COUNTERING MEASURES**

#### **(1) Possible major risks**

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

1. **Market Risk:** the risk of incurring losses due to the changes in market price and interest rate. The major risks faced by the Group are the price risk of equity-based assets, price risk of commodities and interest rate risk. Along with the development and advancement in the option business of the Group in 2018, we may also encounter several risks in option market such as hedge risk and pricing risk.
2. **Credit Risk:** the risk of incurring losses resulting from the failure of a counterparty to perform its contractual obligations. The major risks that the Group may encounter are default risk and settlement risk.
3. **Liquidity Risk:** the capital liquidity risk due to insufficient capital to meet the obligations of the liabilities or payment settlement during operation; the trading liquidity risk due to the failure to buy or dispose of option, physical commodity and option contract at the market prices.
4. **Operational Risk:** the risk related to a series of non-financial issues, including unsatisfactory performance of internal operation process, staff, system and losses resulting from external incidents.
5. **Compliance Risk:** the risk that is closely related to operational risk and reputation risk, which is the risk that the Group or its staff may face legal sanction, regulatory measure and disciplinary punishment and may incur economic losses and reputation harm due to the violation of laws, regulations and regulatory rules of our business activities or by our staff.

## Management Discussion and Analysis

### **(2) Countering measures adopted**

#### **1. General countering measures adopted**

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

The Company has established a four-level risk management structure: the first level comprises the Board and the board of Supervisors; the second level comprises the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; the third level comprises the Compliance Department and the Audit Department; and the fourth level comprises the Company's business departments and branches.

##### **(2) Consistently improving the corporate governance structure**

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

##### **(3) Consistently improving the comprehensive risk management system**

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

##### **(4) Consistently improving the risk awareness**

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

### **2. Countering measures against major risks**

#### **(1) Market Risk**

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

#### **(2) Credit Risk**

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

## Management Discussion and Analysis

### **(3) Liquidity Risk**

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

### **(4) Operational Risk**

- (i) The Company will set aside 5% of its fee income as risk reserve fund each month, which will be utilized in the compensation for the malfunction of the information system, wrong single transaction, forced liquidation or the loss induced by inappropriate operation risk.
- (ii) The Company adopts a human-oriented approach and offers incentives such as remuneration and promotion with openness, fairness and impartiality. The Company provides its staff with favorable development environment and enhance their sense of responsibility and belonging, with a purpose to reduce the operational risk caused by human negligence.
- (iii) The Group formulates strict internal control system with written terms. The system covers every business line of the Company, including human resources and administration, brokerage business, intermediaries management, trading, settlement, transaction, internal control on compliance, risk control, legal affairs, anti-money laundering, customer service, financial management, information technology, research and development and investor education, asset management and option business. The Company will expand and improve ourselves in accordance with the laws and regulations, monitoring requirements and the development of new businesses.
- (iv) The Company has a strict internal audit system. The Company has established an audit department to inspect the rationality, the legitimacy and the effectiveness of the internal system of the Company, the operational capital and the financial revenue and expenditure of each operating entities, the operation process of each business department of the Company and the performance of our personnel. If any violation or illegal incident are found, the audit department will make rectification recommendations and will supervise its implementation.

### **(5) Compliance Risk**

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



# Report of the Board of Directors

## I. PRINCIPAL BUSINESSES

As of 31 December 2017, the Company was a futures company. The Group's business scope covered commodity futures brokerage, basis trading, warehouse receipt services, cooperation insurance, OTC derivatives business, information technology consultancy services, financial futures brokerage, futures investment and consultancy, futures asset management, commodity trading registration and settlement services as well as other business activities permitted by the CSRC.

## II. RESULTS AND DIVIDENDS

Please refer to Chapter XIII of this report for the details of the Group's results for the year ended 31 December 2017.

The Board of Directors recommends the payment of a final dividend ("2017 Final Dividend") of RMB0.067 (tax inclusive) per share for the year ended 31 December 2017 to Shareholders whose name appear on the register of members of the Company on 27 June 2018. The total amount of dividends to be distributed is RMB67,127,300 (The total amount of final dividends distributed for the year ended 31 December 2016 was RMB48,091,200). The distribution of the 2017 Final Dividend shall come into effect upon the approval by the Shareholders at the 2017 annual general meeting (the "AGM") to be held on 15 June 2018. The Company is expected to distribute the final dividend for 2017 on or about 27 July 2018.

## III. BUSINESS REVIEW

A review of the business for the year and a discussion on future development of the Group are set out from pages 25 to 31 of this report. An analysis of the major financial key performance indicators on the performance of the Group for the year is set out from pages 32 to 46 of this report. Details of the significant events that have material impact on the Group during the Reporting Period and since the end of the financial year are set out from pages 49 to 51 of this report. Major risks and uncertainties that may be faced by the Group are set out from pages 51 to 55 of this report.

## IV. DIRECTORS AND DIRECTORS' BIOGRAPHIES

### (i) Directors

During the Reporting Period, the Directors of the Company are as follows: executive Directors Mr. Chen Fang (chairman of the Board) and Mr. LIANG Zhongwei; non-executive Directors Mr. LV Xiangyou, Mr. YIN Ge, Mr. LI Chuanyong and Mr. LIU Feng; independent non-executive Directors: Mr. GAO Zhu, Mr. YU Xuehui, Mr. WANG Chuanshun and Mr. LI Dapeng.

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

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

### **(ii) Directors' biographies**

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

## **V. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

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

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

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

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

As at 31 December 2017, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be owned under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Report of the Board of Directors

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

As at 31 December 2017, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executive of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, are as follows:

Name of Shareholder	Type of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) <sup>(1)</sup>	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. <sup>(1), (2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. <sup>(2)</sup>	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	47,159,967 (long position)	4.71%	17.02%
CM International Capital Limited <sup>(3)</sup>	H Shares	Beneficial owner	28,022,000 (long position)	2.80%	10.11%
CM International Capital Limited (中國國際資本有限公司) <sup>(3)</sup>	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) <sup>(3)</sup>	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) <sup>(4)</sup>	H Shares	Beneficial owner	18,681,000 (long position)	1.86%	6.74%

## Report of the Board of Directors

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

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 31 December 2017.

Notes:

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

## Report of the Board of Directors

- (4) CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) directly holds 18,681,000 (long position) H Shares of the Company. Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市堯盛鑫諮詢有限公司) 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. (深圳市堯盛鑫諮詢有限公司); 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. (深圳市堯盛鑫諮詢有限公司) are deemed to be interested in the 18,681,000 (long position) H Shares held by CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2017, the Directors of the Company are not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

For the year ended 31 December 2017, none of the Directors, Supervisors and senior management of the Company has been penalized by regulatory authorities.

### **IX. THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES**

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

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

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

In January 2017, the Company adopted the way of consumption-based poverty alleviation, and purchased specialty products in Huachuan County of Heilongjiang Province totaling RMB288,000, which created revenue for local cooperatives and farmers. In addition, according to the 2017 Grain Planting Plan of Huachuan County, the Company used the "order + insurance + futures" to pre-pose services by the way of spot minimum-price-guaranteed acquisition for the local 160,000 mu (about 110,000 tons) of corn. If the spot price was lower than the guaranteed minimum price, we ensured that the guaranteed minimum price acquisition would enable the local participating farmers' annual grain planting revenue in 2017 to be higher than the average planting income in 2016 by RMB1,000-1,600

per hectare, stabilizing the earnings expectations and protecting the farmers' income from planting grain. If the spot price was higher than the guaranteed minimum price, we promised to help farmers sell grain at market prices. The project invested a total of more than RMB5.5 million in premium, of which, Luzhen Futures borne 90% of premium (approximately RMB5 million). In 2017, although the accumulated temperature of the local land was higher than that in previous years, the rainfall was sufficient and both the yield per unit and quality of grain were improved. The grain price was higher than the guaranteed minimum price and failed to trigger the guaranteed price. Luzheng Trading carried out the grain acquisition according to the market price. In addition, the Company also piloted the "insurance + futures" approach in Zhuanghe City of Liaoning Province, involving 10 natural villages in three towns, and more than 5,000 corn plantation households, with an insured quantity of 16,400 tons, a planting area of 38,200 mu, a target income of RMB721.97/mu, and a protection factor of 55.4039% which meant that the protection target income was RMB400/mu and the premium was RMB40/mu. The project has invested a total of RMB1,526,200 in premiums, of which Luzhen Futures bears 85% of premiums (approximately RMB1,326,200). At the end of 2017, due to the sharp decline in local corn production, more than RMB4.5 million was actually paid to the farmers, which better protected farmers' income.

In March 2017, the Company participated in the China Futures Association's "One Company, One Production, Long-term Futures Cooperation" precision assistance activities, and signed the "Precision Assistance Memorandum" with the People's Government of Yanchang County, Shaanxi Province. To achieve the full coverage of the poverty-stricken people in Gaowanjiahe Administrative Village and Guojiatai Village of Jiaokou Town, Yanchang County, Luzhen Futures provided industrial support funds of RMB1.76505 million to ensure 97 households and 215 people in the above two villages in 2017 are out of poverty.

In May 2017, the Company and the People's Government of Mengla County, Yunnan Province signed the "Paring Assistant Agreement". Luzheng Futures would carry out "precise poverty alleviation" by the way of natural rubber "insurance + futures". The project plan had applied for the "Insurance + Futures" pilot project of the Shanghai Futures Exchange and had been approved. At present, the project has invested RMB2.2 million in premium, of which Luzhen Futures bears 95% of the premium (a total of RMB21.15 million). The project involves 2,000 tons of spot natural rubber, which accounts for about 1% of the total natural rubber production in Mengla County and 2.75% of the total natural rubber production of China. It can cover at least one farm or one village's rubber production to guarantee the income of rubber farmers.

In 2017, the Company had no material environmental or other social security issues.

## **X. THE LISTING AND USE OF PROCEEDS**

### **1. Issuance of shares and the use of proceeds**

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

## Report of the Board of Directors

The net proceeds as prescribed in the Prospectus will be used for the purposes and in the proportion set out below:

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

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

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

As at 31 December 2017, the aforementioned proceeds were utilized for the purposes set out in the Prospectus as follows:

Unit: RMB'000

Title of the projects intended to be financed	Whether there were changes in the projects	The amount of raised proceeds to be invested during the Reporting Period	The accumulated amount of raised proceeds actually invested	Percentage (%)
Establishment of light branches and recruitment of staff	No	1,137.719	1,137.719	0.18
Capital contribution to Luzheng Trading	No	50,000	180,000	27.86
Investment in Luzheng Information Technology	No	8,733.026	28,733.026	4.45
Injection of working capital	No	0	64,600	10.00

In order to enhance the efficiency of the utilization of the proceeds, as at the end of the Reporting Period, the Company's remaining proceeds will be used in the investment on short-term financial products or deposited into large commercial banks as fixed deposit. The Company intends to utilize the net proceeds in the amount and purposes as prescribed in the Prospectus in due course in 2018.

### **XI. CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM to be held on 15 June 2018 and their entitlement to the final dividend for 2017, the register of members of the Company will be closed respectively from 16 May 2018 to 15 June 2018, both days inclusive, and from 22 June 2018 to 27 June 2018, both days inclusive, during which no transfers of shares shall be effected. Shareholders whose names appear on the Company's register of members on 15 June 2018 will be entitled to attend and vote at the AGM, and Shareholders whose names appear on the Company's register of members on 27 June 2018 will be entitled to receive the final dividend for 2017. In order for holders of H Shares of the Company to qualify for attending and voting at the AGM, transfers of Shares must be lodged with H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 15 May 2018. In order for holders of H Shares of the Company to qualify for receiving the final dividend for 2017 subject to the approval of Shareholders at AGM, transfers of shares must be lodged with H Share registrar of the Company at the aforementioned address, no later than 4:30 p.m. on 21 June 2018.

### **XII. FINAL DIVIDEND**

The Board recommends the payment of a final dividend of RMB0.067 (tax inclusive) per share for the year ended 31 December 2017. The total amount of dividends to be distributed is RMB67,127,300 (the total amount of final dividends distributed for the year ended 31 December 2016 is RMB48,091,200). The distribution proposal of the 2017 Final Dividend shall come into effect upon the approval by the Shareholders at the AGM to be held on 15 June 2018. The 2017 Final Dividend will be paid to Domestic Shareholders in RMB and H Shareholders in HK dollars upon approval. The actual amount to be distributed in HK dollars shall be calculated on the basis of the average benchmark exchange rate between RMB and HK dollars as announced by the People's Bank of China for the five working days prior to the date of the AGM. The Company expected to distribute the 2017 Final Dividend on or about 27 July 2018.



## Report of the Board of Directors

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Circular of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-resident taxpayers under Tax Treaties (SAT Circular [2015] No. 60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的通知》(國家稅務總局公告2015年第60號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the dividend to be distributed to them. However, the individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). For individual holders of H Shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H Shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H Shares in the distribution of the dividend accordingly.

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

If the shareholders of the Company's H shares have any doubt about the above arrangements, they may consult their tax advisors on the tax implications of the ownership and disposal of H shares of the Company in Mainland China, Hong Kong and other countries (regions).

### XIII. OTHER DISCLOSURES

#### (1) Permitted Indemnity Provision

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

#### (2) Management Contract

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

### (3) Environment Policies and Performance

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

The Group implements energy saving measures in its offices, branches and other areas, encouraging its employees to reduce unnecessary use of lighting and air conditioning. Through the implementation of the aforementioned policies and measures, the Group raised the overall awareness of environmental protection and saved energy.

### (4) Compliance of Laws and Regulations

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

### (5) Relationship with Key Stakeholders

#### 1. Employees

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

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

#### 2. Major customers and suppliers

The Company provides services for the various individual and institutional customers. The Company's large customers include institutional and high-net-worth individuals. All customers are located in China, mainly in Shandong Province. For the year ended 31 December 2017, the revenue from the five largest customers of the Company represented less than 30% of operating cost. As far as the Directors are aware, as at the date of this report, none of the Directors, Supervisors, their respective close associates or any Shareholders who owned more than 5% of the Company's number of issued shares had any interest in the five largest customers of the Company.

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

## Report of the Board of Directors

### **(6) Directors' Competing Business**

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

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

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

### **(8) Equity-linked Agreements**

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

### **(9) Reserves and Reserves Available for Distribution to Shareholders**

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

### **(10) Pre-Emptive Rights**

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

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

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

### **(12) Property and Equipment**

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

### (13) Public Float

For the year ended 31 December 2017, the public float of the Company was in compliance with the minimum public float requirement of 25% of the Stock Exchange.

### (14) Share Capital

As at 31 December 2017, the total share capital of the Company was RMB1,001,900,000, divided into 1,001,900,000 Shares (including 724,810,000 Domestic Shares and 277,090,000 H Shares) with a nominal value of RMB1.00 each. The details of changes in share capital of the Company during the Reporting Period is set out in Note 33 to the consolidated financial statements of this report.

### (15) Issuance of Debentures

The Company had no issued debentures for the year ended 31 December 2017.

### (16) Donation

In March 2017, the Company participated in the China Futures Association's "One Company, One Production, Long-term Futures Cooperation" precision assistance activities, and signed the "Precision Assistance Memorandum" with the People's Government of Yanchang County, Shaanxi Province. To achieve the full coverage of the poverty-stricken people in Gaowanjiahe Administrative Village and Guojiatai Village of Jiaokou Town, Yanchang County, Luzhen Futures provided industrial support funds of RMB1.76505 million to ensure 97 households and 215 people in the above two villages in 2017 are out of poverty.

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

By order of the Board

*Chairman*

**Chen Fang**

22 March 2018

# Report of the Supervisory Committee

In 2017, the Supervisory Committee independently exercised its supervisory duties and responsibilities, actively understood and supervised the Company's operating activities, financial status, major decisions, execution of resolutions of the general meetings and the Board, and also supervised the legal compliance of the Company and the performance of the Company's Directors and senior management's responsibilities in strict compliance with the requirements of the Company Law, the Listing Rules, the Articles of Association, the Rules of Procedure of the Supervisory Committee of the Company, and other relevant laws and regulations.

## I. ROUTINE WORK OF THE SUPERVISORY COMMITTEE IN 2017

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

- (I) On 22 March 2017, it convened the fourth meeting of the second session of the Supervisory Committee, which approved the following seven proposals by voting on site:
  1. The "Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited in 2016" (《關於魯証期貨股份有限公司2016年度總經理工作報告的議案》);
  2. The "Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited in 2016" (《關於魯証期貨股份有限公司2016年度監事會工作報告的議案》);
  3. The "Proposal on the Annual Results Announcement of LUZHENG FUTURES Company Limited for 2016" (《關於魯証期貨股份有限公司2016年度業績公告的議案》);
  4. The "Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2016" (《關於魯証期貨股份有限公司2016年度報告(國際財務報告準則)的議案》);
  5. The "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for 2016" (《關於魯証期貨股份有限公司2016年度報告(中國企業會計準則)的議案》);
  6. The "Proposal on Annual Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2016" (《關於魯証期貨股份有限公司2016年度利潤分配方案的議案》); and
  7. The "Proposal on the Work Report of the Chief Risk Officer of LUZHENG FUTURES Company Limited in 2016" (《關於魯証期貨股份有限公司2016年度首席風險官工作報告的議案》).

- (II) On 28 August 2017, it convened the fifth meeting of the second session of the Supervisory Committee, which approved the following four proposals by voting on site:
1. The “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2017” (《關於魯証期貨股份有限公司截至2017年6月30日止六個月之中期業績公告的議案》);
  2. The “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2017” (《關於魯証期貨股份有限公司2017中期報告的議案》);
  3. The “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2017” (《關於魯証期貨股份有限公司2017年中期利潤分配方案的議案》); and
  4. The “Proposal on the Work Report of the Chief Risk Officer of LUZHENG FUTURES Company Limited in the First Half of 2017” (《關於魯証期貨股份有限公司2017上半年首席風險官工作報告的議案》).

## II. MAJOR WORK IN 2017

- (I) Paid close attention to the Company’s financial status and major investments.

In 2017, the Supervisory Committee reviewed the Company’s financial statements on a regular basis, and kept abreast of the Company’s assets condition and operating results. It paid close attention to the monitoring of risk management indicators such as liquidity of the Company’s self-owned capital and customers’ margin deposits and net capital. From time to time, it also inspected the Company’s issues including the compliance of major investment decision-making procedures, which ensured that all major investments were strictly implemented in accordance with the decision-making procedures.

- (II) Conducted in-depth investigation and research on the Company’s major operating activities and presented opinions on major issues.

During the Reporting Period, in order to better understand the Company’s operating activities, the Supervisory Committee, in conjunction with the Company’s internal audit, conducted on-site visits to ten branches located in Wenzhou, Ningbo, Linyi, Wuxi, Jinan, Dongying, Weifang, Chengdu, Beijing and Hangzhou, carried out internal audits on the Company’s asset management business and Luzheng Trading, and expressed independent opinions after taking into account regulatory policies and internal control systems.

## Report of the Supervisory Committee

- (III) Attended the Company's important meetings as non-voting delegates and supervised the Company's Directors and senior management's performance of duties.

During the Reporting Period, members of the Supervisory Committee attended the meetings held by the Board and management for several times. By attending the meetings of the Board, it supervised the convening procedures of meetings, the attendance of Directors, the argumentation of proposals and the voting on important issues, which ensured the compliance of the procedures and the voting on important issues. By attending the meetings of the management, it learned the Company's major business developments in time and supervised the Company's senior management's performance of duties.

### III. REVIEW OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS IN 2017

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

- (I) The Supervisory Committee believed that, during the Reporting Period, the overall operating activities of the Company were in compliance with related laws, regulations and regulatory policies; the Board practically performed all resolutions and key decisions-making procedures conformed to the requirements of the Company Law of the PRC and the Articles of Association; the Directors and senior management of the Company tried their best in performing their duties pursuant to national laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association or injure the interest of the Company when discharging their duties in the Company.
- (II) The Supervisory Committee believed that, during the Reporting Period, the financial system of the Company was sound, and the financial operation was standardized with excellent financial conditions. The financial statements prepared by the Company were true, objective and accurate. PricewaterhouseCoopers issued an unqualified audit report and gave an objective reflection to the financial conditions and operation results of the Company in 2017.
- (III) The Supervisory Committee believed that, during the Reporting Period, the Company's overall internal control system was relatively sound. However, in terms of new business, the compliance and risk control system was still not perfect, and the compliance awareness of all employees needed to be strengthened. The Supervisory Committee carefully reviewed the "Self-assessment Report on Internal Control in 2017" prepared by the Company, which gave a true and objective reflection to the establishment and operation of the internal control system of the Company.

- (IV) The Supervisory Committee believed that, during the Reporting Period, the transactions between the Company and its controlling shareholder, Zhongtai Securities and its related parties, were in line with the general market transaction principles. The price was fair and the information disclosure was complete. All the relevant procedures were performed to ensure that the transactions were fair and reasonable without damaging the interest of the Company and the minority shareholders.
- (V) The Supervisory Committee believed that, during the Reporting Period, the Company's "Inside Information Management System" was effectively implemented, and played a supervisory, controlling and guiding role in the daily operation and management of the Company. The Company could, when dealing with periodic report preparation, profit distribution and external investment, implement such issues in accordance with the relevant regulations, and strictly controlled the scope of insiders. There were no such incidents as disclosure of secrets, insider transactions, or illegal trading of the Company's shares by Directors, Supervisors and senior management.
- (VI) The Supervisory Committee believed that, during the Reporting Period, there were no illegal external guarantees, debt restructurings, non-monetary transactions, asset replacements, significant acquisitions or disposal of assets. There were no other situations that damaged the interests of the Shareholders of the Company or resulted in the loss of assets of the Company.

#### **IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2018**

##### **(I) To strengthen the mission and persist in the development**

The Supervisory Committee will focus on the Company's business development, make active explorations in benchmarking and addressing weak links, target at new situations and new issues, and enrich supervision and work methods. The Supervisory Committee will strictly comply with relevant state laws, administrative regulations, normative documents and the Company's regulations. It will further strengthen the supervision over significant issues such as production management, financial management, related party transactions, external investment and the establishment and implementation of the internal control system with particular emphasis on in-depth understanding of the Company's situation at all levels to analyze and solve problems. It will realize the pre-event supervision focusing on major decision-making procedures to urge the Company to implement the "Three Importance and One Greatness" decision-making system and standardize the decision-making behaviors. It will conduct the on-going event supervision focusing on major financial issues to urge the Company to strictly implement the financial system and improve the financial management. It will conduct the post-event supervision focusing on rectifying the Company's existing issues to urge the Company to improve the rules and regulations. It will effectively play a stable, sustained and effective supervision role.



