HOLLY FUTURES

(a joint stock company incorporated in the People's Republic of China
with limited liability under the Chinese corporate name 弘業期貨股份有限公司
and carrying on business in Hong Kong as Holly Futures)

Stock Code: 3678

2018
ANNUAL REPORT

Contents

Important

The Board, the Supervisory Committee, Directors, Supervisors and the senior management of the Company warrant the truthfulness, accuracy and completeness of the annual report, in which there is no false representation, misleading statement or material omission and for which they will assume joint and several liabilities.

This report was considered and approved at the fourth meeting of the third session of the Board and the second meeting of the third session of the Supervisory Committee. All Directors and Supervisors were present at the respective meetings. No Directors, Supervisors or the senior management declared that they could not guarantee nor had any objection to the truthfulness, accuracy and completeness of this report.

The annual financial report for 2018 prepared by the Company in accordance with the Hong Kong Financial Reporting Standards and that with PRC Accounting Standard for Business Enterprises were audited respectively by KPMG and KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)), and an auditor's report with unqualified opinions was issued by each of them. All amounts set out in this report are expressed in Renminbi (RMB) unless otherwise indicated.

The Company's Chairman Mr. Zhou Yong, general manager Ms. Zhou Jianqiu and supervisor of finance Ms. Wang Min declare that they warrant the truthfulness, accuracy and completeness of the financial report contained in this annual report.

Forward-looking statements including future plan and development strategy involved in this report do not constitute the Company's substantive commitment to investors. Investors should be aware of investment risks.

Chairman's Statement

In 2018, despite the complex and challenging domestic and international environment, Chinese economy remained steady with general improvement and the main expected targets for social and economic developments were well achieved. With the deepening of the supply-side structural reform, the implementation of "eliminating excess capacity, inventory depletion, de-leveraging, reducing costs and shoring up weakness" has shown significant effects with the task of eliminating excess capacity completed ahead of schedule, the steady advancing of de-leveraging and the remarkable effect of inventory depletion. With more efforts made on the reform and opening up, the vitality of development had been continuously enhanced. With more rapid growth of residents' income and consumption, people's lives continued to improve. At the same time, the economy ran steadily with changes and changed with concerns. The changes in the external environment and the trend of the international situation have caused the ups and downs of the economic environment in the past year. Trade protectionism has warmed up, and the spillover effect of big countries' policy has created a new impact on international industrial cooperation and development. At the same time, the transformation of the mode of production and the international industrial division of labor arising from modern technology has led to the adjustment of international value chains and industrial chains, the volatility of financial markets and commodity prices, and the sharp decline in global investment, all of which have had a significant impact on China as a global economy. In the turbulent economic environment, China's futures market adheres to the development concept of striving for stability, keeps to the development path of marketization, legalization and internationalization, and has achieved gratifying results in actively serving for the supply-side structural reform. The variety and system innovation of the futures market was promoted in an orderly manner, the pace of opening up to the outside world was accelerated, the market operation was stable and standardized, and the service quality and capability were improved. The futures market also played an active and important role in serving the real economy to cope with new external environmental challenges and promoting a new round of high-level opening up.

In 2018, confronted with the complex macroeconomic situation, the Company still yearned for a bright future. Under the scientific decision-making and strong leadership of the Board and management of the Company, all the cadres and employees, guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, deeply understood the spirit of various economic work conferences and focused on the goals and tasks set at the beginning of the year. The Company carried out various business operations in an orderly manner through gathering strength, reform and innovation, enhancing confidence and conquer difficulties, realizing the steady and healthy development of the Company.

In 2018, the Company won numerous awards and its brand influence has been further enhanced. The Company successively received the honourary title of "Best Futures Firm in China" (中國最佳期貨公司), and was awarded 10 major prizes including the "Best Commodity Futures Industry Service Prize" (最佳商品期貨產業服務獎), "Best Brand Establishment and Promotion Prize" (最佳品牌建設推廣獎), and "China Futures Brokerage Pioneer" (中國期貨經紀業務先鋒), and was recognized as the "2018 leader of provincial-level producer service industry" by the Jiangsu Development and Reform Committee (江蘇省發展和改革委員員會). At the same time, the Company insisted on strengthening the awareness of conquering difficulties to make new progress in the IPO of A-shares, enhanced its awareness of innovation to highlight the concept of high-quality development, strengthened service awareness to create a new situation in the service of the real economy, strengthened the top-level design to implement new initiatives for corporate scientific development, and improved the management level to create a high quality development atmosphere.