## Report of the Supervisory Committee

### **(II) To utilize corporate governance and enhance supervision effectiveness**

The Supervisory Committee will actively promote the integration of the supervision power of the Company, establish an interactive mechanism with disciplinary inspection, supervision, auditing and legal departments. It will give full play to the role of internal supervision resources of the Company, achieve two-way communication of supervision information, and give full play to the external supervision role of third-party agencies such as accounting firms. Moreover, it will perform due diligence evaluations to senior management and strengthen their duties and responsibilities. It will promptly carry out senior management performance inspections to urge them to strictly perform their duties by providing suggestions in written or verbal form as needed, giving tips, arranging interviews, making inquiries and asking for replies. It will actively explore and innovate the supervision methods that are suitable for the operation of modern enterprise systems, protect and respect the enthusiasm and creativity of operators, and constantly increase the supervision effectiveness.

### **(III) To place equal emphasis on audit and research and extend functions**

It will maintain a good internal control environment for the Company by strengthening the internal audit coverage. In response to various risks faced by the Company during the operation and management, it will regularly supervise and inspect the implementation of internal control systems and further mitigate the Company's operating risks through internal audit supervision and evaluation so as to ensure the attainment of the Company's business objectives. Moreover, it will conduct special investigations and research in conjunction with the actual situation of the Company and its work. By doing so, it can focus on the Company's business risk and strengthen compliance management of the Company. In the context of external regulatory transformation and industry innovation and development, it will play an important role as an immune system, supervise and coordinate the relationship between business development and risk prevention and control, and promote the Company's comprehensive capabilities in risk analysis and full risk coverage so as to play a more prominent supervisory role in risk management.

### **(IV) To improve self-building and strengthen supervision duties**

The Supervisory Committee will be equipped with full-time employees to effectively carry out its daily work and improve its supervisory effectiveness. In addition, its members must continuously strengthen the study of relevant laws, administrative regulations and financial knowledge so as to improve their ability and overall quality to identify, analyze and solve problems. The Supervisory Committee shall have the courage to supervise and be good at it. It shall work hard to build a high-quality supervision team that is politically steadfast, professionally competent, honest, upright and dedicated.

By order of the Supervisory Committee

*Chairman*

**Li Xuekui**

22 March 2018

# Directors, Supervisors, Senior Management and Staff

## I. BRIEFINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

### (I) The Board

#### Executive Directors

Mr. Chen Fang (陳方), aged 58, joined the Company in September 2006. At present, he is the secretary to the party committee, the Chairman of the Board and an executive Director of the Company, and serves as a party committee member and a vice president of Zhongtai Securities, the part-time vice president of China Futures Association, the president of Shandong Futures Association, the chairman of Industry Development Committee of the Dalian Commodity Exchange, and a member of the Case Review Committee of China Financial Futures Exchange. Mr. Chen Fang served in several positions including the deputy director of the experimental center, the deputy director of the center of environmental science and the deputy dean of the department of environmental engineering in succession in Shandong University from December 1978 to July 2000; served as the deputy office manager of Shandong Province Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資有限公司) from July 2000 to May 2001 and participated in the preparation and establishment of Zhongtai Securities; served as the general manager of the research and development center, and the general manager and vice president of Beijing business department in succession in Zhongtai Securities since May 2001; served as a party committee member of Zhongtai Securities from May 2013 to December 2015; served as the Chairman of the Board of the Company since September 2006; served as the secretary to the party committee of the Company from November 2008 to July 2014; served as the secretary of the Disciplinary Committee of the Company from June 2010 to August 2016; served as the chairman of the board of directors of Luzheng Trading from April 2013 to August 2015; served as the secretary to the party committee of the Company since August 2016; and served as a party committee member of Zhongtai Securities since January 2017. Mr. Chen Fang served as the vice president of Shandong Securities and Futures Association from March 2007 to April 2009; served as the president of Shandong Futures Association since April 2009; served as a council member of China Futures Association since May 2008; served as part-time vice president of China Futures Association since September 2014; served as the chairman of Industry Development Committee of Dalian Commodity Exchange since March 2012; and served as a member of the Case Review Committee of China Financial Futures Exchange since August 2016. Mr. Chen Fang graduated from Shandong TV University majoring in electronics and obtained a college diploma in February 1982; graduated from school of management of Shandong University majoring in political economics and obtained the graduation certificate for post graduates in June 2000; and graduated from the Nanyang Business School of Nanyang Technological University, Singapore, majoring in management economics and obtained a master degree in July 2000.

## Directors, Supervisors, Senior Management and Staff

Mr. Liang Zhongwei (梁中偉), aged 44, joined the Company in March 2009. At present, he is a staff representative Director and an executive Director of the Company as well as the secretary general of Shandong Futures Association. Mr. Liang Zhongwei served as an employee of Shandong Province Qilu Trust and Investment Co., Ltd. from July 1997 to May 2001; held several positions in Zhongtai Securities, including assistant to the departmental general manager and departmental senior business manager in succession, from May 2001 to March 2009; served as the office manager and the general manager of human resources department of the Company from March 2009 to September 2013; served as our executive Director of the Company since June 2012; and served as the secretary general of Shandong Futures Association since September 2013. Mr. Liang Zhongwei graduated from Shandong University majoring in international economy in July 1997 and obtained a bachelor degree. Mr. Liang Zhongwei obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 2001.

### Non-executive Directors

Mr. Lv Xiangyou (呂祥友), aged 47, joined the Company in April 2010. At present, he is a non-executive Director of the Company, as well as the chief of organization department to the party committee and a vice president of Zhongtai Securities. Mr. Lv Xiangyou served as a staff member, the deputy director and director of the finance division of Laiwu Steel in succession from July 1993 to September 2002; served as the office manager and secretary of the board of directors of Luyin Investment Group Co., Ltd. (魯銀投資集團股份有限公司) from September 2002 to April 2007, during which he served as a member of trust group of risk disposal work team of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from November 2004 to April 2007; served in several positions including the general manager of the human resources department, director and the secretary of the board of directors exercising the responsibilities of the chief compliance officer in Zhongtai Securities from January 2007 to September 2014; served as the director of the organization department of the party committee of Zhongtai Securities since December 2008; served as the non-executive Director of the Company since April 2010; served as the chief compliance officer of Zhongtai Securities from August 2013 to July 2016; served as the chief risk officer of Zhongtai Securities from December 2013 to July 2016; and served as a vice president of Zhongtai Securities since August 2013. Mr. Lv Xiangyou graduated from Shandong Economic College (山東經濟學院) majoring in accounting and obtained a college diploma in July 1993; graduated from Shandong Provincial Party School majoring in economics and management and obtained a university diploma in December 1998; and graduated from Tianjin University majoring in business administration and obtained a master degree in March 2010. Mr. Lv Xiangyou obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province in February 2006, and the qualification of accountant issued by the Ministry of Finance of the PRC in May 2000.

Mr. Yin Ge (尹戈), aged 37, joined the Company in June 2016. At present, he is a non-executive Director of the Company, the general manager of the operation and management department and a member of the brokerage business management committee of Zhongtai Securities. Mr. Yin Ge served as the deputy general manager of the innovative business department of Weifang branch of Tiantong Securities from January 2002 to January 2004; held several positions in Zhongtai Securities from January 2004 to February 2005, including the deputy general manager and general manager of the business department of the Qingdao Yan'an Third Road branch, the general manager of the business department of the Qingdao Hong Kong, Middle Road branch, the person in charge of the preparation for establishment of the Qingdao branch, the general manager, the committee secretary, the general manager of department of over-the-counter market management and the general manager of the headquarters of retail business of the Qingdao branch; served as the general manager of the operation management department

## Directors, Supervisors, Senior Management and Staff

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

Mr. Li Chuanyong (李傳永), aged 49, joined the Company in December 2012. At present, he is a non-executive Director of the Company as well as the deputy manager of Yongfeng Group Co., Ltd. (永鋒集團有限公司). Mr. Li Chuanyong served in several positions in succession in Yongfeng Group Co., Ltd. from June 2003 to April 2005, including the manager of the steel mill, the deputy general manager and the director of the steel works; served as the deputy general manager of Yongfeng Group Co., Ltd. since April 2005; and served as a non-executive Director of the Company since December 2012. Mr. Li Chuanyong graduated from Anshan Institute of Iron & Steel Technology majoring in metal pressure and processing and obtained a bachelor degree in July 1990. Mr. Li Chuanyong obtained the qualification of senior engineer issued by the Personnel Department of Heilongjiang Province in September 2000.

Mr. Liu Feng (劉峰), aged 45, joined the Company in February 2015. At present, he is a non-executive Director of the Company, as well as the deputy general manager of capital operation center of Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司) and a non-executive director of Zhongtong Bus Holding Co., Ltd. (中通客車控股股份有限公司). Mr. Liu Feng served as an office staff member of the silk worm cocoon division and the deputy director member of trading and development department of Shandong Silk Corporation (山東省絲綢總公司) from July 1994 to June 2002; served as the manager of comprehensive administration department of Shandong Hengrun Silk Co., Ltd. (山東恒潤絲綢有限公司) from July 2004 to January 2005; served as a principal staff member in the silk worm cocoon unit of Qingdao Hairun Investment Group (青島海潤投資集團) from January 2005 to December 2005; served as the secretary and principal staff member of comprehensive administration office of Shandong Silk Group (山東省絲綢集團有限公司) from January 2006 to June 2009; served in several positions in Shandong State-owned Assets Investment Holdings Co., Ltd. in succession from June 2009 to December 2015 such as the clerical director of comprehensive department, the director of equity operation of capital operation department and the senior business manager and deputy director of capital operation department; served as the deputy general manager of capital operation center of Shandong State-owned Assets Investment Holdings Co., Ltd. since December 2015; served as a non-executive Director in the Company since February 2015; and served as a non-executive director of Zhongtong Bus Holding Co., Ltd. since December 2016. Mr. Liu Feng graduated from Shandong Agricultural University, majoring in sericultural science and obtained a bachelor degree in July 1994; graduated from Renmin University of China majoring in business administration and obtained a master degree in July 2004; and graduated from Shandong Agricultural University majoring in the management of agricultural economy and obtained a doctoral degree in June 2011. Mr. Liu Feng obtained the qualification of agronomist issued by the Intermediate Review Commission of Professional Titles in Agriculture of Shandong Silk Corporation in October 1999.

## Directors, Supervisors, Senior Management and Staff

### Independent Non-executive Directors

Mr. Gao Zhu (高竹), aged 55, joined the Company in December 2012. At present, he is an independent non-executive Director of the Company as well as the deputy chairman of UOB Investment (China) Limited (大華大陸投資有限公司) and an independent director of AVIC Futures Co., Ltd. (中航期貨有限公司). Mr. Gao Zhu served as the deputy general manager of Minmetals Investment & Development Co., Ltd. (五礦投資發展有限公司) from June 2002 to October 2010; served as the chairman of the board of directors of Minmetals Haiqin Futures Co., Ltd. (五礦海勤期貨有限公司) from August 2003 to November 2010; served as deputy chairman of the board of directors of Minmetals Star Futures Brokerage Co., Ltd. (五礦實達期貨經紀有限公司) from August 2003 to November 2010; served as the general manager and the deputy chairman of the board of directors of Minmetals Securities Co., Ltd. (五礦證券有限公司) from September 2010 to November 2011; served as the president of UOB Investment (China) Limited from November 2011 to April 2016; served as independent non-executive Director of the Company since December 2012; served as independent director of AVIC Futures Co., Ltd. since December 2014; and served as the deputy chairman of UOB Investment (China) Limited since April 2016. Mr. Gao Zhu graduated from University of Science and Technology Beijing majoring in industrial management engineering and obtained his highest degree – a master degree in July 1988. Mr. Gao Zhu obtained the qualification of senior international business executive issued by the Occupation Qualification Review Committee for Senior International Business Expertise under the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999.

Mr. Yu Xuehui (于學會), aged 52, joined the Company in January 2008. At present, he is an independent non-executive Director of the Company as well as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所), an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) and an independent director of Minsheng Royal Fund Management Co., Ltd (民生加銀基金管理有限公司). Mr. Yu Xuehui served in succession as the broker and deputy manager of the trading department of China International Futures Co., Ltd. (中國國際期貨經紀有限公司) from March 1993 to October 1997; served as a partner of Beijing Hanhua Law Firm (北京市漢華律師事務所) from November 1997 to October 2005; served as a partner of Beijing Besthold Law Firm from November 2005 to April 2007; served as a partner of Beijing Zhongtian Law Firm since May 2007; served as an independent non-executive Director of the Company since January 2008; served as an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) since March 2008; and served as an independent director of Minsheng Royal Fund Management Co., Ltd. since August 2012. Mr. Yu Xuehui graduated from Peking University majoring in economic law and obtained a bachelor degree in July 1988. Mr. Yu Xuehui was granted the qualification of lawyer by Beijing Municipal Bureau of Justice in June 1993.

Mr. Wang Chuanshun (王傳順), aged 52, joined the Company in December 2012. At present, he serves as an independent non-executive Director of the Company, and serves as the director of Shandong Branch of Ruihua Certified Public Accountants (瑞華會計師事務所山東分所). Mr. Wang Chuanshun served as a division member in Shandong Audit Office from July 1990 to November 1994; served as deputy director of audit department of Shandong Accounting Firm (山東會計師事務所) from November 1994 to December 1998; served as vice general manager and senior accountant in Shandong Zhengyuan Hexin Accounting Firm (山東正源和信會計師事務所) from January 1999 to December 2004; served as director of Shandong Branch of Ruihua Certified Public Accountants since January 2005; and served as an independent non-executive Director in the Company since December 2012. Mr. Wang Chuanshun graduated from Shandong Agricultural University majoring in management of agricultural economy and obtained a bachelor degree in July 1987; graduated from Southwest Agricultural University and obtained a

## Directors, Supervisors, Senior Management and Staff

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

Mr. Li Dapeng (李大鵬), aged 60, joined the Company in June 2016. At present, he is an independent non-executive Director of the Company, the chief information officer of Haier Finance Holdings (Qingdao) Company Limited and an independent non-executive director of China Energine International (Holdings) Limited. Mr. Li Dapeng served as a part-time professor in the University of Cincinnati and the Ohio State University from September 1990 to August 2001; and served as the technical advisor of Anthem Blue Cross and Blue Shield Insurance Company in the United States of America from January 1998 to August 2001; served as the chief architect of New York Mercantile Exchange from August 2001 to August 2003; served as an expert of Committee of Formulation of Capital Market Standards and the associate director of STEP working group of CSRC participating in the formulation of information technology standards of the capital market in the CSRC from September 2003 to March 2008; and served as the chief information officer and the chairman of Technology Management Committee of Shanghai Futures Exchange from September 2003 to March 2010; joined the formulation of the 12th Five-Year Plan of CSRC and directly involved in the drafting of its section headed "Internationalization" from September 2010 to February 2011; served as the senior advisor to chief executive officer of Hong Kong Exchanges and Clearing Limited from March 2010 to June 2015; served as the chief information officer of Haier Finance Holdings (Qingdao) Company Limited since July 2015; served as an independent non-executive director of China Energine International (Holdings) Limited (listed on the Stock Exchange, stock code: 01185) since November 2015. Mr. Li Dapeng graduated from University of Science and Technology Beijing (formerly Beijing Steel Institute) with a bachelor degree in computer engineering in February 1982 and a master degree in computer engineering in June 1986, and graduated from the University of Cincinnati with a doctoral degree in computer engineering in December 1991 specializing in the theory of computing models of neural networks and the implementation of pattern recognition in the field of artificial intelligence.

### (II) The Supervisory Committee

Mr. Li Xuekui (李學魁), aged 54, joined the Company in September 2006. At present, he is the secretary of the Disciplinary Committee, the chairman of the Supervisory Committee and a staff representative Supervisor of the Company, as well as serves as the chairman and general manager of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算有限公司), a standing director of Shandong Futures Association, the chairman of Settlement Committee of the Shanghai Futures Exchange and a member of Trading Committee of Zhengzhou Commodity Exchange. Mr. Li Xuekui served in succession as a teacher and deputy director of academic affairs section of Shandong Banking School of the People's Bank of China (中國人民銀行山東銀行學校) from July 1983 to March 2001; served as the associate professor of Financial College of Shandong Polytechnic University (山東輕工業學院金融職業學院) from March 2001 to November 2002; served in succession in several positions in Zhongtai Securities from November 2002 to September 2006, including the assistant to the department manager, deputy general manager to the department and general manager to the department; served as the executive deputy general manager of the Company from September 2006 to August 2008; served as the general manager of the Company from August 2008 to August 2016; served as a party committee member of the Company since March 2009; served as the secretary of the Disciplinary Committee of the Company since August 2016; served as a staff representative Supervisor and the chairman of the Supervisory Committee of the Company since August 2016;

## Directors, Supervisors, Senior Management and Staff

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

Ms. Ding Mei (丁玫), aged 52, joined the Company since June 2016. At present, she serves as a Supervisor of the Company and is the general manager of Jinan Energy Investment Co., Ltd (濟南市能源投資有限責任公司). Ms. Ding Mei was the deputy officer of the Auditing Department of Jinan (濟南市審計局) from July 1986 to December 1992 and served as the deputy officer of the Foreign Economic Relations and Trade Commission of Jinan (濟南市對外經濟貿易委員會) between December 1992 and August 2000. She has been the deputy general manager of Jinan Energy Investment Co., Ltd from August 2000 to August 2016; served as a supervisor of the Company since June 2016; and served as the general manager of Jinan Energy Investment Co., Ltd. since August 2016. Ms. Ding Mei graduated from Shandong University majoring in computer application in July 1986. Ms. Ding Mei obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業資格高級評審委員會) in October 2002.

Mr. Hu Yuyue (胡俞越), aged 57, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, and he is also the vice president of China Business History Society (中國商業史學會), the consultant to the drafting group of Futures Law in the National People's Congress, the director of institute of securities and futures of Beijing Technology and Business University, a part-time professor of China Agricultural University and Central South University, a standing director of the Capital Enterprise Reform and Development Society, the director of the Beijing University for Business Administration, a member of the Strategic Development Committee of Zhengzhou Commodity Exchange, a member of the Product Committee of Shanghai Futures Exchange, a consulting expert of Shanghai Stock Exchange, deputy director of Expert Committee of CFLP Bulk Commodity Market and an independent director of seven companies (please see below for details of these companies). Mr. Hu Yuyue served in several positions in succession in the department of economics of Beijing College of Commerce from August 1983 to April 1999, including teaching assistant, lecturer, associate professor and the director of the teaching and research office of trade and economics; served as a professor of the school of economics and the director of securities and futures institute in Beijing Technology and Business University since May 1999; served as an independent director of Minmetals & Jingyi Futures Co., Ltd. (五礦經易期貨有限公司) since April 2006; served as an independent director of Nanhua Futures Co., Ltd. (南華期貨股份有限公司) since April 2013; served as an independent director of Beijing Urban Construction Investment & Development Co., Ltd. (北京城建集團有限責任公司) (listed in Shanghai Stock Exchange; stock code: 600266) since December 2013; served as an independent director of Shanghai Ganglian Ecommerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300226) since May 2014; served as an independent director of Beijing Ctrowell Technology Corporation Limited

## Directors, Supervisors, Senior Management and Staff

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

Mr. Mu Yong (牟勇), aged 41, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center (北京金石農業產業投資基金管理中心). Mr. Mu Yong served as a staff member in Sichuan Branch of King & Wood Mallesons (金杜律師事務所) from February 2000 to August 2000; served as a legal consultant of Beijing Capital Management Company Limited (北京首創資產管理有限公司) from July 2003 to March 2005; served in succession as level-4 assistant, level-3 assistant, principal staff member and deputy director of the CSRC from March 2005 to May 2013; served as the general manager of Shanxi Dianshi Equity Investment Co., Ltd. (山西典石股權投資管理有限公司) from June 2013 to December 2014; served as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center since January 2015; and served as an independent Supervisor of the Company since June 2015. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law, and obtained a master degree in July 2003.

Mr. Wang Hairan (王海然), aged 39, joined the Company in July 2007. At present, he is a staff representative Supervisor, as well as the manager of the compliance and review department of the Company. Mr. Wang Hairan served in several positions in succession in Sanlong Futures Brokerage Co., Ltd. (三隆期貨經紀有限公司) from December 1999 to February 2007, including an employee of the trading department, dealer of Dalian Commodity Exchange, and the deputy manager of the trading department and manager of audit department; served as the office manager of Sanlong Industrial Group (三隆實業集團) from March 2007 to June 2007; served in succession as an employee and the person in charge in the compliance and audit department of the Company from July 2007 to January 2009; served as the deputy manager of Beijing business department of the Company from January 2009 to August 2010; served in succession as an employee and the deputy manager of the compliance and audit department of the Company from August 2010 to April 2014; served as the manager of the compliance and audit department of the Company since April 2014; and served as a staff representative Supervisor of the Company since June 2015. Mr. Wang Hairan graduated from Shandong University, WeiHai majoring in economic law, and obtained the certificate of college degree in July 1999; graduated from Shandong University majoring in business administration, and obtained the university diploma in January 2008.



## Directors, Supervisors, Senior Management and Staff

Mr. Yu Zhanyong (虞戰勇), aged 46, joined the Company since April 2008. At present, he serves as an employee representative supervisor, a member of the Discipline Committee and the deputy general manager of the audit department of the Company (presides over the work). Mr. Yu Zhanyong served as the accountant of the financial department, director assistant, and the chief accountant of the second external architect company under the headquarters of Shandong Sanjian Group Co., Ltd. (山東三箭置業集團總公司) from July 1994 to September 1999; served as the director of financial section and the manager of the general affairs department of Shandong Xingye United Group Co., Ltd. (山東興業聯合集團有限公司) from October 1999 to July 2005; served as the financial manager of Shandong Shengkai Properties Co., Ltd. (山東聖凱置業有限公司) from April 2006 to March 2008; served as the business manager of the financial planning department of the Company from April 2008 to May 2011; served as the deputy general manager of the audit department of the Company from June 2011 to May 2014; served as the general manager of the Guangzhou branch from May 2014 to July 2016, has been serving as the principal of the audit department of the Company since July 2016; also has been a member of the Discipline Committee of the Company since October 2016. Mr. Yu Zhanyong graduated from Shandong Water Conservancy Vocational College (山東水利專科學校) majoring in technical economics and finance and obtained college diploma in July 1994; graduated from China University of Political Science and Law (中國政法大學) majoring in law and obtained the university diploma in January 2007; graduated from the Ocean University of China (中國海洋大學) majoring in accounting and obtained the university diploma in January 2015. Mr. Yu Zhanyong obtained the qualification of intermediate accountant issued by the Ministry of Finance of the PRC in May 2004, and obtained the qualification of the corporate legal advisor issued by the Ministry of Personnel of the PRC, the Ministry of Justice of the PRC and the State-owned Assets Management Committee of the State Council in March 2004.

### (III) Senior Management

Mr. Liu Qingbin (劉慶斌), aged 48, joined the Company in May 2014. At present, he is a party committee member and the general manager of the Company, the chairman of Luzheng Trading, the director of Zhongtai Huirong Investment (HK) Company Limited, and a member of the Council of Zhengzhou Commodity Exchange. Mr. Liu Qingbin served as a staff of Jinan First Machine Tool Plant (濟南第一機床廠) from July 1992 to July 1997; served as a section member of Jinan Securities Administration Office (濟南市證券監管辦公室) from July 1997 to August 1998; served as a section member, deputy principal section member of Department of Integration, deputy principal section member and principal section member of Department of Intermediary Supervision of Jinan Securities Administration Office of the CSRC in succession from August 1998 to March 2004; served as a principal section member and the deputy director of Institutional Supervision Division, and deputy director and director of Futures Supervision Division of the Shandong Regulatory Bureau of CSRC (中國證監會山東監管局) in succession from March 2004 to August 2008; served as a department cadre and the director of company supervision department I of Futures Supervision Division, and director of the audit office and director of the general office of Futures Supervision Division II of CSRC in succession from August 2008 to April 2014; served as the secretary to the party committee of the Company from June 2014 to August 2016; served as the chairman of Luzheng Trading and the director of Zhongtai Huirong Investment (HK) Company Limited since August 2015; and served as the general manager of the Company since August 2016. Mr. Liu Qingbin graduated from Luoyang Institute of Technology (洛陽工學院) majoring in marketing and obtained a bachelor degree in July 1992. Mr. Liu Qingbin acquired the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province (山東省註冊會計師協會) in January 2005, and obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業職務高級評審委員會) in February 2005.

## Directors, Supervisors, Senior Management and Staff

Mr. Liu Yunzhi (劉運之), aged 48, joined the Company in January 2007. At present, he is a party committee member, the deputy general manager, the chief financial officer, the secretary of the Board and a joint company secretary of the Company, as well as a non-executive director of Luzheng Trading. Mr. Liu Yunzhi served as a director of the Auditing Firm of the Audit Office of Shandong Province (山東省審計廳審計師事務所) from July 1993 to December 1999; served as a director and the departmental manager in Shandong Shenyuan CPA LLP (山東申元有限責任會計師事務所) from January 2000 to May 2001; served as the departmental manager and deputy senior accountant of Shandong Zhengyuan Hexin (Limited) Certified Public Accountants (山東正源和信有限責任會計師事務所) from June 2001 to January 2002; served as the deputy general manager of the planning and finance department of Zhongtai Securities from January 2002 to January 2007; served as general manager of Jinan business department of the Company from October 2007 to August 2008; served as the deputy general manager of the Company since January 2008; served as the financial officer of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Mr. Liu Yunzhi graduated from Jiangxi Finance College (江西財經學院) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) a master degree majoring in business administration in April 2008. Mr. Liu Yunzhi obtained the qualification of senior auditor issued by the High Review Commission of Professional Title in Auditing of Shandong Province (山東省審計專業資格高級評審委員會) in May 2002; obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in December 2009; and obtained the qualification of asset valuer issued by the Ministry of Finance of the PRC in October 1999.

Ms. Jiang Hui (姜輝), aged 46, joined the Company in December 2008. At present, she is the deputy general manager of the Company, as well as a non-executive director of Luzheng Trading. Ms. Jiang Hui served as an employee of Heilongjiang Tobacco Futures Co., Ltd. (黑龍江煙草期貨有限公司) from October 1995 to October 1996; served as an employee in Changchun Gaosida Futures Co., Ltd. (長春高斯達期貨有限公司) from October 1996 to December 1999; served as the manager of Dalian business department of Yunnan Binhai Futures Co., Ltd. (雲南濱海期貨有限公司) from December 1999 to January 2001; served as the manager of Dalian business department of Dalian Wanheng Futures Co., Ltd. (大連萬恒期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Ms. Jiang Hui graduated from Shenyang Sport University (瀋陽體育學院) majoring in physical education and obtained a bachelor degree in July 1992.

Mr. Pei Yingjian (裴英劍), aged 44, joined the Company in November 2006. At present, he is the deputy general manager, as well as the supervisor of information and technology department of the Company and an executive director of Luzheng Information Technology and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd.. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of Yingda International Trust Co., Ltd. (英大國際信託有限公司) from September 1994 to August 1998; served as the director of the securities department of Shandong International Trust Corporation (山東省國際信託有限公司) from August 1998 to May 2001; served as the director of information and technology department of Zhongtai Securities from May 2001 to November 2006; served in several positions in succession in the Company from November 2006 to April 2015, including an employee of the information and technology department and general manager of information and technology department; served as the information and technology supervisor of the Company since July 2010; served as the deputy general manager of the Company

## Directors, Supervisors, Senior Management and Staff

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

Mr. Liu Jianmin (劉建民), aged 48, joined the Company in January 2000. At present, he is the deputy general manager of the Company and a supervisor of Luzheng Trading. Mr. Liu Jianmin served in succession as the dealer, trading clearing principal and manager of Shanghai trading department of Shandong Metal Material Corporation (山東省金屬材料總公司) from September 1993 to January 2000; served in several positions in the Company from January 2000 to September 2014, including the manager of the market development department, manager of the trading clearing department, assistant of general manager, the general manager of compliance and review department, compliance supervisor, chief risk officer and general manager of the audit department; served as the supervisor of Luzheng Trading since April 2013; and served as the deputy general manager of the Company since September 2014. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

Ms. Ji Qihong (季秋紅), aged 45, joined the Company in February 2014. At present, she is the chief risk officer, the general manager of the audit department and general counsel of the Company. Ms. Ji Qihong served in succession as the technician and assistant engineer in the Transportation Company of Jinan Corporation of Shandong Province Oil Group (山東省石油集團濟南總公司) from July 1992 to June 1998; served as a section member of Shandong Securities Administration Office from June 1998 to October 1999; served in succession as the section member and deputy principal section member of inspection office of Jinan Securities Regulatory Office of the CSRC from October 1999 to August 2001; served in succession as the deputy and principal section member of institutional supervision division of Jinan Securities Office of the CSRC from August 2001 to March 2004; served in several positions in Shandong Regulation Bureau of the CSRC from March 2004 to February 2014, including the principal section member of institutional supervision division, assistant investigator, deputy director and investigator, deputy director and investigator of futures supervision division, and investigator of office of party affairs (discipline inspection and supervision office); served as an employee of the Company from February 2014 to September 2014; served as the chief risk officer and general manager of the audit department of the Company since September 2014; and served as general counsel of the Company since December 2014. Ms. Ji Qihong graduated from Shandong University majoring in applied chemistry, and obtained a bachelor degree in July 1996; and graduated from Shandong University majoring in civil law and commercial law, and obtained a master degree in November 2008. Ms. Ji Qihong obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in May 2000; obtained the qualification of senior economist issued by the Department of Personnel of Shandong Province in February 2005; and obtained certificate of Certified Enterprise Risk Manager issued by Asia Association of Risk and Crisis Management in August 2014.

## Directors, Supervisors, Senior Management and Staff

Mr. Meng Tao (孟濤), aged 35, joined the Company in December 2006. At present, he is the general manager of assets management department of the Company. Mr. Meng Tao served as an employee of the finance department of Qilu Futures Brokerage Co., Ltd. (齊魯期貨經紀有限公司) from July 2004 to December 2006; served in several positions in succession in the Company from December 2006 to October 2015, including an employee and the business manager of the planning and finance department, the business manager and deputy manager of the clearing department, the general manager of Wenzhou business department, the general manager of assets management department and office manager; served as the general manager of the settlement and financing management department of the Company from April 2012 to June 2016; served as the secretary of the Board of the Company from February 2015 to January 2018; served as the office manager of the Board of the Company from October 2015 to January 2018; and served as the general manager of the assets management department of the Company since February 2016. Mr. Meng Tao graduated from Qingdao University majoring in accounting, and obtained a bachelor degree in July 2004. Mr. Meng Tao was rated by Finance Office of Shandong Province as one of “Top 100 Young Financial Leaders in Shandong Province in 2014” in December 2014.

### (IV) Company Secretaries

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

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

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

During the Reporting Period, there was no change of the directors.

During the reporting period, Mr. Yu Dongxin ceased to act as a staff representative Supervisor of the Company, and with the appointment of Mr. Yu Zhanyong serving as a staff representative Supervisor of the Company on 15 March 2017.

On 26 January 2018, Mr. Meng Tao ceased to act as the secretary of the Board and a joint company secretary of the Company with the appointment of Mr. Liu Yunzhi serving as the secretary of the Board and a joint company secretary of the Company on the same date.

## Directors, Supervisors, Senior Management and Staff

### **III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

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

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

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

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

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

#### **(III) Long-term incentive scheme**

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

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

#### **1. Remuneration information of Directors and Supervisors**

Please refer to Note 50 of the consolidated financial statements of this report for details.

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

#### **2. Remuneration information of senior management**

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

### **IV. STAFF AND REMUNERATION**

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

# Significant Events

## I. MATERIAL LITIGATIONS AND ARBITRATIONS

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

## II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

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

## III. CONNECTED TRANSACTIONS

### (I) Connected transactions

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

### (II) Connected persons

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

- **Zhongtai Securities**

Zhongtai Securities was established under the laws of the PRC in May 2001 with a registered capital of approximately RMB6.2717632 billion. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading. As of 31 December 2017, Zhongtai Securities owned approximately 63.10% of the total issued share capital of the Company and is therefore a Controlling Shareholder and connected person of the Company.

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

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

- **Shandong Steel**

Shandong Steel was established under the laws of the PRC in March 2008 with a registered capital of RMB10,467 million. It is primarily engaged in the production and sale of steel products such as steel and steel billets. As of 31 December 2017, Shandong Steel owned 80% equity interest in Laiwu Steel. Meanwhile, Laiwu Steel's interest in our Controlling Shareholder Zhongtai Securities was approximately 45.91% and Laiwu Steel is the holding company of Zhongtai Securities. Shandong Steel is therefore a Controlling Shareholder and connected person of the Company.

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

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

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

### (III) Continuing connected transactions

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

##### ***Financial Services Framework Agreement***

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

As the corresponding annual caps under the Financial Services Framework Agreement has expired on 31 December 2017 and the Group continues to enter into continuing connected transactions under the Financial Services Framework Agreement after 31 December 2017, 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 various financial services to the Group, mainly including IB services, asset management schemes, 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). For the details on entering into the New Financial Services Framework Agreement and the transactions thereunder, see the announcements dated on 28 April 2017 and the notices dated 23 May 2017 of the Company.



## Significant Events

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

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2017 (RMB'000)	Proposed annual caps for the year ended 31 December 2017 (RMB'000)
<b>1. IB Services</b>		
Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Group	7,670	32,000
Commissions charged by us to Zhongtai Securities and/or its associates for provision of IB services by the Group	–	900
<b>2. Purchase of Asset Management Schemes</b>		
Average daily amount invested	60,393	260,000
Asset Management Fees (as defined below) charged by Zhongtai Securities and/or its associates	412	2,610
<b>3. Securities Brokerage and other Financial Services</b>		
Commissions charged by Zhongtai Securities and/or its associates	307	700
Total Commissions charged by Zhongtai Securities and/or its associates to the Group	8,389	35,310
Total Commissions charged by the Group to Zhongtai Securities and/or its associates	–	900

### **Financial Services Framework Agreement**

- A. *IB Services*

### **Principal terms:**

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

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

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

### **The Company's IB services provided to Zhongtai Securities:**

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

### **Reasons for the transaction:**

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

### **Pricing terms:**

- (i) the commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company will be 60% of the commission revenue generated from such clients introduced by Zhongtai Securities and/or its associates. Likewise, the commission charged by the Company for the provision of IB services to Zhongtai Securities will also be 60% of the commission revenue generated from such clients introduced by the Company (the "Commission Split");

## Significant Events

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

### *B. Purchase of the Asset Management Schemes*

#### **Principal terms:**

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

#### **Reasons for the transaction:**

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

#### **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 the Company's investment amounts times the Asset Management Fees rate;
- (ii) for collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such schemes equally and evenly, including our Group and any other independent third party investor participants. Such Asset Management Fees rate is also consistent with the prevailing market rates for collective asset management schemes issued by any other independent third parties with similar scales of investment;

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

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

#### **Principal terms:**

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

#### **Reasons for the transaction:**

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

#### **Pricing policy:**

- (i) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services will be determined based on arm's-length negotiations between Zhongtai Securities and/or its associates and the Company with reference to the prevailing market commission rate for similar business, and is consistent with the market practice;

## Significant Events

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

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

#### **A. Futures Brokerage Services Framework Agreement**

In the ordinary and usual course of business, the Company provides futures brokerage and other related financial services to our clients, including Shandong Steel and/or its associates. To comply with the requirements of the Listing Rules, the Company entered into a futures brokerage services framework agreement (the "Futures Brokerage Services Framework Agreement") with Shandong Steel on 19 June 2015 to provide futures brokerage and other related financial services to Shandong Steel and/or its associates in the ordinary and usual course of our business. The Futures Brokerage Services Framework Agreement is for a fixed term of three years effective on the Listing Date, subject to renewal. As the highest applicable percentage ratio for the three financial years ending 31 December 2015, 2016 and 2017 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 0.1%, but less than 5% on an annual basis upon signature of the Futures Brokerage Services Framework Agreement, such transactions will constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the corresponding annual caps under the Futures Brokerage Services Framework Agreement expired on 31 December 2017 and the Group continues to enter into the Continuing Connected Transaction under the Futures Brokerage Services Framework Agreement after 31 December 2017, the Company entered into the New Futures Brokerage Services Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours) and proposed the annual caps for 2018, 2019 and 2020 under the New Futures Brokerage Services Framework Agreement.

Pursuant to such agreement, the Group provides futures brokerage services to Shandong Steel and/or its associates in the Group's ordinary and usual course of business. The term of the New Futures Brokerage Services Framework Agreement is three years with effect from 1 January 2018 until 31 December 2020. The Company is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement 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). For the details on entering into the New Futures Brokerage Services Framework Agreement and the transactions thereunder, see the announcements dated on 28 April 2017 and the notices dated 22 May 2017 of the Company.

The summary of commissions charged by the Group to Shandong Steel and/or its associates for provision of futures brokerage services and other relevant financial services by the Group under the Futures Brokerage Services Framework Agreement as of the end of the Reporting Period are set out in the following table:

Nature of transaction	Transaction Amounts for the year ended 31 December 2017 (RMB'000)	Proposed annual caps for the year ended 31 December 2017 (RMB'000)
<b>Derivatives brokerage</b> Commissions charged by the Group to Shandong Steel and/or its associates for provision of futures brokerage by the Group	<b>1,152</b>	<b>9,000</b>

### Principal terms:

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

### Reasons for the transaction:

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

### Pricing policy:

- (i) although the Company's Futures Commissions for the provision of futures brokerage services vary according to different kinds of futures products, such commissions for the same futures products are applicable to all our clients of the Company, including Shandong Steel and/or its associates, and other independent third party clients;
- (ii) the Futures Commissions charged by the Company for the provision of futures brokerage and other financial services are based on a percentage that is at a premium of the Futures Commissions rate set by the PRC Futures Exchanges with reference to the prevailing market futures commissions rate, and is consistent with market practice; and

## Significant Events

- (iii) the provision of futures brokerage and related financial services to Shandong Steel and/or its associates, including the Futures Commissions rates, as well as the proposed annual caps for the years ending 31 December 2015, 2016 and 2017, have been approved by the Shareholders of the Company at its general meeting held in April 2015 prior to entering into such Futures Brokerage Services Framework Agreement. Zhongtai Securities, an associate of Shandong Steel, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

### **B. Asset Management Service Framework Agreement**

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 annual reporting requirements under Article 14A.49 and Article 14A.71 of Listing Rules and the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of Listing Rules.

The summary of asset management services provided by the Group to Shandong Steel and/or its associates under the Asset Management Service Framework Agreement as of the end of the Reporting Period is set out in the following table:

Nature of transaction	Transaction Amounts for the year ended 31 December 2017 (RMB'000)	Proposed annual caps for the year ended 31 December 2017 (RMB'000)
<b>Collective asset management schemes purchased by Shandong Steel and/or its associates</b>		
Daily maximum investment amount	–	<b>200,000</b>
Asset management fees charged from Shandong Steel and/or its associates	–	<b>2,000</b>

### **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 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 offer 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 from 2017 onwards. 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 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 policy**

- (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 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.



## Significant Events

### C. Bulk Commodities Sale and Purchase Framework Agreement

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, 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 annual reporting requirements under Article 14A.49 and Article 14A.71 of Listing Rules and the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.

The summary of transactions conducted between the Group and Shandong Steel and/or its associates under the Bulk Commodities Sale and Purchase Framework Agreement as of the end of the Reporting Period is set out in the following table:

Nature of transaction	Transaction Amounts for the year ended 31 December 2017 (RMB'000)	Proposed annual caps for the year ended 31 December 2017 (RMB'000)
The purchase amount of bulk commodities by the Group from Shandong Steel and/or its associates	1,660	200,000
The purchase amount of bulk commodities by Shandong Steel and/or its associates from the Group	-	100,000

### **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 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. The Bulk Commodities Sale and Purchase Framework Agreement entered into between the Company and Shandong Steel is expected to seize favorable opportunities of prevailing market conditions and secures stable profits from the differences in price, 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 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 profits from the differences in price, and is in the interest of the Company and Shareholders as a whole.

## Significant Events

### **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. Since Shandong Steel and/or its associates act as operating enterprises, they are reluctant to disclose such information to the Company, which will constitute its core 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 mainly 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 paid 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 value, in order to ensure that the price and terms of 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.

### **D. Risk Management Services Framework Agreement**

As the Company plans to commence the provision of risk management services to Shandong Steel and/or its associates from 2017 onwards, the Company is subject to the requirements of Chapter 14A of the Listing Rules in relation to the provisions of Continuing Connected Transactions. Accordingly, the Company entered into Risk Management Services Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours), the term of which is three years with effect from 1 January 2017 to 31 December 2019. As the aforesaid transaction constitutes a Connected Transaction of the Company, it is subject to the annual reporting requirements under Article 14A.49 and Article 14A.71 of Listing Rules and the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## Significant Events

The summary of transactions conducted between the Group and Shandong Steel and/or its associates under the Risk Management Services Framework Agreement as of the end of the Reporting Period is set out in the following table:

Nature of transaction	Transaction Amounts for the year ended 31 December 2017 (RMB'000)	Proposed annual caps for the year ended 31 December 2017 (RMB'000)
Premium paid by Shandong Steel and/or its associates to the Group	–	9,000
Premium paid by the Group to Shandong Steel and/or its associates	–	9,000

### Principal terms

In the ordinary and usual course of our business, we provide Shandong Steel and/or its associates with risk management services, such as providing customized and comprehensive risk management service for the price risks which Shandong Steel and/or its associates are exposed to in the off market transactions of derivatives, including futures, options, swaps and forwards or their portfolio of transactions. Therefore, Shandong Steel and/or its associates purchase from or sell to us over-the-counter options. At the beginning of the transactions, the buyers pay premium to the sellers.

### Reasons for the transaction

As the largest steel manufacturing and trading enterprise in Shandong Province of the PRC, Shandong Steel has a relatively greater production capacity and asset scale. In order to overcome price fluctuation risk of commodities, such as raw materials, Shandong Steel has customized risk management demand with respect to part of its production and processing materials. As an innovative business to the financial market, over-the-counter derivatives business is still at the initial development stage. In 2016, the over-the-counter derivatives business of the Company gradually matured with greater improvement of its risk management service capability. We plan to provide over-the-counter options on target futures of rebars, iron ores, coke, rubber and stock indexes to Shandong Steel and/or its associates in order to meet the risk management demand of Shandong Steel and/or its associates, facilitate the development of the over-the-counter derivatives business of the Company, as well as increase the revenue of the Company.

## Significant Events

### Pricing terms

- (i) taking into consideration the factors including the market volatility and market liquidity, the trading period of each over-the-counter derivatives transaction ranges from one to six months, and the premium ratio ranges from approximately 1% to 8% of the target asset value;
- (ii) even though the premium of over-the-counter derivatives business received by us varies from the types of futures products, the premium of the same futures products is applicable to all of our clients including Shandong Steel and/or its associates and other independent third party clients; and
- (iii) the premium charged by/paid for risk management services provided by us is determined based on internationally recognized pricing models and risk management systems with reference to the quotation of market organizations and reference parameters including the volatility rate provided by a third party, i.e. Wind Information, in order to ensure reasonable pricing in line with market practice on the premises of fairness and impartiality, which is in the interest of the Company and Shareholders as a whole.

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

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

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

In respect of the disclosure of the continuing connected transactions:

- (a) Nothing has come to our attention that causes us to believe that such continuing connected transactions as disclosed were not approved by the Board of the Company;

- (b) for the transactions involving the provision of services by the Group, nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, according to the pricing policy of the Group;
- (c) nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, according to the relevant transaction agreements;
- (d) for the purpose of the total amount of every continuing connected transaction as set out in the attached tables (see note below), nothing came to our attention that causes us to believe that the amount of such continuing connected transactions had exceeded the annual cap set by the Company.

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

#### **4. Waivers from the Stock Exchange**

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

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

## Significant Events

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

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

## IV. MAJOR CONTRACTS AND THEIR PERFORMANCE

On 10 March 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the "Proposal on Purchase of Zeran Tranche 1 Balanced Fund" (《關於購買澤然1號平衡型基金的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 2), to approve the purchase of the "Zeran Tranche 1 Balanced Fund" (《澤然1號平衡型基金》) issued by Crescendi Capital Group (三度星和(北京)投資有限公司) with an investment amount of RMB40 million.

On 14 April 2017, the Treasury Operations Investment Decision Committee of the Company passed the "Proposal on Purchase of Luzheng SPDB FOF Tranche 2 Collective Asset Management Scheme" (《關於購買魯証浦發FOF 2期集合資產管理計劃的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 3), to approve the purchase of the "Luzheng SPDB FOF Tranche 2 Collective Asset Management Scheme" (《魯証浦發FOF2期集合資產管理計劃》) issued by Huarun Shenguo Investment and Trust Co., Ltd. (華潤深國投信託有限公司) with an investment amount of RMB30 million.

On 24 April 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the "Proposal on Purchase of Shandong Trust – Jinan Evergrande Emerald Terrace Project Collective Fund Trust Plan" (《關於購買山東信託-濟南恒大翡翠華庭項目集合資金信託計劃的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 4), to approve the purchase of the "Shandong Trust – Jinan Evergrande Emerald Terrace Project Collective Fund Trust Plan" (《山東信託-濟南恒大翡翠華庭專案集合資金信託計劃》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司) with an investment amount of RMB30 million.

On 10 May 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on Purchase of Shandong Trust – Ruiyuan Tranche 59 Collective Fund Trust Plan” (《關於購買山東信託•睿遠59號集合資金信託計劃的議案》) and the “Proposal on Purchase of Anxin Chuangying Tranche 97 – Landbridge Group Liquidity Loans Collective Fund Trust Plan” (《關於購買安信創贏97號•嵐橋集團流動資金貸款集合資金信託計劃的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 5), to approve the purchase of “Shandong Trust – Ruiyuan Tranche 59 Collective Fund Trust Plan” (《山東信託•睿遠59號集合資金信託計劃》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司) with an investment amount of RMB50 million and the purchase of “Anxin Chuangying Tranche 97 – Landbridge Group Liquidity Loans Collective Fund Trust Plan” (《安信創贏97號•嵐橋集團流動資金貸款集合資金信託計劃》) issued by Anxin Trust & Investment Co., Ltd. (安信信託股份有限公司) with an investment amount of RMB30 million.

On 26 May 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on Purchase of Shandong Trust – Ruiyuan Tranche 65 Collective Fund Trust Plan” (《關於購買山東信託•睿遠65號集合資金信託計劃的議案》), the “Proposal on Purchase of Ping’an Hongtai Tranche 22 – Tewoo Group Collective Fund Trust Plan” (《關於購買平安宏泰22號•天津物產集合資金信託計畫的議案》) and the “Proposal on Purchase of Zhongjin Ansheng 2017 Accounts Receivable Income Product” (《關於購買中金安盛2017年應收賬款收益權產品的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 7), to approve the purchase of “Shandong Trust – Ruiyuan Tranche 65 Collective Fund Trust Plan” (《山東信託•睿遠65號集合資金信託計劃》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), “Ping’an Hongtai Tranche 22 – Tewoo Group Collective Fund Trust Plan” (《平安宏泰22號•天津物產集合資金信託計畫》) issued Ping’an Trust Co., Ltd. (平安信託股份有限公司) and the “Zhongjin Ansheng 2017 Accounts Receivable Income Product” (《中金安盛2017年應收賬款收益權產品》) issued by Zhongjin Ansheng Commercial Factoring (Shenzhen) Co., Ltd. (中金安盛商業保理(深圳)有限公司) with an investment amount of RMB50 million, RMB30 million and RMB10 million respectively.

On 27 June 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on the Purchase of Shandong Trust – Jinghui Tranche 25 Series Collective Fund Trust Plan” (《關於購買山東信託•京匯25號系列集合資金信託計畫的議案》) and the “Proposal on the Purchase of Zhongxin Minyue Tranche 48 Shandong Jining Zoucheng State-owned Assets Receivable Mobilization Trust Project Priority Trust Beneficial Right” (《關於購買中信民悅48號山東濟甯鄒城國資應收賬款流動化信託專案優先順序信託受益權的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 8), to approve the purchase of “Shandong Trust – Jinghui Tranche 25 Series Collective Fund Trust Plan” (《山東信託•京匯25號系列集合資金信託計畫》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司) and the “Zhongxin Minyue Tranche 48 Shandong Jining Zoucheng State-owned Assets Receivable Mobilization Trust Project Priority Trust Beneficial Right” (《中信民悅48號山東濟甯鄒城國資應收賬款流動化信託專案優先順序信託受益權》) issued by Zhongxin Trust Co., Ltd. (中信信託有限責任公司) with an investment amount of RMB50 million and RMB30 million respectively.



## Significant Events

On 19 July 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on the Assignment of Chongqing Trust – Taifu Shidai Collective Fund Trust Plan A sub-shares” (《關於受讓重慶信託-泰富時代集合資金信託計畫A類次級份額的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 9), to approve the assignment of “Chongqing Trust – Taifu Shidai Collective Fund Trust Plan A sub-shares” (《重慶信託-泰富時代集合資金信託計畫A類次級份額》) issued by Chongqing International Trust Co., Ltd. (重慶國際信託股份有限公司) with an investment amount of RMB30.15 million.

On 19 July 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on the Purchase of Xinhua Trust Huarui Series – Yurun Tranche 7 -Luoshu CTA Tranche 6 Collective Fund Trust Project” (《關於購買新華信託華睿系列•渝潤7號•洛書CTA六期集合資金信託計畫的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 10), to approve the purchase of “Xinhua Trust Huarui Series – Yurun Tranche 7 -Luoshu CTA Tranche 6 Collective Fund Trust Project” (《新華信託華睿系列•渝潤7號•洛書CTA六期集合資金信託計畫》) issued by Xinhua Trust Co., Ltd. (新華信託股份有限公司) with an investment amount of RMB33.34 million.

On 16 October 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on the Purchase of Shandong Trust – Shanghai Yuelaicheng Project Collective Fund Trust Plan” (《關於購買山東信託-上海悅來城專案集合資金信託計畫的議案》) and the “Proposal on the Purchase of Shaanxi International Trust – Jiangsu Haili Collective Fund Trust Plan” (《關於購買陝國投•江蘇海力集合資金信託計畫的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 11), to approve the purchase of “Shandong Trust – Shanghai Yuelaicheng Project Collective Fund Trust Plan” (《山東信託-上海悅來城專案集合資金信託計畫》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司) and “Shaanxi International Trust – Jiangsu Haili Collective Fund Trust Plan” (《陝國投•江蘇海力集合資金信託計畫》) issued by Shaanxi International Trust Co., Ltd. (陝西省國際信託股份有限公司) with an investment amount of RMB50.70 million and RMB30 million respectively.

On 19 October 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on the Purchase of Luzheng Wantai FOF Tranche 3 Asset Management Plan” (《關於購買魯証萬泰FOF三期資產管理計畫的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 12), to approve the purchase of “Luzheng Wantai FOF Tranche 3 Asset Management Plan” (《魯証萬泰FOF三期資產管理計畫》) issued by LUZHENG FUTURES Company Limited (魯証期貨股份有限公司) with an investment amount of RMB13.20 million.

On 23 November 2017, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited passed the “Proposal on the Purchase of Shandong Trust – Zunxiang Tranche 24 Collective Fund Trust Plan” (《關於購買山東信託•尊享24號集合資金信託計畫的議案》), the “Proposal on the Purchase of Xinhua Trust Huarui Series – Yuhe Tranche 7 – Luoshu CTA Phase-10 Collective Fund Trust Plan” (《關於購買新華信託華睿系列•渝和7號•洛書CTA十期集合資金信託計畫的議案》) and the “Proposal on the Purchase of Luzheng Wantai FOF Tranche 4 Asset Management Plan” (《關於購買魯証萬泰FOF四期資產管理計畫的議案》) (Lu Qi Gu Zi Tou Ji [2017] No. 13), to approve the purchase of “Shandong Trust – Zunxiang Tranche 24 Collective Fund Trust Plan” (《購買山東信託•尊享24號集合資金信託計畫》) issued by Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), the “Xinhua Trust Huarui Series – Yuhe Tranche 7 – Luoshu CTA Phase-10 Collective Fund Trust Plan” (《新華信託華睿系列•渝和7號•洛書CTA十期集合資金信託計畫》) issued by Xinhua Trust Co., Ltd. (新華信託股份有限公司) and the “Luzheng Wantai FOF Tranche 4 Asset Management Plan” (《魯証萬泰FOF四期資產管理計畫》) issued by LUZHENG FUTURES Company Limited (魯証期貨股份有限公司) with an investment amount of RMB20 million, RMB33.33 million and RMB11.80 million respectively.

## V. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

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

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

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

"We hereby confirm that:

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

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

We agree that the Company can disclose the content of this letter, including adding the content of this letter into the 2017 annual report of the Company."

## Significant Events

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

### **VII. APPOINTMENT, CHANGE AND DISMISSAL OF AUDITORS**

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

After the review and approval of the 2015 first extraordinary general meeting convened on 5 January 2015, the Company confirmed to appoint PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as its international and domestic auditors. From then till the end of the Reporting Period, the Company did not change the auditors.

#### **(2) Auditors' Remuneration**

As of 31 December 2017, the remuneration of the Group's auditors was RMB1.65 million in total. Among them, the statutory audit fees of the Company in 2017 prepared in accordance with China Accounting Standards for Business Enterprises, the statutory audit fees of Luzheng Trading in 2017, the statutory audit fees of Luzheng Information Technology in 2017, the statutory audit fees of the Company in 2017 prepared in accordance with International Financial Reporting Standards and the interim review service fees were RMB0.21 million, RMB0.07 million, RMB0.01 million, RMB0.86 million and RMB0.5 million respectively.

Save as disclosed in the paragraph above, no other audit related or non-audit related fees were paid to the auditors by the Group for the year ended 31 December 2017.

# Corporate Governance Report

## I. OVERVIEW OF CORPORATE GOVERNANCE

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

During the Reporting Period, the Company has been in strict compliance with all the code provisions under the CG Code, and also met the requirements of the majority of the recommended best practices thereof.

During the Reporting Period, the Company convened 19 meetings in total, of which there was 2 general meetings, 8 Board meetings, 2 Supervisory Committee meetings, 1 Strategic Committee meeting, 2 Risk Control Committee meetings, 2 Audit Committee meetings, 1 Remuneration and Appraisal Committee meeting, and 1 Nomination Committee meeting.

# Corporate Governance Report

## II. GENERAL MEETING

During the Reporting Period, the Company convened 2 general meetings, the details and resolutions of which are as follows:

### 1. The 2016 annual general meeting of LUZHENG FUTURES Company Limited

On 15 June 2017, the Company convened the 2016 annual general meeting with physical presence, at which the following resolutions were passed:

- (1) The “2016 Work Report of the Board of Directors of LUZHENG FUTURES Company Limited” was considered and passed;
- (2) The “2016 Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited” was considered and passed;
- (3) The “2016 Annual Report of LUZHENG FUTURES Company Limited” was considered and passed;
- (4) The “2016 Profit Distribution Plan of LUZHENG FUTURES Company Limited” was considered and passed;
- (5) The “Remuneration of Accounting Firms in 2016” was considered and passed;
- (6) The “Appointment of Accounting Firms in 2017” was considered and passed;
- (7) The “New Financial Service Framework Agreement with Zhongtai Securities” was considered and passed;
- (8) The “Asset Management Service Agreement with Shandong Steel” was considered and passed;
- (9) The “Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel” was considered and passed;
- (10) The “General Mandate to Issue Domestic Bond Financing Instruments” was considered and passed;
- (11) The “General Mandate to Issue New Domestic Shares and H Shares” was considered and passed; and
- (12) The “Proposed Amendments to the Articles of Association” was considered and passed.

### 2. First Extraordinary General Meeting of LUZHENG FUTURES Company Limited for 2017

On 15 December 2017, the Company convened the First Extraordinary General Meeting for 2017 by the way of voting in person, at which the proposal on “the Proposed Amendments to the Articles of Association” (《建議修訂公司章程》) was considered and passed.

### III. PERFORMANCE OF THE DIRECTORS

#### (1) Summary of the performance of the Directors

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

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

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

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

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

## Corporate Governance Report

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

Name of Directors	No. of Board meetings attended	Attended in person	Attended by means of tele-communication	Attended by proxy	Absent	Two consecutive absents	Attendance at general meetings
							No. of general meetings attended
<b>Executive directors</b>							
Chen Fang	8	3	5	0	0	No	2
Liang Zhongwei	8	3	5	0	0	No	0
<b>Non-executive directors</b>							
Lv Xiangyou	8	2	5	1	0	No	0
Yin Ge	8	3	5	0	0	No	0
Li Chuanyong	8	3	5	0	0	No	0
Liu Feng	8	2	5	1	0	No	0
<b>Independent non-executive directors</b>							
Gao Zhu	8	2	5	1	0	No	2
Yu Xuehui	8	3	5	0	0	No	2
Wang Chuanshun	8	3	5	0	0	No	2
Li Dapeng	8	3	5	0	0	No	2

No. of Board meetings held during the year	8
In which: conducted in person	3
conducted by means of telecommunication voting	5
No. of general meetings held during the year	2

### (3) Board meetings and resolutions during the Reporting Period

During the Reporting Period, the Board of Directors convened a total of 8 Board meetings and details of the meetings and resolutions are as follows:

#### 1. The 6th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 22 March 2017, the Company convened the 6th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal on General Manager’s Report of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度總經理工作報告的議案》);
- (2) reviewed and approved the “Proposal on the Board of Directors’ Report of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度董事會工作報告的議案》);
- (3) reviewed and approved the “Proposal on Annual Results Announcement of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度業績公告議案》);
- (4) reviewed and approved the “Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2016”(《關於魯証期貨股份有限公司2016年度報告(國際財務報告準則)的議案》);
- (5) reviewed and approved the “Proposal on the Annual Report (Accounting Standards for Business Enterprises of PRC) of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度報告(中國企業會計準則)的議案》);
- (6) reviewed and approved the “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度利潤分配方案的議案》);
- (7) reviewed and approved the “Proposal on Report of the Risk Management Indicators of LUZHENG FUTURES Company Limited in 2016” (《關於報告魯証期貨股份有限公司2016年度風險監管指標情況的議案》);
- (8) reviewed and approved the “Proposal on the Remuneration of Accounting Firms of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度會計師事務所薪酬的議案》);
- (9) reviewed and approved the “Proposal on the Appointment of Accounting Firms of LUZHENG FUTURES Company Limited in 2017” (《關於聘請魯証期貨股份有限公司2017年度會計師事務所的議案》);
- (10) reviewed and approved the “Proposal on the General Mandate to Issue Domestic Bond Financing Instruments of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司發行境內債券類融資工具一般性授權的議案》);



## Corporate Governance Report

- (11) reviewed and approved the “Proposal on the General Mandate to Issue New Domestic Shares and H Shares of LUZHENG FUTURES Company Limited” (《關於魯証期貨股份有限公司增發內資股、H股股份一般性授權的議案》); and
- (12) reviewed and approved the “Proposal on Convening the Annual General Meeting of LUZHENG FUTURES Company Limited for 2016” (《關於召開魯証期貨股份有限公司2016年度股東大會的議案》).

### **2. The 7th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 14 April 2017, the Company convened the 7th meeting of the second session of the Board of Directors and approved the “Proposal on Establishment of East China Branch” (《關於設立華東分公司的議案》) by way of voting by telecommunication.

### **3. The 8th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 26 April 2017, the Company convened the 8th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Amendments to the Articles of Association of LUZHENG FUTURES Company Limited” (《關於修訂魯証期貨股份有限公司章程的議案》);
- (2) reviewed and approved the “Proposal on Establishment of Jinan Branch”(《關於設立濟南分公司的議案》);
- (3) reviewed and approved the “Proposal on Establishment of Nanjing Branch”(《關於設立南京分公司的議案》); and
- (4) reviewed and approved the “Proposal on Change of Location of Wuhan Branch (Preparation)” (《關於武漢分公司(籌)變更選址的議案》).

### **4. The 9th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 28 April 2017, the Company convened the 9th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal on Signing of Continuing Connected Transactions Framework Agreements with Connected Parties (Exemption from Approval of Independent Shareholders)” (《關於與關連方簽署持續性關連交易框架協定的議案(豁免獨立股東批准)》); and
- (2) reviewed and approved the “Proposal on Signing of Continuing Connected Transactions Framework Agreements with Connected Parties (Subject to Approval of Independent Shareholders)” (《關於與關連方簽署持續性關連交易框架協定的議案(須獨立股東批准)》).

### **5. The 10th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 9 June 2017, the Company convened the 10th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on the Relocation to a New Address of Wenzhou Branch” (《關於溫州營業部搬遷新址的議案》); and
- (2) reviewed and approved the “Proposal on the Relocation to a New Address of Guangzhou Branch” (《關於廣州營業部搬遷新址的議案》).

### **6. The 11th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 27 July 2017, the Company convened the 11th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on the Environmental, Social and Governance Report of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度環境、社會及管治報告的議案》); and
- (2) reviewed and approved the “Proposal on Change of Place of Business of Jinan Branch” (《關於變更濟南營業部營業場所的議案》).

### **7. The 12th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 28 August 2017, the Company convened the 12th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting in person:

- (1) reviewed and approved the “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2017” (《關於魯証期貨股份有限公司截至2017年6月30日止六個月之中期業績公告的議案》);
- (2) reviewed and approved the “Proposal on 2017 Interim Report of LUZHENG FUTURES Company Limited” (《關於〈魯証期貨股份有限公司2017中期報告〉的議案》);
- (3) reviewed and approved the “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2017” (《關於魯証期貨股份有限公司2017年中期利潤分配方案的議案》);

## Corporate Governance Report

- (4) reviewed and approved the “Proposal to Report of the Interim Risk Management Indexes of LUZHENG FUTURES Company Limited for 2017” (《關於報告魯証期貨股份有限公司2017年中期風險監管指標的議案》); and
- (5) reviewed and approved the “Proposal on the Inside Information Management System of LUZHENG FUTURES Company Limited” (《關於〈魯証期貨股份有限公司內幕消息管理制度〉的議案》).

### **8. The 13th meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 26 October 2017, the Company convened the 13th meeting of the second session of the Board of Directors and approved the following resolutions by way of voting by telecommunication:

- (1) reviewed and approved the “Proposal on Amendments to the Articles of Association of LUZHENG FUTURES Company Limited (《關於修訂〈魯証期貨股份有限公司章程〉的議案》);
- (2) reviewed and approved the “Proposal on Change of Place of Business of Beijing Branch” (《關於變更北京營業部營業場所的議案》);
- (3) reviewed and approved the “Proposal on Change of Place of Business of Tianjin Branch” (《關於變更天津營業部營業場所的議案》);
- (4) reviewed and approved the “Proposal on Change of Place of Business of Rizhao Branch” (《關於變更日照營業部營業場所的議案》);
- (5) reviewed and approved the “Proposal on Deregistration of Taian Branch” (《關於撤銷泰安營業部的議案》);
- (6) reviewed and approved the “Proposal on Establishment of Agency Channel Department” (《關於設立機構渠道部的議案》); and
- (7) reviewed and approved the “Proposal on Convening the First Extraordinary General Meeting of LUZHENG FUTURES Company Limited for 2017” (《關於召開魯証期貨股份有限公司2017年第一次臨時股東大會的議案》).

## (4) Training for Directors

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

Name of Directors	Date	Duration	Organizer	Content
Chen Fang	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Liang Zhongwei	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Lv Xiangyou	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Yin Ge	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Li Chuanyong	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Liu Feng	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Gao Zhu	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Yu Xuehui	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management

## Corporate Governance Report

Name of Directors	Date	Duration	Organizer	Content
Wang Chuanshun	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Li Dapeng	28 August 2017	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management

### (5) Appointment, Reappointment and Removal of Directors

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

## IV. WORK PERFORMANCE OF BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

As at the end of the Reporting Period, the Board comprised of 10 Directors: Mr. CHEN Fang as Chairman and an executive Director, Mr. LIANG Zhongwei as an executive Director, Mr. LV Xiangyou, Mr. YIN Ge, Mr. LI Chuanyong and Mr. LIU Feng as non-executive Directors, and Mr. GAO Zhu, Mr. YU Xuehui, Mr. WANG Chuanshun and Mr. LI Dapeng as independent non-executive Directors.

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

- (1) to convene the Shareholders' general meetings and report its work to the Shareholders' general meetings;
- (2) to implement the resolutions of the Shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans, specific annual business objectives and financing plans other than the issuance of corporate debentures or other securities and listings;

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

## Corporate Governance Report

- (20) to decide on the risk investment, acquisition and disposal of assets, pledge of assets, external guarantees, trust asset management and connected transactions of the Company within the authorization of the Shareholders' general meeting; and
- (21) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange where the Company's shares are listed, Shareholders' general meetings and the Articles of Association.

### **(2) Duties concerning corporate governance of the Board**

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

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

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

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

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

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

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

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

#### **(4) Composition and Main Duties of Special Committees**

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

1. Currently, the Strategic Development Committee comprises 7 members: Mr. CHEN Fang as an executive Director, Mr. GAO Zhu, Mr. YU Xuehui and Mr. LI Dapeng as the independent non-executive Directors, and Mr. LV Xiangyou, Mr. LI Chuanyong and Mr. LIU Feng as the non-executive Directors. Mr. CHEN Fang, an executive Director, is currently the chairman of the Strategic Development Committee. The main duties of the Strategic Development Committee of the Company are as follows:
  - (1) to stay informed of and understand the general development conditions of the Company;
  - (2) to study and understand domestic and overseas industrial developments and relevant national policies;
  - (3) to study and formulate medium and long-term development strategies, plans and proposals of the Company, make recommendations on and evaluate and monitor the implementation of the medium and long-term strategic goals of the Company;
  - (4) to review the medium and long-term development goals and development plans of each business and management segments of the Company;
  - (5) to review and make recommendations on the annual operation and investment plans of the Company;
  - (6) to study and make recommendations on the proposals to increase or decrease the Company's registered capital and the merger, division, dissolution or change of corporate form of the Company;
  - (7) to study and make recommendations on matters requiring Board's review and approval, such as material investment, financing, provision of guarantee, capital operation, asset reorganization and asset operation and management of the Company;
  - (8) to study and make recommendations on proposals to development new markets, businesses and products by the Company;



## Corporate Governance Report

- (9) to study and make recommendations on material structural reorganization and adjustment plan of the Company;
  - (10) to study, discuss and make recommendations on other material matters affecting the development the Company; and
  - (11) other duties as assigned by the Board of Directors.
2. Currently, the Risk Control Committee comprises 5 members: Mr. YU Xuehui and Mr. GAO Zhu as the independent non-executive Directors, Mr. LIANG Zhongwei as an executive Director, and Mr. YIN Ge and Mr. LI Chuanyong as non-executive Directors. Mr. YU Xuehui, an independent non-executive Director, is currently the chairman of the Risk Control Committee. The main duties of the Risk Control Committee of the Company are as follows:
- (1) to study and assess the risk exposures of the Company;
  - (2) to study and assess the risk control conditions of the Company;
  - (3) to make recommendations to improve the risk management and internal control systems of the Company;
  - (4) to monitor the legality and compliance of the basic management system, decision-making process and risk control system of the Company; and
  - (5) other duties as assigned by the Board of Directors.
3. Currently, the Audit Committee comprises 5 members: Mr. WANG Chuanshun, Mr. GAO Zhu and Mr. LI Dapeng as the independent non-executive Directors, Mr. LV Xiangyou and Mr. LIU Feng as the non-executive Directors. Mr. WANG Chuanshun, an independent non-executive Director, is currently the chairman of the Audit Committee. The main duties of the Audit Committee of the Company are as follows:
- (1) to provide suggestions to the Board concerning the appointment, reappointment or change of external auditors, and handle issues relating to the resignation or dismissal of such external auditors and make suggestions for the appointment contracts and audit fees of relevant external auditors; to evaluate the work of external auditors, and supervise the independence and objectivity of external auditors, and the effectiveness, quality and results of work procedures of external auditors.

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

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

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

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

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

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

## Corporate Governance Report

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

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

## Corporate Governance Report

5. Currently, the Nomination Committee comprises 5 members: Mr. LIANG Zhongwei as an executive Director, Mr. LI Dapeng, Mr. YU Xuehui and WANG Chuanshun as independent non-executive Directors, and Mr. YIN Ge as a non-executive Director. Mr. LI Dapeng, an independent non-executive Director, is currently the chairman of the Nomination Committee. The main duties of Nomination Committee of the Company are as follows:
- (1) to study the standards and procedures for selection of Directors and senior management staff, and make recommendations to the Board;
  - (2) the Committee shall study the structure, number of members and composition (including the skills, knowledge and experience of Directors) of the Board at least once a year, and make recommendations concerning changes to the Board arising from strategic changes of the Company, and the Committee has formulated a policy on diversity of members of the Board (for details please refer to the section “Policy on Board Diversity”) under the Corporate Governance Report;
  - (3) to make recommendations to the Board of Directors in respect of candidates for Directors and senior management staff and examine their qualifications, and make recommendations to the Board of Directors in respect of the appointment or reappointment of Directors and the succession plans of Directors (in particular the chairman of the Board of Directors and the president);
  - (4) to evaluate the independence of the independent non-executive Directors; and
  - (5) other duties as assigned by the Board.

### (5) Special Committees’ Meetings

#### 1. Strategic Development Committee

On 19 December 2017, the 1st meeting of the Strategic Development Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited discussed the development strategy of the Company by on-site discussion.

Attendance of the members of the Strategic Development Committee at the meeting during the Reporting Period is as follows:

Name	Number of meetings attended/ Number of meetings held
Chen Fang (Chairman of Strategic Development Committee)	1/1
Lv Xiangyou	1/1
Li Chuanyong	1/1
Liu Feng	1/1
Gao Zhu	1/1
Yu Xuehui	1/1
Li Dapeng	1/1

## 2. Risk Control Committee

On 22 March 2017, the second meeting of the Risk Control Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal to Report of the Annual Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2016” (《關於報告魯証期貨股份有限公司2016年度風險監管指標的議案》) by way of voting in person.

On 28 August 2017, the third meeting of the Risk Control Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal to Report of the Interim Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2017” (《關於報告魯証期貨股份有限公司2017年中期風險監管指標的議案》) by way of voting in person.

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

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

## Corporate Governance Report

### 3. Audit Committee

On 22 March 2017, the second meeting of the Audit Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Annual Results Announcement of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度業績公告議案》), the “Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度報告(國際財務報告準則)的議案》), the “Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度報告(中國企業會計準則)的議案》), the “Proposal on Annual Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度利潤分配方案的議案》), the “Proposal on the Remuneration of Accounting Firms of LUZHENG FUTURES Company Limited for 2016” (《關於魯証期貨股份有限公司2016年度會計師事務所薪酬的議案》) and the “Proposal on the Appointment of Accounting Firms of LUZHENG FUTURES Company Limited for 2017” (《關於聘請魯証期貨股份有限公司2017年度會計師事務所的議案》) by way of voting in person.

On 28 August 2017, the third meeting of the Audit Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2017” (《關於魯証期貨股份有限公司截至2017年6月30日止六個月之中期業績公告的議案》), the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2017” (《關於魯証期貨股份有限公司2017中期報告的議案》), and the “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2017” (《關於魯証期貨股份有限公司2017年中期利潤分配方案的議案》) by way of voting in person.

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

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

### 4. Remuneration and Appraisal Committee

On 19 December 2017, the first meeting of the Remuneration and Appraisal Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Adjusting the Basic Remuneration of Senior Management of LUZHENG FUTURES Company Limited” (《關於調整公司高級管理人員基本薪酬的議案》) by way of voting in person.

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

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

## 5. Nomination Committee

On 19 December 2017, the third meeting of the Nomination Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Change of the Secretary of the Board of Directors, Joint Company Secretary and Authorized Representative of LUZHENG FUTURES Company” (《關於變更魯証期貨股份有限公司董事會秘書、聯席公司秘書及授權代表的議案》) and the “Proposal on the Appointment of the Deputy General Manager of LUZHENG FUTURES Company Limited” (《關於聘任魯証期貨股份有限公司副總經理的議案》) by way of voting in person.

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

Name	Number of meetings attended/ Number of meetings held
Li Dapeng (Chairman of Nomination Committee)	1/1
Yu Xuehui	1/1
Wang Chuanshun	1/1
Liang Zhongwei	1/1
Yin Ge	1/1



### V. CHAIRMAN AND GENERAL MANAGER

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

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

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

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

1. Presiding over the production, operation and management of the Company, and report to the Board of Directors on his work;
2. Arranging the implementation of the resolutions of the Board of Directors;
3. Arranging the implementation of the Company's annual business plan, investment and financing plans formulated by the Board of Directors;

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

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

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

### VII. PERFORMANCE OF DUTIES BY INDEPENDENT NON- EXECUTIVE DIRECTORS

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

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

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

### VIII. SUPERVISION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

The Board has reviewed the risk management and internal control system of the Group and is of the view that the risk management and internal control system is effective and sufficient. With respect to the process of identifying, assessing and managing significant risk, the Company mainly adopts the following measures:

- (1) Develop various types of risk warning and limit indicator systems according to the risk appetite; continue to monitor risk warning and limit indicator, and report to the Board and senior management the use of the risk limits; formulate relevant correction measures and submit to the risk management and internal control committee under senior management for review and the adoption of necessary risk diversification measures when risk limits are close to the monitoring indicator limits.

- (2) Conduct regularly comprehensive risk stress tests with uniform scenario and irregularly special stress tests to assess the impact of the significant risk events; formulate appropriate risk contingency plan when necessary and apply the stress test results when making the decisions in relation to the risk management of the Company and each of the operation management.
- (3) Identify and assess various risks on regular basis and incorporate the assessment and management advices into the comprehensive risk management report which shall be submitted to management and the Board for review.

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

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

## Corporate Governance Report

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

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

### IX. OTHER RELEVANT MATTERS

#### (i) Auditors and remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as auditors of the Company for the financial statements prepared by the Company in accordance with International Financial Reporting Standards and Accounting Standards for Business Enterprises of PRC for the year ended 31 December 2017, respectively. During the period covered by this report, there was no occurrence of disagreement from the Board of Directors to the opinions of selection and appointment of external auditor from the Audit Committee. For details of the auditors' remuneration, Please refer to "VII. Appointment, Change and Dismissal of Auditors" in Chapter X of this report.

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

The Board of Directors acknowledged its responsibility of preparing the consolidated financial statements of the annual report for the year ended 31 December 2017 of the Group.

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

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

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

### **(iii) Company secretaries**

For the year ended 31 December 2017, Mr. Meng Tao and Ms. Ng Wing Shan were joint company secretaries of the Company. Ms. Meng Tao subsequently resigned on 26 January 2018 and on the same date, Mr. Liu Yunzhi was appointed as one of the joint company secretaries of the Company. Ms. Ng Wing Shan (assistant vice president of SW Corporate Services Group Limited) is one of our joint company secretaries and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Liu Yunzhi, a joint company secretary and the secretary to the Board of Directors, is the main internal contact person between Ms. Ng Wing Shan and the Company. Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2017, Mr. Meng Tao and Ms. Ng Wing Shan, the former joint company secretaries, had attended 15 or more hours of relevant professional training.

### **(iv) Rights of shareholders**

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

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

## Corporate Governance Report

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

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

When the Company convenes a general meeting the shareholders holding 3% or more of the shares carrying voting rights of the Company, have the right to propose a provisional proposal in writing to the Company 10 days before convening the general meeting. The Company shall place the provisional proposal which falls within the functions and powers of general meetings on the agenda for the said meeting. Please refer to Articles 63, 66 and 90 of Chapter VIII of the Articles of Association for specific details. The Articles of Association have been published on the websites of the Hong Kong Stock Exchange and the Company.

### **(v) Investor Relations**

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

### **(vi) Policy on Board Diversity**

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

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

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

### (vii) Amendments to the Articles of Association

During the Reporting Period, the amendments to the Articles of Association were considered and approved at the annual general meeting of 2016 convened on 15 June 2017 and the first extraordinary general meeting of 2017 on 15 December 2017, respectively. For the details on the amendments to the Articles of Association, please refer to the announcements dated on 26 April 2017 and 26 October 2017 and the notices dated 23 May 2017 and 30 October 2017 of the Company.

During the reporting period, the amended Articles of Association became effective on 15 June 2017 and 15 December 2017, respectively, and were published on the website of the Hong Kong Stock Exchange and the website of the Company on the effective date mentioned above.

Save as the disclosed above, the Company did not make any significant changes to the Articles of Association of the Company during the Reporting Period.

### (viii) Remuneration of the Senior Management

The remuneration paid to members of the senior management by bands for the year ended 31 December 2017 is set out below:

Remuneration bands	Year ended 31 December 2017 Number
RMB500,001 to RMB1,000,000	2
RMB1,000,001 to RMB2,000,000	3
RMB2,000,001 to RMB3,000,000	2
	7

### (ix) Terms of office of non-executive Directors

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



# Internal Control

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

## I. ESTABLISHMENT OF INTERNAL CONTROL STRUCTURE

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

## II. IMPLEMENTATION AND OPERATION OF INTERNAL CONTROL SYSTEM

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

### III. SUPERVISION AND INSPECTION OF INTERNAL CONTROL

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

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

### IV. CONCLUSION OF THE ASSESSMENT OF INTERNAL CONTROL

During the Reporting Period, the Company formulated its internal control system by taking into consideration of its own business development and in accordance with relevant laws and regulatory requirements on securities and futures in the PRC and Hong Kong, adapted to the management requirements of the Company and resulted in the effective implementation of such system, which achieved the compliance management purpose of the Company and reasonably assured the authenticity and completeness of the financial reports. The Company's established internal control system could ensure the Company's legal and compliance operations and the implementation of the Company's rules and regulations. It could also effectively prevent business risk and moral hazard and protect the integrity and safety of capital assets of the Company and its customers. In addition, it could guarantee the reliability, completeness and timeliness of the Company's business records, financial information and other information. Such system also served as an effective preventive measure for managing and responding to significant risks, checking against financial frauds, correcting errors in important procedures and there were no potential significant risks in respect of significant risk management.

As at 31 December 2017, the Company's internal control system was basically sound and effective.

# Independent Auditor's Report



羅兵咸永道

**TO THE SHAREHOLDERS OF LUZHENG FUTURES COMPANY LIMITED**  
(incorporated in China with limited liability)

## Opinion

### What we have audited

The consolidated financial statements of LUZHENG FUTURES Company Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 145 to 256, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Independent Auditor's Report

### Basis for Opinion

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

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

### Independence

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

### Key Audit Matters

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

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

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

## Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Consolidation assessment and disclosures of structured entities</b>	
<p>Refer to notes 3.2.4, 20.3 and 48 to the Group's consolidated financial statements.</p> <p>The Group has invested in a number of structured entities (primarily asset management schemes, trust schemes, private securities investment funds, bank and other wealth management products, etc.) which were managed or invested by the Group itself. As at 31 December 2017, investments in structured entities of approximately RMB401 million were consolidated by the Group while other structured entities of RMB1,012 million were not consolidated.</p> <p>We placed our audit emphasis on this matter because of the significance of the amounts and the level of management judgement involved in consolidation assessment based on the three elements of control (power, variable returns and linkage between these two elements).</p>	<p>Our audit procedures in relation to management assessment on consolidation of structured entities included:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the management's control process over the application of the relevant accounting standards in consolidation assessment of structured entities, including the management's identification and maintenance of the list of structured entities, as well as the preparation and review over consolidation.</li> <li>• Performed audit sampling of the structured entities that the Group invested and managed by inspecting legal and other supporting documents and evaluating management's consolidation assessment of those structured entities. For these samples selected, the following procedures were performed: <ul style="list-style-type: none"> <li>– Analyzed business architectures and related contract terms, and evaluated whether the Group has the power over structured entities.</li> <li>– Obtained contract terms about variable return of structured entities, which contained fixed management fee and performance reward earned in capacity of the asset manager, and return from the Group's investments in structured entities.</li> <li>– Re-calculated the magnitude and variability of returns to the Group, analyzed the Group's role as principal or agent, and compared these results with management's assessment.</li> </ul> </li> <li>• Tested the consolidation process to assess whether the extent of disclosures were appropriate.</li> </ul> <p>Based the above procedures performed, we found that the key management judgements in relation to consolidation assessment of structured entities and the related disclosures were supported by the evidence we gathered.</p>

## Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Valuation of financial instruments held at fair value</b>	
<p>Refer to notes 3.1.8, 22, 27, 28, 37 and 46.2 to the Group's consolidated financial statements.</p> <p>As at 31 December 2017, the Group's financial instruments held at fair value included various financial assets and liabilities stated at RMB1,077 million and RMB398 million respectively.</p> <p>Trust schemes, bank and other wealth management products, which stated at RMB409 million, were classified at level 3 and Discounted Cash Flows Model was applied in the valuation. The remaining instruments were classified at either level 1 or level 2 in the fair value hierarchy and were valued through observable market data or net asset value provided by the relevant asset managers.</p> <p>Valuation of the Group's financial instruments held at fair value was a key area of audit focus due to the materiality of the balances. For those financial instruments that were classified at level 3 (i.e. trust schemes, bank and other wealth management products), our audit also focused on the significant management judgments applied in determining the unobservable parameters to the model, including expected future cash flows, expected recovery date and discount rates corresponded to the expected risk level.</p>	<p>Our audit procedures in relation to the valuation of financial instruments included the following:</p> <ul style="list-style-type: none"> <li>• Understood and evaluated the management procedures and controls over the identification, measurement and oversight of valuation risk of financial instruments.</li> <li>• Assessed the appropriateness of the valuation methodologies applied by the Group and compared methodologies with our knowledge of the current industry practice.</li> <li>• For the valuation of level 1 and level 2 non-derivative instruments, we performed sampling test to verify the reasonableness of fair value by independently obtaining the observable market data and the net asset value provided by relevant asset managers, and comparing the prices used by the Group with these data. For derivative instruments (primarily options), we evaluated the key parameters of the options valuation model against open market value, and independently checked the calculation of the fair value.</li> <li>• For the valuation of trust schemes, bank and other wealth management products that were classified at level 3, which depended on unobservable parameters, we challenged the assumptions and judgements made by management with our knowledge of the current industry practice. We assessed the external evidence, e.g., legal documents, updated trustee's credit assessment report on underlying investment and the trustee's credit standing, to corroborate the management's estimation of the future cash flows, expected recovery date and discount rates. In addition, we applied Discounted Cash Flows Model to recalculate the fair value of all the trust schemes, bank and other wealth management products that were classified at level 3.</li> </ul> <p>Based on the procedures we performed, we found that management's key judgements applied in its fair value measurement were appropriate and supported by the evidence we gathered.</p>

## Independent Auditor's Report

### Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

## Independent Auditor's Report

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

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

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

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



## Independent Auditor's Report

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

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

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 22 March 2018

# Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2017	2016
Commission and fee income	5	303,568	264,432
Commission and fee expense	5	(236,904)	(167,528)
<b>Net commission and fee income</b>		<b>66,664</b>	96,904
Interest income	6	218,430	169,125
Interest expense	6	(15,159)	(16,034)
<b>Net interest income</b>		<b>203,271</b>	153,091
Gains on physical commodities trading	7	7,948	10,643
Net investment gains	8	55,719	51,400
Other income	9	132,263	86,877
<b>Operating income</b>		<b>465,865</b>	398,915
Staff costs	10	(133,863)	(120,818)
Commission to brokerage agents		(7,679)	(16,912)
Introducing broker commission		(7,670)	(8,162)
Depreciation and amortization	11	(9,977)	(8,358)
Impairment losses	12	(544)	(1,562)
Other operating expenses	13	(98,644)	(88,294)
<b>Operating expenses</b>		<b>(258,377)</b>	(244,106)
<b>Operating profit</b>		<b>207,488</b>	154,809
Share of losses of investment in associates	19	(752)	(1,946)
Other (losses)/gains, net	14	(168)	2,063
<b>Profit before income tax</b>		<b>206,568</b>	154,926
Income tax expense	15	(49,603)	(42,150)
<b>Profit for the year</b>		<b>156,965</b>	112,776

## Consolidated Statement of Comprehensive Income (Continued)

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2017	2016
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value	34	164	(873)
– Income tax effect on changes in fair value	34	(41)	219
– Amounts reclassified to profit or loss upon disposal or impairment	34	(1,528)	(614)
Currency translation differences		(1,294)	1,741
<b>Other comprehensive income for the year, net of tax</b>		<b>(2,699)</b>	473
<b>Total comprehensive income for the year</b>		<b>154,266</b>	113,249
Profit attributable to:			
– Shareholders of the Company		158,631	113,003
– Non-controlling interests	20	(1,666)	(227)
		<b>156,965</b>	112,776
Total comprehensive income attributable to:			
– Shareholders of the Company		155,907	113,476
– Non-controlling interests	20	(1,641)	(227)
		<b>154,266</b>	113,249
<b>Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)</b>			
<b>Basic/Diluted</b>	16	<b>0.16</b>	0.11

# Consolidated Statement of Financial Position

As at 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2017	31 December 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	44,966	42,239
Intangible assets	18	14,735	7,787
Investment in associates	19	45,491	28,743
Other non-current assets	21	3,432	1,862
Available-for-sale financial assets	22	264,820	16,514
Deferred income tax assets	23	7,017	5,823
Refundable deposits	24	25,599	25,516
<b>Total non-current assets</b>		<b>406,060</b>	128,484
<b>Current assets</b>			
Physical commodities	25	62,397	72,560
Other current assets	26	113,877	136,825
Available-for-sale financial assets	22	223,586	533,718
Derivative financial assets	27	63,087	609
Financial assets at fair value through profit or loss	28	526,967	269,706
Financial assets held under resale agreements	29	112,532	12,199
Deposits with exchange-clearing organizations	30	2,737,775	2,196,722
Bank balances held for clients	31	3,782,507	3,855,245
Cash and bank balances	32	800,146	998,225
<b>Total current assets</b>		<b>8,422,874</b>	8,075,809
<b>Total assets</b>		<b>8,828,934</b>	8,204,293
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	33	1,001,900	1,001,900
Share premium	34	650,630	650,630
Other reserves	34	209,798	176,354
Retained earnings		294,243	219,871
<b>Total equity attributable to shareholders of the Company</b>		<b>2,156,571</b>	2,048,755
Non-controlling interests	20	28,132	29,773
<b>Total equity</b>		<b>2,184,703</b>	2,078,528

## Consolidated Statement of Financial Position (Continued)

As at 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2017	31 December 2016
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	23	2,573	76
Other non-current liabilities		3,810	1,783
<b>Total non-current liabilities</b>		<b>6,383</b>	1,859
<b>Current liabilities</b>			
Borrowings	35	13,000	–
Other current liabilities	36	114,460	76,505
Current income tax liabilities		14,074	23,555
Derivative financial liabilities	27	70,684	606
Financial liabilities at fair value through profit or loss	37	326,899	300,539
Accounts payable to brokerage clients	38	6,098,731	5,722,701
<b>Total current liabilities</b>		<b>6,637,848</b>	6,123,906
<b>Total liabilities</b>		<b>6,644,231</b>	6,125,765
<b>Total equity and liabilities</b>		<b>8,828,934</b>	8,204,293

# Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company					Total equity
	Share capital (Note 33)	Share premium (Note 34)	Other reserves (Note 34)	Retained earnings	Non-controlling interests (Note 20.2)	
<b>Balance at 1 January 2017</b>	<b>1,001,900</b>	<b>650,630</b>	<b>176,354</b>	<b>219,871</b>	<b>29,773</b>	<b>2,078,528</b>
Profit for the year	-	-	-	158,631	(1,666)	156,965
Other comprehensive income for the year	-	-	(2,724)	-	25	(2,699)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(2,724)</b>	<b>158,631</b>	<b>(1,641)</b>	<b>154,266</b>
Net appropriation to reserves	-	-	36,168	(36,168)	-	-
Dividends relating to 2016	-	-	-	(48,091)	-	(48,091)
<b>Balance at 31 December 2017</b>	<b>1,001,900</b>	<b>650,630</b>	<b>209,798</b>	<b>294,243</b>	<b>28,132</b>	<b>2,184,703</b>

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

# Consolidated Statement of Cash Flows

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2017	2016
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>206,568</b>	154,926
Adjustments for:		
Depreciation and amortization	9,977	8,358
Impairment losses	544	1,562
Interest expense on borrowings	1,056	–
Net (gains)/losses on disposal of property and equipment and intangible assets	(32)	66
Foreign exchange (gains)/losses	(233)	334
Realized gains from disposal of available-for-sale financial assets	(6,334)	(3,795)
Dividends and interest income from available-for-sale financial assets and term deposits	(53,951)	(20,793)
Share of losses of investment in associates	752	1,946
	<b>158,347</b>	142,604
<b>Net increase in operating assets:</b>		
Net decrease/(increase) in bank balances held for clients	72,738	(859,004)
Net (increase)/decrease in deposits with exchange-clearing organizations	(494,211)	416,891
Net increase in financial assets at fair value through profit and loss and derivative financial assets	(319,739)	(246,307)
Net increase in financial assets held under resale agreements	(100,333)	(12,199)
Net decrease/(increase) in other assets	22,206	(112,877)
Net decrease/(increase) in physical commodities	10,163	(68,920)
	<b>(809,176)</b>	(882,416)
<b>Net increase in operating liabilities:</b>		
Net increase in accounts payable to brokerage clients	376,030	509,167
Net increase/(decrease) in financial liabilities at fair value through profit or loss and derivative financial liabilities	80,112	(44,394)
Net increase in other liabilities	40,422	34,158
	<b>496,564</b>	498,931
<b>Income tax paid</b>	<b>(57,781)</b>	(29,671)
<b>Net cash outflow from operating activities</b>	<b>(212,046)</b>	(270,552)

## Consolidated Statement of Cash Flows (Continued)

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2017	2016
<b>Cash flows from investing activities</b>		
Payment for investment in associates	(17,500)	(24,878)
Dividends and interest received from available-for-sale financial assets and term deposits	52,912	20,793
Purchases of property and equipment, intangible assets and other long-term assets	(20,848)	(6,005)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	291	114
Payment for purchases of available-for-sale financial assets and term deposits	(1,178,820)	(1,307,031)
Proceeds on maturity and disposal of available-for-sale financial assets and term deposits	1,379,281	1,128,731
<b>Net cash inflow/(outflow) from investing activities</b>	<b>215,316</b>	<b>(188,276)</b>
<b>Cash flows from financing activities</b>		
Proceeds from subscription to consolidated structured entities	316,262	299,936
Payment for redemption from consolidated structured entities	(299,936)	(144,470)
Proceeds from borrowings (Note 41)	48,000	–
Repayment of borrowings (Note 41)	(35,975)	–
Proceeds from capital contributions by minority shareholders of a subsidiary	–	30,000
Dividends paid to company's shareholders	(48,091)	(43,082)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(19,740)</b>	<b>142,384</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(16,470)</b>	<b>(316,444)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>241,878</b>	<b>558,656</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>233</b>	<b>(334)</b>
<b>Cash and cash equivalents at end of year (Note 39)</b>	<b>225,641</b>	<b>241,878</b>

The financial statements on pages 145 to 151 were approved by the Board of Directors on 22 March 2018 and were signed on its behalf:

\_\_\_\_\_  
Name of Director

\_\_\_\_\_  
Name of Director



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 1 General information

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

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

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

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

The Company and its subsidiary (the “Group”) are principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, asset management, commodity trading, registration and settlement service and other business activities as permitted by the CSRC.

The consolidated financial statements were authorised for issue by the Board on 22 March 2018.

## 2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (the “IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.2.

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (Continued)

### 2.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
- Disclosure initiative – amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 41.

### 2.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

#### **IFRS 9 Financial instruments**

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

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the Group's debt instruments that are currently classified as available-for-sale (AFS) do not meet the criteria to be classified either as at fair value through other comprehensive income (FVOCI) or at amortised cost and RMB387,993 thousand will have to be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value change is zero and there will therefore be no impact on retained earnings from the reclassification.

The Group also expects that certain investment in other wealth management products classified as AFS will be qualified for classification at amortised cost going forward. Their fair value of RMB10,023 thousand will be deemed to be the starting amortised cost for these assets as at 1 January 2018 and there will therefore be no impact on retained earnings from the reclassification.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (Continued)

### 2.2 New standards and interpretations not yet adopted (Continued)

#### **IFRS 9 Financial instruments (Continued)**

The Group expects that certain equity instruments currently classified as AFS financial assets amounted to RMB88,990 thousand will be reclassified to FVPL. Related fair value gains of RMB164 thousand will have to be transferred from the AFS financial assets reserve to retained earnings on 1 January 2018.

The other financial assets held by the Group include:

- equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in loss allowance.

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

IFRS 9 is effective for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (Continued)

### 2.2 New standards and interpretations not yet adopted (Continued)

#### **IFRS 15 Revenue from Contracts with Customers**

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

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

At this stage, the Group estimates that the impact of applying the new standards on the Group's financial statements is limited.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

#### **IFRS 16 Leases**

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments RMB29,181 thousand, see note 42. The Group estimates that approximately 3.2% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (Continued)

### 2.2 New standards and interpretations not yet adopted (Continued)

#### IFRS 16 Leases (Continued)

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

## 3 Summary of significant accounting policies and accounting estimates

### 3.1 Summary of significant accounting policies

#### 3.1.1 Accounting year

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

#### 3.1.2 Consolidation

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

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.2 Consolidation (Continued)

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

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

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

##### 3.1.3 Disposal of subsidiaries

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

##### 3.1.4 Associates

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.4 Associates (Continued)

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

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

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

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

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

#### 3.1.5 Separate financial statements

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.5 Separate financial statements (Continued)

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

#### 3.1.6 Foreign currency translation

##### (1) *Functional and presentation currency*

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

##### (2) *Transactions and balances*

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

##### (3) *Group companies*

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.6 Foreign currency translation (Continued)

##### (3) Group companies (Continued)

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

#### 3.1.7 Cash and cash equivalents

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

#### 3.1.8 Financial instruments

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

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

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.8 Financial instruments (Continued)

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

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

###### (2) *Classification and measurement*

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

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

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

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

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

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

##### (2) Classification and measurement (Continued)

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

- (ii) the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at fair value through profit or loss.

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

###### (b) Loans and receivables

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

##### (2) Classification and measurement (Continued)

###### (c) Available-for-sale financial assets

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

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

##### (2) Classification and measurement (Continued)

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

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

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

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

###### (e) Other financial liabilities

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

##### (2) **Classification and measurement (Continued)**

###### (e) *Other financial liabilities (Continued)*

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

##### (3) **Determination of fair value**

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

##### (4) *Derivative financial instruments*

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

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

##### (5) *Resale agreements*

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.8 Financial instruments (Continued)

###### (6) Impairment of financial assets

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

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

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

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

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

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.8 Financial instruments (Continued)

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.8 Financial instruments (Continued)

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

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

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

##### (7) Offsetting financial instruments

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

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

#### 3.1.9 Physical commodities

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.9 Physical commodities (Continued)

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

##### 3.1.10 Property and equipment

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.10 Property and equipment (Continued)

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

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

#### 3.1.11 Intangible assets

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

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

#### 3.1.12 Long-term prepaid expenses

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.13 Impairment of non-financial assets

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

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

#### 3.1.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.15 Employee benefits

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

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

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

#### 3.1.16 Revenue recognition

##### (1) *Commission and fee income*

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.16 Revenue recognition (Continued)

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

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

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

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

##### 3.1.17 Government grants

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

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

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.18 Deferred income tax assets and liabilities

##### (1) *Inside basis differences*

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

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

##### (2) *Outside basis differences*

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.18 Deferred income tax assets and liabilities (Continued)

###### (3) *Offsetting*

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

##### 3.1.19 Leases

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

##### 3.1.20 Contingent liabilities

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

##### 3.1.21 Provisions

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.22 Dividend distribution

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

#### 3.1.23 Segment reporting

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

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

#### 3.1.24 Assets segregated for brokerage clients

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

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

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

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.25 Accounts payable to brokerage clients

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

#### 3.2 Summary of significant accounting estimates and judgments

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

##### 3.2.1 Impairment of available-for-sale financial assets

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

##### 3.2.2 Fair value of financial instruments

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

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

### 3.2 Summary of significant accounting estimates and judgments (Continued)

#### 3.2.3 Income taxes

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

#### 3.2.4 Determination of consolidation scope

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

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

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

A trust scheme is established by a third-party asset manager where the Group holds a part of the units. The manager of the trust scheme is mainly responsible for fund administration with very low management fee level. Assets held by the trust scheme are entirely invested in the asset management scheme which the Company is the asset manager. By assessing the management fee and performance reward earned in capacity of the asset manager, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 4 Taxation

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

	Tax basis	Tax rate
Corporate income tax/Profit tax	Taxable profit	25%/16.5%
Value added tax ("VAT") – general taxpayer <sup>(1)</sup>	Taxable value added (VAT payable is calculated by VAT-output less deductible VAT-input)	17%/13%/11%/6%
Value added tax ("VAT") – small scale taxpayer <sup>(2)</sup>	Taxable value added (VAT payable is calculated by VAT-output)	3%
Business tax <sup>(1)</sup>	Taxable operating income	5%
City construction and maintenance tax	Business tax and VAT paid	7%

- (1) According to "Notice of overall implementation of the placement of business tax with VAT" issued by the Ministry of Finance ("MOF") and the State Administration of Taxation, the Group's incomes from brokerage service, transfer of financial products, etc. are within the ambit of VAT since 1 May 2016. Before 1 May 2016, incomes from these transactions aforementioned are within the ambit of business tax and the tax rate is 5%.
- (2) A subsidiary of the Group and some business departments of the Company are small-scale taxpayers and the tax rate is 3%.

### 5 Net commission and fee income

	Year ended 31 December	
	2017	2016
<b>Commission and fee income</b>		
Futures brokerage service	297,485	246,737
Settlement and clearing service income from other futures firms	2,065	3,321
Asset management service	3,982	14,351
Investment consultancy service	36	23
	<b>303,568</b>	264,432
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	234,839	164,207
Settlement and clearing service expense to exchange-clearing organizations	2,065	3,321
	<b>236,904</b>	167,528



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 6 Net interest income

	Year ended 31 December	
	2017	2016
<b>Interest income</b>		
Interest income from deposits with banks	202,991	158,792
Interest income from financial assets held under resale agreements	8,679	1,340
Interest income from deposits with exchange-clearing organizations	6,760	8,993
	<b>218,430</b>	169,125
<b>Interest expense</b>		
Interest expense to brokerage clients	13,687	14,383
Interest expense on borrowings	1,056	–
Interest expense on settlement and clearing services to other futures firms	416	1,651
	<b>15,159</b>	16,034

### 7 Gains on physical commodities trading

	Year ended 31 December	
	2017	2016
Sales proceeds	1,040,961	814,927
Costs of purchases	(1,033,013)	(804,284)
	<b>7,948</b>	10,643

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 8 Net investment gains

	Year ended 31 December	
	2017	2016
Net realized gains from disposal of available-for-sale financial assets	6,334	3,795
Dividends and interest income from available-for-sale financial assets	20,578	20,793
Net realized gains/(losses) from disposal of financial assets at fair value through profit or loss <sup>(1)</sup>	6,065	(1,774)
Dividends from financial assets at fair value through profit or loss	1,071	2,833
Net realized gains from derivative financial instruments <sup>(2)</sup>	24,854	20,805
Unrealized fair value change of financial instruments at fair value through profit or loss		
– Financial assets at fair value through profit or loss	3,974	1,079
– Financial liabilities at fair value through profit or loss	(203)	2,039
– Derivative financial instruments	(6,954)	1,830
	<b>55,719</b>	<b>51,400</b>

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

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

### 9 Other income

	Year ended 31 December	
	2017	2016
Refunds of trading fees <sup>(1)</sup>	111,115	81,126
Exchange service fees	10,529	1,512
Cooperative hedging fees	6,004	1,942
Software service fees	1,680	1,282
Other	2,935	1,015
	<b>132,263</b>	<b>86,877</b>

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 10 Staff costs

	Year ended 31 December	
	2017	2016
Salaries and bonus	107,649	97,133
Other social security	10,934	9,953
Pension	10,020	9,012
Labour union funds and employee education funds	4,844	4,237
Other welfare	416	483
	<b>133,863</b>	120,818

#### (1) The five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals include one supervisor (2016: one supervisor). Details of the emoluments for the five highest paid individuals for the year is as follows:

	Year ended 31 December	
	2017	2016
Salaries, allowances and other welfares	5,186	2,277
Bonus	8,953	2,872
	<b>14,139</b>	5,149

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 10 Staff costs (Continued)

#### (1) The five highest paid individuals (Continued)

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

	Year ended 31 December	
	2017	2016
RMB500,001 to RMB1,000,000	–	2
RMB1,000,001 to RMB1,500,000	–	3
RMB2,000,001 to RMB2,500,000	1	–
RMB2,500,001 to RMB3,000,000	3	–
RMB3,000,001 to RMB3,500,000	1	–
	<b>5</b>	<b>5</b>

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

### 11 Depreciation and amortization

	Year ended 31 December	
	2017	2016
Depreciation of property and equipment	<b>6,263</b>	5,168
Amortization of long-term prepaid expenses	<b>2,081</b>	2,049
Amortization of intangible assets	<b>1,633</b>	1,141
	<b>9,977</b>	<b>8,358</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 12 Impairment losses

	Year ended 31 December	
	2017	2016
Other receivables	544	1,162
Accounts receivable	—	400
	<b>544</b>	<b>1,562</b>

### 13 Other operating expenses

	Year ended 31 December	
	2017	2016
Office expenses	21,721	21,476
Marketing and distribution expenses	16,550	15,283
Consulting expenses	13,461	12,810
Rentals	13,422	10,782
Information system maintenance fees	8,898	6,909
Insurance expenses	8,718	2,061
Property maintenance fee	4,310	3,799
Professional service expenses	3,757	4,771
Taxes and surcharges	1,798	3,823
Auditors' remuneration – Audit services	1,650	1,650
Futures Investors Protection Fund	402	2,034
Other expenses	3,957	2,896
	<b>98,644</b>	<b>88,294</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 14 Other (losses)/gains, net

	Year ended 31 December	
	2017	2016
Government grants	4,329	2,999
Foreign exchange gains/(losses)	233	(334)
Subsidies received from futures exchanges	52	295
Gains/(Losses) from disposal of long-term non-financial assets	32	(66)
Donation	(2,766)	(1,001)
Others	(2,048)	170
	<b>(168)</b>	2,063

### 15 Income tax expense

	Year ended 31 December	
	2017	2016
Current tax	48,129	45,316
Deferred tax (Note 23)	1,474	(3,166)
	<b>49,603</b>	42,150

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 15 Income tax expense (Continued)

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

	Year ended 31 December	
	2017	2016
Profit before income tax	206,568	154,926
Tax calculated at applicable tax rates applicable to profits in the respective area	51,981	40,540
Items deducted for tax purposes but not subtracted to arrive at taxable income	(2,342)	–
Adjustments in respect of prior years	(2,222)	–
Tax losses for which no deferred income tax asset was recognised	694	93
Items not deductible for tax purposes	1,492	1,517
	<b>49,603</b>	42,150

### 16 Earnings per share

#### 16.1 Basic earnings per share

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

	Year ended 31 December	
	2017	2016
Profit attributable to shareholders of the Company (in RMB thousands)	158,631	113,003
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	<b>0.16</b>	0.11

#### 16.2 Diluted earnings per share

For the year ended 31 December 2017, there were no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share (31 December 2016: same).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 17 Property, plant and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
1 January 2017	40,073	9,661	29,756	79,490
Additions	–	971	8,278	9,249
Disposals	–	(291)	(1,192)	(1,483)
31 December 2017	40,073	10,341	36,842	87,256
<b>Accumulated depreciation</b>				
1 January 2017	(7,641)	(7,159)	(22,451)	(37,251)
Additions	(1,298)	(798)	(4,167)	(6,263)
Disposals	–	276	948	1,224
31 December 2017	(8,939)	(7,681)	(25,670)	(42,290)
<b>Carrying amount</b>				
31 December 2017	31,134	2,660	11,172	44,966
<b>Cost</b>				
1 January 2016	40,073	9,661	29,482	79,216
Additions	–	–	2,462	2,462
Disposals	–	–	(2,188)	(2,188)
31 December 2016	40,073	9,661	29,756	79,490
<b>Accumulated depreciation</b>				
1 January 2016	(6,343)	(6,300)	(21,448)	(34,091)
Additions	(1,298)	(859)	(3,011)	(5,168)
Disposals	–	–	2,008	2,008
31 December 2016	(7,641)	(7,159)	(22,451)	(37,251)
<b>Carrying amount</b>				
31 December 2016	32,432	2,502	7,305	42,239

For the year ended 31 December 2017, net gains from disposal of property and equipment amounted to RMB32 thousand (2016: net losses of RMB66 thousand).



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 18 Intangible assets

	31 December 2017	31 December 2016
<b>Net Book Value</b>		
Computer software	14,735	7,787
	Year ended 31 December	
	2017	2016
<b>Cost</b>		
At 1 January	13,440	10,669
Additions	8,581	2,771
Disposals	–	–
At 31 December	22,021	13,440
<b>Accumulated amortization</b>		
At 1 January	(5,653)	(4,512)
Charges	(1,633)	(1,141)
Disposals	–	–
At 31 December	(7,286)	(5,653)
<b>Carrying amount</b>		
At 31 December	14,735	7,787

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 19 Investment in associates

Set out below are the associates of the Group as at 31 December 2017. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at 31 December 2017:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司) ("Rizhao BOT") <sup>(1)</sup>	Rizhao, the PRC	29.5%	Commodity trading	Equity
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. (上海魯証鋒通經貿有限公司) ("Luzheng Fengtong") <sup>(2)</sup>	Shanghai, the PRC	35.0%	Commodity trading	Equity

#### (1) Rizhao BOT

The Group invested RMB9.8 million in an associate named Rizhao BOT for the year ended 31 December 2014. Rizhao BOT is located in Rizhao City, Shandong Province.

Upon completion of the equity restructuring of Rizhao BOT on May 2015, the Group's equity holding in Rizhao BOT was diluted from 49% to 29.5%. The Group made payment of RMB24.88 million for the capital increase in April 2016.

The registered capital of Rizhao BOT is RMB120 million as at 31 December 2017. The Group holds 29.5% of its equity and accounts for the associate using equity method.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 19 Investment in associates (Continued)

#### (1) Rizhao BOT (Continued)

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

	Year ended 31 December	
	2017	2016
At 1 January	28,743	5,811
Capital injection	–	24,878
Share of losses for the year	(1,525)	(1,946)
At 31 December	27,218	28,743
Summarized Financial Information		
Opening net assets	102,641	82,884
Capital contributions	–	26,353
Losses for the year	(5,174)	(6,596)
Other comprehensive income	–	–
Closing net assets	97,467	102,641
Interest in the associate and carrying value	27,218	28,743

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 19 Investment in associates (Continued)

#### (2) Luzheng Fengtong

The Group invested RMB17.5 million in an associate named Luzheng Fengtong for the year ended 31 December 2017.

The registered capital of Luzheng Fengtong is RMB100 million as at 31 December 2017. The Group holds 35% of its equity and accounts for the associate using equity method.

As at 31 December 2017, the Group has made a capital contribution of RMB17.5 million.

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

	Year ended 31 December 2017
At 1 January	–
Capital injection	17,500
Share of gains for the period	773
<b>At 31 December</b>	<b>18,273</b>
Summarized Financial Information	
Opening net assets	–
Capital contributions	50,000
Gains for the period	2,209
Other comprehensive income	–
<b>Closing net assets</b>	<b>52,209</b>
<b>Interest in the associate and carrying value</b>	<b>18,273</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 20 Investments in subsidiaries and consolidated structured entities

#### 20.1 General information of major subsidiaries

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

Name of subsidiary	Country/Place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Interests held	Directly/ Indirectly	Principal activities
Luzheng Economic and Trade Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB300,000,000/ RMB350,000,000	100%	Directly	Commodity trading, OTC derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information Technology Services, Software Development
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰滙融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong	21 November 2013	Limited company	HKD47,754,468.62/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司) ("Lu Clearing")	Jinan, the PRC	9 October 2016	Limited company	RMB50,000,000/ RMB150,000,000	40%	Indirectly	Registration, settlement and derivatives clearing

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 20 Investments in subsidiaries and consolidated structured entities (Continued)

#### 20.2 Non-controlling interests

Non-controlling interests amounting to RMB28,132 thousand (31 December 2016: RMB29,773 thousand) is attributable to Lu Clearing as at 31 December 2017.

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

##### Summarised balance sheet

	31 December 2017	31 December 2016
Current		
Assets	29,075	7,188
Liabilities	(5,734)	(1,848)
Total current net assets	23,341	5,340
Non-current		
Assets	24,656	48,317
Liabilities	(1,111)	(4,034)
Total non-current net assets	23,545	44,283
Net assets	46,886	49,623

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 20 Investments in subsidiaries and consolidated structured entities (Continued)

#### 20.2 Non-controlling interests (Continued)

##### Summarised statement of profit or loss

	Year ended 31 December 2017	From 9 October 2016 (Date of incorporation) to 31 December 2016
Revenue	6,400	–
Losses before income tax	(2,718)	(378)
Income tax expense	(56)	–
Losses for the period	(2,774)	(378)
Other comprehensive income	39	–
Total comprehensive income	(2,735)	(378)
Total comprehensive income attributable to Non-Controlling Interests	(1,641)	(227)

##### Summarised cash flows

	Year ended 31 December 2017	From 9 October 2016 (Date of incorporation) to 31 December 2016
Cash flows from operating activities	(3,287)	1,611
Cash flows from investing activities	4,749	(50,069)
Cash flows from financing activities	–	50,000
Net increase in cash and cash equivalents	1,462	1,542
Cash and cash equivalents at beginning of the year/ period	1,542	–
Cash and cash equivalents at end of the year/period	3,004	1,542

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 20 Investments in subsidiaries and consolidated structured entities (Continued)

#### 20.3 Consolidated structured entities

As at 31 December 2017, net assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

	<b>Net assets</b>	<b>Initial investment</b>	<b>Maximum exposure</b>
Investments in consolidated SEs by the Group:			
CR Trust-Huiquan Wantai FOF No.2	344,130	30,000	30,000
Huiquan Wantai FOF No.2	343,343	328,650	343,343
Huiquan Shuanglong Longze No.7	18,995	18,000	18,000
Huiquan Aiye No.1	11,004	10,000	10,000
	<b>717,472</b>	<b>386,650</b>	<b>401,343</b>

All of the above consolidated SEs except for "CR Trust-Huiquan Wantai FOF No.2" are collective asset management schemes where the Company has been involved as manager.

"CR Trust-Huiquan Wantai FOF No.2" is a trust scheme established by a third-party asset manager where the Group holds a part of the units.



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 21 Other non-current assets

	31 December 2017	31 December 2016
Leasehold improvements	2,995	1,387
Long-term prepaid expenses	437	475
	<b>3,432</b>	1,862

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

Changes in leasehold improvements are analyzed as follows:

	Year ended 31 December	
	2017	2016
At 1 January	1,387	2,608
Additions	3,544	633
Amortization	(1,936)	(1,854)
At 31 December	<b>2,995</b>	1,387

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 22 Available-for-sale financial assets

Available-for-sale financial assets include the following:

	31 December 2017	31 December 2016
<b>Non-current – Unlisted</b>		
<b>At fair value</b>		
Trust schemes (Note 46.2(2))	256,368	–
Collective asset management schemes (Notes 45.3.1 and 46.2(1))	7,052	15,114
<b>At cost</b>		
Investments in exchange memberships <sup>(1)</sup>	1,400	1,400
	<b>264,820</b>	16,514
<b>Current – Unlisted</b>		
<b>At fair value</b>		
Collective asset management schemes (Notes 45.3.1 and 46.2(1))	81,938	166,246
Trust schemes (Note 46.2(2))	131,625	137,560
Other wealth management products (Notes 46.2(4))	10,023	–
Private securities investment funds	–	129,875
Bank wealth management products	–	100,037
	<b>223,586</b>	533,718
	<b>488,406</b>	550,232

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

(2) As at 31 December 2017, no available-for-sale financial assets of the Group were placed as collateral (31 December 2016: same).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 23 Deferred income tax assets and liabilities

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

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

	Year ended 31 December	
	2017	2016
Balance at beginning of year	5,823	1,983
Income statement charge (Note 15)	726	3,418
Tax charge relating to components of other comprehensive income (Note 34)	468	422
Balance at end of year	7,017	5,823

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

	Year ended 31 December	
	2017	2016
Balance at beginning of year	76	14
Income statement charge (Note 15)	2,497	62
Tax charge relating to components of other comprehensive income (Note 34)	—	—
Balance at end of year	2,573	76

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 23 Deferred income tax assets and liabilities (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Impairment loss from available-for-sale financial assets	Interest payable	Deductible tax loss	Tax impact arising from consolidated structured entities	Others	Total
<b>As at 1 January 2016</b>	376	1,566	1,397	1,277	-	186	4,802
Income statement charge	(376)	-	(855)	2,927	528	1,037	3,261
Tax charge relating to components of other comprehensive income	-	-	-	-	-	-	-
<b>As at 31 December 2016</b>	-	1,566	542	4,204	528	1,223	8,063
Income statement charge	1,428	(1,566)	(79)	359	(528)	97	(289)
Tax charge relating to components of other comprehensive income	-	-	-	-	-	-	-
<b>As at 31 December 2017</b>	1,428	-	463	4,563	-	1,320	7,774

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The balance as at 31 December 2017 is attributable to RMB27,655 thousand by Zhongtai Hui Rong (31 December 2016: RMB25,479 thousand).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 23 Deferred income tax assets and liabilities (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest receivable from deposits	Changes in fair value of available-for-sale financial assets	Tax impact arising from consolidated structured entities	Others	Total
<b>As at 1 January 2016</b>	-	1,307	931	580	15	2,833
Income statement charge	154	270	-	(580)	61	(95)
Tax charge relating to components of other comprehensive income	-	-	(422)	-	-	(422)
<b>As at 31 December 2016</b>	154	1,577	509	-	76	2,316
Income statement charge	691	799	-	-	(8)	1,482
Tax charge relating to components of other comprehensive income	-	-	(468)	-	-	(468)
<b>As at 31 December 2017</b>	845	2,376	41	-	68	3,330

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 23 Deferred income tax assets and liabilities (Continued)

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

	31 December 2017	31 December 2016
Deferred income tax assets	(757)	(2,240)
Deferred income tax liabilities	(757)	(2,240)

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

	31 December 2017	31 December 2016
Deferred income tax assets	7,017	5,823
Deferred income tax liabilities	2,573	76

### 24 Refundable deposits

	31 December 2017	31 December 2016
Security deposit placed with the China Financial Futures Exchange	20,114	20,114
Security deposit placed with the China Securities Depository and Clearing	5,485	5,402
	25,599	25,516

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 25 Physical commodities

	31 December 2017	31 December 2016
Trading commodities	64,827	75,148
Less: Impairment	(2,430)	(2,588)
	<b>62,397</b>	72,560

As at 31 December 2017, trading commodities of RMB3,603 thousand were placed as collateral with Shanghai Futures Exchange (31 December 2016: RMB19,758 thousand).

### 26 Other current assets

	31 December 2017	31 December 2016
Prepayments	41,086	71,806
Interest receivable	9,506	6,325
Accounts receivable <sup>(1)</sup>	6,499	56,034
Notes receivable	4,566	–
Other receivables	52,220	2,660
	<b>113,877</b>	136,825

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2017		31 December 2016	
	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	6,899	(400)	56,434	(400)

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 27 Derivative financial instruments

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
OTC options <sup>(1)</sup>	58,594	67,080	609	606
Exchange Traded options <sup>(2)</sup>	4,493	3,604	–	–
Futures contracts <sup>(3)</sup>	–	–	–	–
	<b>63,087</b>	<b>70,684</b>	609	606

#### (1) OTC options

The intrinsic value of the OTC options at 31 December 2017 amounted to RMB23,885 thousand (31 December 2016: RMB61 thousand), of which the underlying assets were exchange-traded commodity futures contracts (31 December 2016: same).

#### (2) Exchange Traded options

The intrinsic value of the exchange traded options at 31 December 2017 amounted to 6,571 thousand (31 December 2016: nil), of which the underlying assets were exchange-traded commodity futures contracts (31 December 2016: nil).

#### (3) Futures contracts

	31 December 2017		31 December 2016	
	Contractual value	Fair value	Contractual value	Fair value
Commodities futures	954,314	(5,316)	144,001	220
Financial futures	932	3	–	–
Less: Cash paid as settlement		5,313		(220)
Net position		–		–

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in “deposits with exchange-clearing organizations” as at 31 December 2017 (31 December 2016: same).



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 28 Financial assets at fair value through profit or loss

	31 December 2017	31 December 2016
Investment held for trading		
Listed equity securities	1,530	15,385
Open-ended funds	20,030	848
Financial assets designated at fair value through profit or loss		
Trust schemes	384,866	70,939
Private securities investment funds	84,648	47,873
Collective asset management schemes	24,856	134,661
Bank wealth management products	11,037	–
	<b>526,967</b>	269,706

As at 31 December 2017, all the listed equity securities and open-ended funds were listed outside Hong Kong and none of them were placed as collateral (31 December 2016: same).

### 29 Financial assets held under resale agreements

	31 December 2017	31 December 2016
Analysed by asset type:		
– Debt securities	92,800	12,199
– Warehouse receipts <sup>(1)</sup>	19,732	–
	<b>112,532</b>	12,199

(1) The Group received warehouse receipt as collateral which can be re-pledged. As at 31 December 2017, the Group has accepted collateral that can be re-pledged with a fair value of RMB25,620 thousand (31 December 2016: nil), of which collateral with a fair value of RMB7,490 thousand was re-pledged to Shanghai Futures Exchange (31 December 2016: nil).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 30 Deposits with exchange-clearing organizations

	31 December 2017	31 December 2016
Clients' margin deposits	2,548,609	2,058,809
Proprietary clearing settlement funds	175,495	126,653
Clients' unrestricted deposits	13,671	11,260
	<b>2,737,775</b>	2,196,722
<b>Represented by</b>		
Deposits with China Financial Futures Exchange	1,040,969	1,113,296
Deposits with Dalian Commodity Exchange	673,669	483,947
Deposits with Shanghai Futures Exchange	665,962	445,758
Deposits with Zhengzhou Commodity Exchange	214,393	151,570
Deposits with China Securities Depository and Clearing	142,782	2,151
	<b>2,737,775</b>	2,196,722

### 31 Bank balances held for clients

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 32 Cash and bank balances

	31 December 2017	31 December 2016
Cash	22	92
Term deposit with banks	740,000	875,000
Demand deposit with banks	49,735	117,238
Deposit with securities and futures brokers	10,389	5,895
	<b>800,146</b>	998,225

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

### 33 Share capital

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

	31 December 2017	31 December 2016
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 33 Share capital (Continued)

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

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

### 34 Share premium and reserves

	Share premium	Surplus reserve <sup>(1)</sup>	Other risk reserves <sup>(2)</sup>	Available-for-sale financial assets revaluation reserve <sup>(3)</sup>	Currency translation differences	Total
As at 31 December 2015	650,630	22,963	122,273	2,796	234	798,896
Amounts recognized in other comprehensive income	-	-	-	(1,268)	-	(1,268)
Appropriation to surplus reserve	-	9,656	-	-	-	9,656
Appropriation to general risk reserve	-	-	9,656	-	-	9,656
Appropriation to futures risk reserve	-	-	8,315	-	-	8,315
Utilization of futures risk reserve	-	-	(12)	-	-	(12)
Currency translation differences	-	-	-	-	1,741	1,741
As at 31 December 2016	650,630	32,619	140,232	1,528	1,975	826,984
Amounts recognized in other comprehensive income	-	-	-	(1,430)	-	(1,430)
Appropriation to surplus reserve	-	13,398	-	-	-	13,398
Appropriation to general risk reserve	-	-	13,398	-	-	13,398
Appropriation to futures risk reserve	-	-	9,372	-	-	9,372
Currency translation differences	-	-	-	-	(1,294)	(1,294)
As at 31 December 2017	650,630	46,017	163,002	98	681	860,428

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 34 Share premium and reserves (Continued)

#### (1) Surplus reserve

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

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

#### (2) Other risk reserves

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 34 Share premium and reserves (Continued)

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

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

	Year ended 31 December 2017		
	Pre-tax amount	Income tax effect (Note 23)	After-tax net amount
Balance at beginning of year	2,037	(509)	1,528
Changes in fair value of available-for-sale financial assets	131	(33)	98
Amounts reclassified to profits/ (losses) upon disposal or impairment of available-for-sale financial assets	(2,037)	509	(1,528)
<b>Balance at end of year</b>	<b>131</b>	<b>(33)</b>	<b>98</b>

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

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 35 Borrowings

	31 December 2017	31 December 2016
Current		
Unsecured borrowings	13,000	–

On 4 December 2017, the Group issued a trust loan amounting to RMB13,000 thousand with a term of three months at a fixed interest rate of 8% per annum (31 December 2016: nil).

### 36 Other current liabilities

	31 December 2017	31 December 2016
Salaries, bonus, allowance and benefits payables <sup>(1)</sup>	53,702	48,314
Payable to OTC clients	26,702	869
Advance for physical commodity trading	18,474	14,335
Interest payable	1,852	2,166
Payable to Futures Investor Protection Fund	376	409
Amount collected on behalf of futures asset management schemes	47	5,999
Other payables	13,307	4,413
	114,460	76,505

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 36 Other current liabilities (Continued)

#### (1) Salaries, bonus, allowance and benefits payables

	1 January 2017	Current year charge	Current year payment	31 December 2017
Salaries and bonus	41,826	107,649	(103,343)	46,132
Other welfare	69	416	(485)	–
Other social securities	141	20,954	(20,933)	162
Labour union funds and employee education funds	6,278	4,844	(3,714)	7,408
	<b>48,314</b>	<b>133,863</b>	<b>(128,475)</b>	<b>53,702</b>

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

### 37 Financial liabilities at fair value through profit or loss

	31 December 2017	31 December 2016
Interests of holders of consolidated SEs	316,262	299,936
Payable to clients for cooperative hedging business	10,637	603
	<b>326,899</b>	<b>300,539</b>



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 38 Accounts payable to brokerage clients

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

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

### 39 Cash and cash equivalents

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

	31 December 2017	31 December 2016
Cash and bank balances (Note 32)	800,146	998,225
Proprietary deposit with exchange-clearing organizations (Note 30)	175,495	126,653
Less:		
Term deposit with original maturity over three months	(740,000)	(875,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(10,000)	(8,000)
	<b>225,641</b>	241,878

### 40 Dividends

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

- (I) Making up cumulative losses from prior years, if any;
- (II) 10% of the Company's profit is appropriated to the non-distributable statutory surplus reserve;
- (III) 10% of the Company's profit is appropriated to the non-distributable general risk reserve;

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 40 Dividends (Continued)

- (IV) Appropriations to the non-distributable futures risk reserve according to the relevant regulation;
- (V) Appropriations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders' equity.

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

The dividend paid in 2017 was RMB48,091 thousand (2016: RMB43,082 thousand). A dividend in respect of the year ended 31 December 2017 of RMB0.067 per shares (tax included), amounting to a total dividend of RMB67,127 thousand, is to be proposed at the annual general meeting on 15 June 2018. These financial statements do not reflect this dividend payable.

### 41 Cash flow information

#### (1) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 December 2017	31 December 2016
Net debt		
Cash and cash equivalents	225,641	241,878
Liquid investments <sup>(i)</sup>	21,560	16,233
Borrowings – repayable within one year	(13,000)	–
Net debt	234,201	258,111
Cash and liquid investments	247,201	258,111
Gross debt – fixed interest rates	(13,000)	–
Net debt	234,201	258,111

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 41 Cash flow information (Continued)

#### (1) Net debt reconciliation (Continued)

	Other assets		Liabilities from financing activities	Total
	Cash	Liquid investments <sup>(i)</sup>	Borrow. due within 1 year	
Net debt as at 1 January 2017	241,878	16,233	–	258,111
Cash flows	(16,470)	5,327	(13,000)	(24,143)
Foreign exchange adjustments	233	–	–	233
Net debt as at 31 December 2017	225,641	21,560	(13,000)	234,201

(i) Liquid investments comprise certain investments that are traded in an active market, being the Group's investments held for trading classified as financial assets held at fair value through profit or loss.

### 42 Commitments and contingent liabilities

#### (1) Capital commitments

Other than what has been disclosed in Note 19(2), the Group was not involved in any material capital commitments as at 31 December 2017 (31 December 2016: same).

#### (2) Operating lease commitments

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

	31 December 2017	31 December 2016
Within 1 year	11,069	9,108
1 to 3 years	11,056	5,353
Over 3 years	7,056	9,385
	29,181	23,846

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

## 42 Commitments and contingent liabilities (Continued)

### (3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2017, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down (31 December 2016: same).

## 43 Related party transactions

### 43.1 Related parties

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

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2017:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. (originally known as Qilu Securities Co., Ltd., "Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Securities (Shanghai) Asset Management Co., Ltd. (originally known as Qilu Securities (Shanghai) Asset Management Co., Ltd., "Zhongtai Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The largest and direct controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Controlled by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The indirect controlling shareholder of Zhongtai Securities

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 43 Related party transactions (Continued)

### 43.1 Related parties (Continued)

Significant related legal entities	The relationship with the Group
Yongfeng Group Co., Ltd. ("Yongfeng Group")	Shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. ("Shandong Steel")	Controlled by Shandong Steel Group
Shandong Steel Group Rizhao Co., Ltd. ("Shandong Steel Rizhao")	Controlled by Shandong Steel Group
Rizhao Board of Trade Co., Ltd. ("Rizhao BOT")	Associate invested by the Group
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. ("Luzheng Fengtong")	Associate invested by the Group
Shandong Red Bull Financial Service Co., Ltd. ("Shandong Red Bull")	Associate invested by Zhongtai Securities
Shandong Zhuofei Investment Management Co., Ltd. ("Zhuofei Investment")	Associate invested by Zhongtai Securities

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 43 Related party transactions (Continued)

#### 43.2 Related party transactions and balances

##### 43.2.1 The Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2017	2016
Introducing broker commission expense <sup>(1)</sup>	7,670	8,162
Income from providing futures brokerage service	868	583
Rental expense	747	817
Interest expense	554	315
Commission expense for stocks trading	209	9

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

Balances at the end of the year

	31 December	31 December
	2017	2016
Accounts payable to brokerage clients	140,735	45,766
Deposit with securities brokers	395	37
Other current liabilities		
– Introducing broker commission payable	602	809
– Other payables	43	276
Other receivable		
– Rental prepayment	75	75

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 43 Related party transactions (Continued)

#### 43.2 Related party transactions and balances (continued)

##### 43.2.2 Related parties other than the Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2017	2016
Income from providing futures brokerage service	498	625
Interest income from bank deposit		
– Laishang Bank	18,016	14,734
Purchase of collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	27,120	7,500
Purchase of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	48,005	5,097
Purchase of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	10,000	–
Proceeds from disposal of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	48,043	5,059
Proceeds from disposal of collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	37,000	35,645
– Jintaishan No.1	17,236	–
– Jinquan 7 Days	5,050	–
Consulting fee		
– Zhongtai Asset Management	–	38
Sales proceeds of physical commodities		
– Yongfeng Trade	–	3,675
Cost of purchase of physical commodities		
– Shandong Steel Rizhao	1,132	–
– Laiwu Steel	528	2,849
Cooperative hedging fee income		
– Laigang Yongfeng	–	193
Income from providing software service		
– Rizhao BOT	377	–
Underwriting fee expense		
– Zhuofei Investment	11	–
Commission sales fee expense		
– Shandong Red Bull	87	–
Investment income from OTC options		
– Yongfeng Trade	58	–

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 43 Related party transactions (continued)

#### 43.2 Related party transactions and balances (Continued)

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

Balance at the end of year

		31 December 2017	31 December 2016
Accounts payable to brokerage clients		2,911	53,467
Cash and bank balance		420,008	424,233
– Laishang Bank			
Open-ended fund managed by Wanjia Funds			
– Wanjia Funds-Xianjinbao	Financial assets at fair value through profit or loss	–	38
Collective asset management schemes managed by Zhongtai Asset Management			
– Wengu 21 Days	Available-for-sale financial assets	66,176	80,774
– Jintaishan No.2	Available-for-sale financial assets	–	17,236
– Jinqun 7 Days	Available-for-sale financial assets	650	1,000
Other wealth management product managed by Zhuofei Investment			
– Shangpiaotong	Available-for-sale financial assets	10,023	–
Prepayments			
– Shandong Steel Rizhao		3,359	–
– Laiwu Steel		49	666
– Laigang Yongfeng		–	251
Consulting fee payable			
– Zhongtai Asset Management		45	45
Other receivables			
– Rizhao BOT		40	–



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 43 Related party transactions (continued)

### 43.2 Related party transactions and balances (Continued)

#### 43.2.3 Key management personnel

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

	Year ended 31 December	
	2017	2016
Key management compensation	14,720	4,837

There is no loan or advance to key management during the year ended 31 December 2017 and 2016.

## 44 Segment analysis

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

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

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

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

The Group mainly operates in Shandong Province, the PRC.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 44 Segment analysis (Continued)

	Year ended 31 December 2017					
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	Total
Net commission and fee income						
– external	62,682	–	3,982	–	–	66,664
– internal	2,729	–	–	–	(2,729)	–
Net interest income						
– external	165,462	4,102	2,050	31,657	–	203,271
– internal	(959)	959	–	–	–	–
Gains on physical commodities trading						
– external	–	7,948	–	–	–	7,948
Net investment gains						
– external	–	18,163	4,800	32,756	–	55,719
– internal	–	(2,729)	–	–	2,729	–
Other income						
– external	111,115	8,259	–	12,889	–	132,263
– internal	–	400	–	1,883	(2,283)	–
<b>Total operating income</b>	<b>341,029</b>	<b>37,102</b>	<b>10,832</b>	<b>79,185</b>	<b>(2,283)</b>	<b>465,865</b>
<b>Total operating expenses</b>						
– external	(167,320)	(13,654)	(7,054)	(70,349)	–	(258,377)
– internal	–	–	–	(2,047)	2,047	–
Share of losses of investment in an associate	–	(752)	–	–	–	(752)
Other (losses)/gains, net	–	(1,881)	–	1,713	–	(168)
<b>Profit before income tax</b>	<b>173,709</b>	<b>20,815</b>	<b>3,778</b>	<b>8,502</b>	<b>(236)</b>	<b>206,568</b>
<b>Total assets</b>	<b>6,576,002</b>	<b>474,014</b>	<b>319,967</b>	<b>2,001,623</b>	<b>(542,672)</b>	<b>8,828,934</b>
<b>Total liabilities</b>	<b>6,303,393</b>	<b>149,506</b>	<b>343,042</b>	<b>60,726</b>	<b>(212,436)</b>	<b>6,644,231</b>
<b>Supplemental information</b>						
Depreciation and amortization	5,591	133	51	4,202	–	9,977
Impairment provision	–	240	–	304	–	544
Capital expenditure	12,864	127	44	8,447	–	21,482

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 44 Segment analysis (Continued)

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management

### 45.1 Risk management policies and structure

#### (1) Summary

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

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

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

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

##### **Level 1: Board, Supervisory Committee**

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

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.1 Risk management policies and structure (Continued)

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

##### ***Level 2: Risk Control Committee, Audit Committee, Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee***

The Risk Control Committee is responsible for ensuring that the decision making procedures and risk control system are in compliance with applicable laws and regulations. The Audit Committee is principally responsible for the overall audit related matters. The Asset Management Investment Decision Committee is principally responsible for reviewing the investment scale, major issues in product design, operations, liquidation and other major issues raised by the Asset Management Department. The Treasury Operations Investment Decision Committee principally responsible for reviewing the scale of the treasury operations, prospective investment portfolio, stop-loss measures and other major issues raised by the Treasury Department.

##### ***Level 3: Compliance and Internal Audit departments***

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

##### ***Level 4: Frontline operation teams at our business departments and branches***

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.1 Risk management policies and structure (Continued)

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

Luzheng Trading's risk management structure constitutes board, supervisory committee, Risk Management Department and relevant business department.

**Level 1:** The board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.

**Level 2:** Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.

**Level 3:** Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

### 45.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, financial assets held under resale agreements, bank balances held for clients, deposits with exchange-clearing organizations, available-for-sale financial assets, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.2 Credit risk (Continued)

In terms of the Group's investment in trust schemes which are debt in nature, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances and bank balances held for clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation.

To mitigate the credit risk from futures brokerage service, the Group usually requires the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's credit exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 31 December 2017, the fair value of such collateral was RMB25,620 thousand (31 December 2016: nil).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.2 Credit risk (Continued)

##### (1) Maximum credit risk exposure

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	31 December 2017	31 December 2016
Refundable deposits	25,599	25,516
Other current assets	72,790	65,018
Available-for-sale financial assets	399,415	138,960
Financial assets held under resale agreements	112,532	12,199
Deposits with exchange-clearing organizations	2,737,775	2,196,722
Bank balances held for clients	3,782,507	3,855,245
Bank balances	800,124	998,225
	<b>7,930,742</b>	<b>7,291,885</b>

##### (2) Credit risk from brokerage service

Client Risk Ratio	31 December 2017		31 December 2016	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,544,919	5,018,427	1,514,284	5,124,705
80%-100%	997,593	1,070,712	542,686	596,549
Above 100%	6,097	5,675	1,839	1,447
	<b>2,548,609</b>	<b>6,094,813</b>	2,058,809	5,722,701
Coverage ratio		<b>239%</b>		278%



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.3 Market risk

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

#### **45.3.1 Price risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives, collective asset management schemes, private securities investment funds, bank wealth management products and trust schemes in nature of equity. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

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

As at 31 December 2017, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, derivatives, listed equity securities, open-ended funds, private securities investment funds, bank wealth management products, trust schemes in nature of equity, interests of holders of consolidated SEs, payable to clients for cooperative hedging business.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

##### 45.3.1 Price risk (Continued)

###### *Sensitivity analysis*

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

	Year ended 31 December	
	2017	2016
Profit before income tax		
Increase by 5%	10,235	5,689
Decrease by 5%	(10,235)	(5,689)

	Year ended 31 December	
	2017	2016
Other comprehensive income before income tax		
Increase by 5%	4,450	20,564
Decrease by 5%	(4,450)	(20,564)

##### 45.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for clients, deposits with exchange-clearing organizations and available-for-sale trust schemes. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

##### 45.3.2 Interest rate risk (Continued)

Finance departments of the Company and its subsidiary monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Non-interest bearing	Total
<b>As at 31 December 2017</b>						
Refundable deposits	25,599	-	-	-	-	25,599
Other current assets	-	-	-	-	72,790	72,790
Available-for-sale financial assets	-	10,023	131,624	256,368	90,391	488,406
Derivative financial assets	-	-	-	-	63,087	63,087
Financial assets at fair value through profit or loss	-	-	-	-	526,967	526,967
Financial assets held under resale agreements	92,800	19,732	-	-	-	112,532
Deposits with exchange-clearing organizations	189,166	-	-	-	2,548,609	2,737,775
Bank balances held for clients	3,782,507	-	-	-	-	3,782,507
Cash and bank balances	100,146	320,000	100,000	280,000	-	800,146
<b>Sub-total</b>	<b>4,190,218</b>	<b>349,755</b>	<b>231,624</b>	<b>536,368</b>	<b>3,301,844</b>	<b>8,609,809</b>
Borrowings	-	(13,000)	-	-	-	(13,000)
Other current liabilities	-	-	-	-	(48,316)	(48,316)
Accounts payable to brokerage clients	(1,467,082)	-	-	-	(4,631,649)	(6,098,731)
Derivative financial liabilities	-	-	-	-	(70,684)	(70,684)
Financial liabilities at fair value through profit or loss	-	-	-	-	(326,899)	(326,899)
Other non-current liabilities	-	-	-	-	(3,810)	(3,810)
<b>Sub-total</b>	<b>(1,467,082)</b>	<b>(13,000)</b>	<b>-</b>	<b>-</b>	<b>(5,081,358)</b>	<b>(6,561,440)</b>
<b>Interest rate sensitivity gap</b>	<b>2,723,136</b>	<b>336,755</b>	<b>231,624</b>	<b>536,368</b>	<b>(1,779,514)</b>	<b>2,048,369</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

##### 45.3.2 Interest rate risk (Continued)

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Non-interest bearing	Total
<b>As at 31 December 2016</b>						
Refundable deposits	25,516	-	-	-	-	25,516
Other current assets	-	-	-	-	65,018	65,018
Available-for-sale financial assets	31,114	-	106,446	-	412,672	550,232
Derivative financial assets	-	-	-	-	609	609
Financial assets at fair value through profit or loss	-	-	-	-	269,706	269,706
Financial assets held under resale agreements	12,199	-	-	-	-	12,199
Deposits with exchange-clearing organizations	1,247,210	-	-	-	949,512	2,196,722
Bank balances held for clients	3,855,245	-	-	-	-	3,855,245
Cash and Bank balances	163,225	-	555,000	280,000	-	998,225
<b>Sub-total</b>	<b>5,334,509</b>	<b>-</b>	<b>661,446</b>	<b>280,000</b>	<b>1,697,517</b>	<b>7,973,472</b>
Other current liabilities	-	-	-	-	(19,984)	(19,984)
Accounts payable to brokerage clients	(1,295,604)	-	-	-	(4,427,097)	(5,722,701)
Derivative financial liabilities	-	-	-	-	(606)	(606)
Financial liabilities at fair value through profit or loss	-	-	-	-	(300,539)	(300,539)
Other non-current liabilities	-	-	-	-	(1,783)	(1,783)
<b>Sub-total</b>	<b>(1,295,604)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,750,009)</b>	<b>(6,045,613)</b>
<b>Interest rate sensitivity gap</b>	<b>4,038,905</b>	<b>-</b>	<b>661,446</b>	<b>280,000</b>	<b>(3,052,492)</b>	<b>1,927,859</b>

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.3 Market risk (Continued)

#### 45.3.2 Interest rate risk (Continued)

##### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 50 basis points increases or decreases in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2017	2016
Net interest income		
Increases by 50bps	14,886	20,593
Decreases by 50bps	(14,886)	(20,593)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.3 Market risk (Continued)

#### 45.3.3 Currency risk

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

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

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

### 45.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading position, or an excessive high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be faced with penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause bad effects on the Group's operations and reputation.

The Group manages and controls its funds in a centralized manner. The Group's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity could be met timely with an appropriate cost.

The Group's finance department organize the cash budget annually and set up the fund plan based on it. Under the approval of the Company, the funds will be scheduled and arranged uniformly in order to ensure the consistence of funds demand and cost of the capital control.

After approved by the board of directors, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.4 Liquidity risk (Continued)

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at 31 December 2017, the Group held cash and cash equivalents of approximately RMB228 million that are expected to readily generate cash inflows for managing liquidity risk (2016: RMB242 million).

The tables below present the cash flows payable by the Group for financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for clients.

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 31 December 2017</b>						
<b>Non-derivative cash flow</b>						
Borrowings	-	-	13,182	-	-	13,182
Accounts payable to brokerage clients	6,098,731	-	-	-	-	6,098,731
Other current liabilities	46,164	1,426	81	645	-	48,316
Financial liabilities at fair value through profit or loss	-	-	1,856	8,781	316,262	326,899
Other non-current liabilities	-	-	-	-	3,810	3,810
	<b>6,144,895</b>	<b>1,426</b>	<b>15,119</b>	<b>9,426</b>	<b>320,072</b>	<b>6,490,938</b>
<b>Derivative cash flow</b>						
(a) total inflow	-	3,204	2,704	4,109	-	10,017
(b) total outflow	-	(2,411)	(15,489)	(8,280)	-	(26,180)

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.4 Liquidity risk (Continued)

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 31 December 2016</b>						
<b>Non-derivative cash flow</b>						
Accounts payable to brokerage clients	5,722,701	-	-	-	-	5,722,701
Other current liabilities	17,124	2,051	-	809	-	19,984
Financial liabilities at fair value through profit or loss	602	-	-	148,098	151,839	300,539
Other non-current liabilities	-	-	-	-	1,783	1,783
	5,740,427	2,051	-	148,907	153,622	6,045,007
<b>Derivative cash flow</b>						
(a) total inflow	-	348	153	-	-	501
(b) total outflow	-	(40)	(320)	(376)	-	(736)

#### 45.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiary to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiary;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management (Continued)

### 45.5 Capital management (Continued)

According to the “Administrative Measures Concerning Risk Control Indicators for Future Companies” (《期貨公司風險監管指標管理辦法》) issued by the CSRC on 18 April 2017, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB30,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 20%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB10,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### 46.1 Financial instruments not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, bank balances held for clients, financial assets held under resale agreements, deposits with exchange-clearing organizations, refundable deposits, borrowings, accounts payable to brokerage clients, their fair values approximate their carrying amounts.

#### 46.2 Financial instrument measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level II – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level III – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2017 and 2016.

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Collective asset management schemes <sup>(1)</sup>	–	24,856	–	24,856
– Trust schemes <sup>(1)</sup>	–	384,866	–	384,866
– Private securities investment funds <sup>(1)</sup>	–	84,648	–	84,648
– Listed equity securities	1,530	–	–	1,530
– Open-ended funds	20,030	–	–	20,030
– Bank wealth management products <sup>(3)</sup>	–	–	11,037	11,037
Derivative financial assets				
– OTC options	–	58,594	–	58,594
– Exchange Traded options	4,493	–	–	4,493
Available-for-sale financial assets				
– Collective asset management schemes <sup>(1)</sup>	–	88,990	–	88,990
– Trust schemes <sup>(2)</sup>	–	–	387,993	387,993
– Other wealth management products <sup>(4)</sup>	–	–	10,023	10,023
	26,053	641,954	409,053	1,077,060
Financial liabilities at fair value through profit or loss	–	(326,899)	–	(326,899)
Derivative financial liabilities				
– OTC options	–	(67,080)	–	(67,080)
– Exchange Traded options	(3,604)	–	–	(3,604)
	(3,604)	(393,979)	–	(397,583)

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Collective asset management schemes <sup>(1)</sup>	–	134,661	–	134,661
– Trust schemes <sup>(1)</sup>	–	70,939	–	70,939
– Private securities investment funds <sup>(1)</sup>	–	47,873	–	47,873
– Listed equity securities	15,385	–	–	15,385
– Open-ended funds	848	–	–	848
Derivative financial assets				
– OTC Options	–	609	–	609
Available-for-sale financial assets				
– Collective asset management schemes <sup>(1)</sup>	–	181,360	–	181,360
– Trust schemes <sup>(2)</sup>	–	–	137,560	137,560
– Private securities investment funds <sup>(1)</sup>	–	129,875	–	129,875
– Bank wealth management products	–	100,037	–	100,037
	16,233	665,354	137,560	819,147
Financial liabilities at fair value through profit or loss	–	(300,539)	–	(300,539)
Derivative financial liabilities				
– OTC options	–	(606)	–	(606)
	–	(301,145)	–	(301,145)

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

## 46 Fair value of financial assets and liabilities (Continued)

### 46.2 Financial instrument measured at fair value (Continued)

- (1) As at 31 December 2017, collective asset management schemes, trust schemes in nature of equity and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by the Company, Zhongtai Asset Management and other non-related financial institutions, as well as unregulated private fund managers, with the underlying investments mainly in stocks and bonds that are listed on stock exchanges, bonds that are quoted on the interbank market and listed financial and commodity futures in the PRC. Fair value of the asset management schemes, trust schemes in nature of equity and private securities investment funds are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 45.3.1.
- (2) As at 31 December 2017, trust schemes that are classified as level 3 in fair value hierarchy are issued by financial institutions, with the underlying investments mainly in loans and receivables. Such trust schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within trust schemes where principal and return of senior tranche is guaranteed by junior tranche investors. Fair value of the trust schemes is determined using discounted cash flows that are estimated based on expected future cash flows of the trust schemes discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 45.2 (1) and 45.3.2.
- (3) As at 31 December 2017, bank wealth management products that are classified as level 3 in fair value hierarchy are issued and managed by Bank of Communications (交通銀行股份有限公司) and Ping An Bank (平安銀行股份有限公司). The bank wealth management products can be purchased and redeemed upon maturity (31 December 2016: each working day) with the investment return calculated by the expected yield published by the bank. They are mainly exposed to price risk as disclosed in Note 45.3.1.
- (4) As at 31 December 2017, other wealth management product that is classified as level 3 in fair value hierarchy is managed by Shandong Zhuofei Investment Management Co., Ltd. (山東卓斐投資管理有限公司) and registered in Wuxi Financial Asset Trading Center Co., Ltd. (無錫金融資產交易中心有限公司), with the underlying investments mainly in the income right of notes receivable issued by Zhongjin Ansheng Commercial Factoring (Shenzhen) Co., Ltd. (中金安盛商業保理(深圳)有限公司). The other wealth management product generates an expected rate of return to their investors, achieved through investment income from underlying instruments. Its fair value is determined using discounted cash flows that are estimated based on expected future cash flows of the other wealth management product discounted at a rate that reflects management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 45.2 (1) and 45.3.2.

For the year ended 31 December 2017, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2016: same).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

##### (a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in level 1. Instruments included in level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities.

##### (b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

##### (c) Valuation methods for specific investments

As at 31 December 2017 and 2016, the Group's valuation methods for specific investments are as follows:

- (1) For exchange listed equity securities and exchange traded options, fair value is determined based on the closing price of the equity securities and exchange traded options as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (2) For open-ended funds, fair value is determined based on the closing price of the funds as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

##### (c) Valuation methods for specific investments (Continued)

- (3) For collective asset management schemes, trust schemes in the nature of equity, private securities investment funds and bank wealth management products, fair value is determined based on the net asset value as at the reporting date.
- (4) For OTC options, fair value is determined based on the Black-Scholes (BS) Model. The key parameters are obtained through the observable market.

##### (d) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the years ended 31 December 2017 and 2016.

	Financial assets at fair value through profit or loss	Available-for- sale financial assets
Balance at 1 January 2017	–	137,560
Increase	11,037	405,842
Decrease	–	(145,386)
Balance at 31 December 2017	11,037	398,016
Total gains or losses for the year included in profit or loss for assets held at end of year, under "Net investment gains"	60	15,142
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	60	–

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

##### (d) Financial instruments in level 3 (Continued)

	Financial assets at fair value through profit or loss	Available-for- sale financial assets
Balance at 1 January 2016	–	132,910
Increase	–	11,387
Decrease	–	(6,737)
<b>Balance at 31 December 2016</b>	<b>–</b>	<b>137,560</b>
Total gains or losses for the year included in profit or loss for assets held at end of year, under "Net investment gains"	–	11,387
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	–	–



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

##### (d) Financial instruments in level 3 (Continued)

Financial assets	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – Bank wealth management products	Level 3	Discounted cash flows that are estimated based on expected future cash flows, discounted at rates that reflect management's best estimation of the expected risk level.	Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value.  The earlier the recovery date, the higher the fair value.  The lower the discount rate, the higher the fair value.
Available-for-sale financial assets – Trust schemes and other wealth management products	Level 3	Discounted cash flows that are estimated based on expected future cash flows, discounted at rates that reflect management's best estimation of the expected risk level.	Expected future cash flow. Expected recovery date. Discount rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value.  The earlier the recovery date, the higher the fair value.  The lower the discount rate, the higher the fair value.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 47 Offsetting financial assets and financial liabilities

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

	As at 31 December 2017				Net amounts of financial assets/ (liabilities) presented in the statement of financial position
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	
Derivative financial instruments	(5,316)	3	(5,313)	5,313	–

	As at 31 December 2016				Net amounts of financial assets/ (liabilities) presented in the statement of financial position
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	
Derivative financial instruments	–	220	220	(220)	–

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing organizations for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 48 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include collective asset management schemes, private securities investment funds, bank and other wealth management products and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 31 December 2017 and 2016, the interests in unconsolidated structured entities held by the Group included investment recognized as available-for-sale financial assets and financial assets at fair value through profit or loss. The related carrying amount and the maximum exposure were as follows:

	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss	525,437	254,283
Available-for-sale financial assets	487,006	548,832
	<b>1,012,443</b>	803,115

For the years ended 31 December 2017 and 2016, the income from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December 2017	2016
Net investment gains	32,595	28,552

As at 31 December 2017, the Group had no financial support provided to these unconsolidated structured entities, and there was no plan of providing financial support by the Group to these unconsolidated structured entities (31 December 2016: same).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 49 Statement of financial position and reserve movement of the Company

	Notes	31 December 2017	31 December 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		43,033	40,287
Intangible assets		8,612	4,822
Investment in subsidiaries		360,000	301,000
Other non-current assets		1,802	1,793
Available-for-sale financial assets		247,728	16,514
Deferred income tax assets		–	355
Refundable deposits		25,599	25,516
<b>Total non-current assets</b>		<b>686,774</b>	<b>390,287</b>
<b>Current assets</b>			
Other current assets		67,260	47,641
Available-for-sale financial assets		216,845	492,017
Financial assets at fair value through profit or loss		190,181	66,456
Financial assets held under resale agreements		92,800	7,899
Deposits with exchange-clearing organizations		2,737,775	2,196,722
Bank balances held for clients		3,746,399	3,787,062
Cash and bank balances		779,816	976,999
<b>Total current assets</b>		<b>7,831,076</b>	<b>7,574,796</b>
<b>Total assets</b>		<b>8,517,850</b>	<b>7,965,083</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 49 Statement of financial position and reserve movement of the Company (Continued)

	Notes	31 December 2017	31 December 2016
<b>Equity and liabilities</b>			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Reserves	Note (a)	209,104	174,379
Retained earnings	Note (a)	271,875	212,786
<b>Total equity</b>		<b>2,133,509</b>	2,039,695
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		2,436	–
Other non-current liabilities		3,810	1,783
<b>Total non-current liabilities</b>		<b>6,246</b>	1,783
<b>Current liabilities</b>			
Other current liabilities		60,056	53,829
Current income tax liabilities		9,802	13,035
Accounts payable to brokerage clients		6,308,237	5,856,741
<b>Total current liabilities</b>		<b>6,378,095</b>	5,923,605
<b>Total liabilities</b>		<b>6,384,341</b>	5,925,388
<b>Total equity and liabilities</b>		<b>8,517,850</b>	7,965,083

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 49 Statement of financial position and reserve movement of the Company (Continued)

#### Note (a) Reserve movement of the Company

	Retained earnings	Other reserves
<b>Balance at 1 January 2016</b>	178,621	148,032
Profit for the year	104,862	–
Other comprehensive income for the year	–	(1,268)
<b>Total comprehensive income</b>	104,862	(1,268)
Net appropriation to reserves	(27,615)	27,615
Dividends recognized as distribution	(43,082)	–
<b>Balance at 31 December 2016</b>	212,786	174,379
<b>Balance at 1 January 2017</b>	<b>212,786</b>	<b>174,379</b>
Profit for the year	<b>143,348</b>	–
Other comprehensive income for the year	–	<b>(1,443)</b>
<b>Total comprehensive income</b>	<b>143,348</b>	<b>(1,443)</b>
Net appropriation to reserves	<b>(36,168)</b>	<b>36,168</b>
Dividends recognized as distribution	<b>(48,091)</b>	–
<b>Balance at 31 December 2017</b>	<b>271,875</b>	<b>209,104</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 50 Benefits and interests of directors, supervisors and chief executive

The emoluments of the directors, supervisors and chief executive of the Company paid by the Group for the years ended 31 December 2017 and 2016 are set out below:

Name	Year ended 31 December 2017				
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	Total
<b>Executive Directors</b>					
Chen Fang <sup>(1)</sup>	—	—	—	—	—
Liang Zhongwei	168	41	54	255	518
<b>Chief Executive</b>					
Liu Qingbin <sup>(3)</sup>	300	64	51	2,550	2,965
<b>Non-executive Directors</b>					
Lv Xiangyou <sup>(2)</sup>	—	—	—	—	—
Yin Ge <sup>(2)(5)</sup>	—	—	—	—	—
Li Chuanyong <sup>(2)</sup>	—	—	—	—	—
Liu Feng <sup>(2)</sup>	—	—	—	—	—
Yu Xuehui	119	—	—	—	119
Wang Chuanshun	119	—	—	—	119
Gao Zhu	119	—	—	—	119
Li Dapeng <sup>(5)</sup>	119	—	—	—	119
<b>Supervisors</b>					
Li Xuekui <sup>(7)</sup>	300	42	63	2,550	2,955
Ding Mei <sup>(2)(9)</sup>	—	—	—	—	—
Hu Yuyue	71	—	—	—	71
Mou Yong	71	—	—	—	71
Yu Dongxin <sup>(10)</sup>	60	6	5	—	71
Wang Hairan	112	38	33	234	417
Yu Zhanyong <sup>(11)</sup>	92	20	20	199	331
	1,650	211	226	5,788	7,875

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017  
(All amounts in RMB'000 unless otherwise stated)

### 50 Benefits and interests of directors, supervisors and chief executive (Continued)

Name	Remuneration	Year ended 31 December 2016			Annual bonus	Total
		Salaries allowance and other welfares	Pension			
<b>Executive Directors</b>						
Chen Fang <sup>(1)</sup>	–	–	–	–	–	
Liang Zhongwei	178	61	71	48	358	
<b>Chief Executive</b>						
Liu Qingbin <sup>(3)</sup>	183	93	66	701	1,043	
<b>Non-executive Directors</b>						
Lv Xiangyou <sup>(2)</sup>	–	–	–	–	–	
Yin Ge <sup>(2) (5)</sup>	–	–	–	–	–	
Zhang Yunwei <sup>(2) (4)</sup>	–	–	–	–	–	
Li Chuanyong <sup>(2)</sup>	–	–	–	–	–	
Liu Feng <sup>(2)</sup>	–	–	–	–	–	
Yu Xuehui	100	–	–	–	100	
Wang Chuanshun	100	–	–	–	100	
Gao Zhu	100	–	–	–	100	
Li Dapeng <sup>(5)</sup>	50	–	–	–	50	
Wei Wei <sup>(4)</sup>	–	–	–	–	–	
<b>Supervisors</b>						
An Tie <sup>(2) (6)</sup>	–	–	–	–	–	
Li Xuekui <sup>(7)</sup>	194	65	77	630	966	
Zhang Shouhe <sup>(2) (8)</sup>	–	–	–	–	–	
Ding Mei <sup>(2) (9)</sup>	–	–	–	–	–	
Hu Yuyue	45	–	–	–	45	
Mou Yong	45	–	–	–	45	
Li Xisheng <sup>(8)</sup>	30	14	13	–	57	
Yu Dongxin <sup>(10)</sup>	117	48	33	–	198	
Wang Hairan	155	54	43	83	335	
	1,297	335	303	1,462	3,397	



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

### 50 Benefits and interests of directors, supervisors and chief executive (Continued)

- (1) Chen Fang was appointed by Zhongtai Securities and his emolument was paid by Zhongtai Securities, and no allocation of the emoluments between the shareholder and the Group has been made during the year.
- (2) Those non-executive directors and supervisors were appointed by shareholders and their emoluments were paid by shareholders for the years ended 31 December 2017 and 2016.
- (3) Liu Qingbin was elected to be chief executive from August 2016.
- (4) Zhang Yunwei and Wei Wei ceased to be non-executive director effective from June 2016.
- (5) Yin Ge and Li Dapeng were elected to be non-executive director effective from June 2016.
- (6) An Tie ceased to be supervisor and Chairman of the Supervisory Board effective from August 2016.
- (7) Li Xuekui was selected to be supervisor and Chairman of the Supervisory Board effective from August 2016.
- (8) Zhang Shouhe and Li Xisheng ceased to be supervisor effective from June 2016.
- (9) Ding Mei was selected to be supervisor effective from June 2016.
- (10) Yu Dongxin was selected to be supervisor effective from June 2016 and ceased to be supervisor effective from March 2017.
- (11) Yu Zhanyong was selected to be supervisor effective from March 2017.