Looking back, it is the glory days of ups and downs, and joys and pains. Looking forward, the new era calls us. Looking forward to 2019, the Company will follow the requirements of high-quality development, unswervingly carry out the special action plan of "doing the solid work, executing and implementing" with a development target of "integrity, excellence, innovation and win-win", actively promote the reform of the system and mechanism, and fully release the vitality of business management to achieve steady growth in business development and gradual increase in the industry ranking. The new year opens up new hopes, and the new journey carries new dreams. The Company will strive to make contributions to the healthy development of the capital market, open development, and innovative development through gathering strength, working together, doing the solid work and following the road to further play its leading and demonstration role.

Zhou Yong
Chairman

Nanjing, the PRC
22 March 2019

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

Artall Culture Group	Artall Culture Group Company Limited (愛濤文化集團有限公司, formerly known as Jiangsu Holly International Group Company Limited (江蘇弘業國際集團有限公司)), a limited liability company established under the laws of the PRC on 20 January 1999 and a wholly-owned subsidiary of our Controlling Shareholder
Articles of Association	the Articles of Association of Holly Futures Co., Ltd. currently in force
AUM	the amount of assets under management
Board	the board of directors of our Company
CFA or China Futures Association	China Futures Association (中國期貨業協會)
CFFE	China Financial Futures Exchange
Chairman	the chairman of the Company
Chief Risk Officer	the chief risk officer of the Company
client balances	cash and cash equivalents deposited by the brokerage clients with us for trading purpose, consisting of client margin deposits and settlement reserve funds
collective asset management scheme(s)	asset management contract(s) entered into with multiple clients by an asset manager, pursuant to which the clients' assets are placed in the custody of commercial bank qualified to hold client transaction settlement funds or in other institutions approved by the CSRC, and the asset manager provides asset management services to the clients through designated accounts
commission revenue	commission revenue of a futures company represents the sum of (i) commission and fee income generated from futures brokerage operations of a futures company and (ii) refund of relevant commission from futures exchanges
Company Law or PRC Company Law	Company Law of the PRC (《中華人民共和國公司法》), as amended, supplemented and otherwise modified from time to time
Company, our Company, we or Holly Futures	Holly Futures Co., Ltd. (弘業期貨股份有限公司), a joint stock limited company established in Jiangsu, the PRC under the laws of the PRC on 29 November 2012 and carrying on business in Hong Kong as "Holly Futures", its H Shares of which are listed on Hong Kong Stock Exchange

Companies Ordinance	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
Controlling Shareholder	SOHO Holdings unless the context requires otherwise
Corporate Governance Code	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會)
DCE	Dalian Commodity Exchange
Director(s)	director(s) of the Company
Domestic Share(s)	issued ordinary share(s) of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid up in RMB
end of Reporting Period	31 December 2018
FOF	a fund specially invested in other investment funds. It does not directly invest in stocks or bonds. With its investment limited to other funds only, it holds securitized assets such as stocks and bonds indirectly by holding other securities investment funds, becoming a new type of fund that combines fund product innovation with sales channel innovation
Group, our Group, us or we	our Company and its subsidiaries
High Hope Corporation	Jiangsu High Hope International Group Corporation (江蘇匯鴻國際集團股份有限公司) (formerly known as Jiangsu High Hope Corporation) (江蘇匯鴻股份有限公司)), a limited liability company established in the PRC on 13 October 1992 which was subsequently converted to a joint stock limited company in 1994
High Hope International	Jiangsu High Hope International Group Co., Ltd. (江蘇匯鴻國際集團有限公司), a limited liability company established under the laws of the PRC on 18 December 1996 and one of the promoters of the Company, which was de-registered on 23 September 2015 as a result of the merger with High Hope Corporation by way of absorption
HK$ or HKD or Hong Kong dollars	the lawful currency of Hong Kong
Holly Capital	Holly Capital Management Co., Ltd. (弘業資本管理有限公司), a limited liability company established under the laws of the PRC on 25 June 2013 and a wholly-owned subsidiary of our Company

Holly Capital (Hong Kong)	HOLLY CAPITAL (HONG KONG) CO., LIMITED (弘業資本(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 10 May 2016 and carrying on business in Hong Kong as HOLLY CAPITAL (HONGKONG) CO., LIMITED, and a wholly-owned subsidiary of our Company
Holly Corporation	Jiangsu Holly Corporation (江蘇弘業股份有限公司) (formerly known as Jiangsu Crafts Import & Export Trading Group Co., Ltd. (江蘇省工藝品進出口集團股份有限公司)), a limited liability company established under the laws of the PRC on 30 June 1994 and one of the promoters and a Shareholder of the Company
Holly Logistics	Jiangsu Holly International Logistics Corporation (江蘇弘業國際物流有限公司) (formerly known as Jiangsu Pengcheng International Storage & Transportation Company Limited (江蘇鵬程國際儲運有限公司)), a limited liability company established under the laws of the PRC on 12 February 1996 and one of the promoters and a Shareholder of the Company
Holly Su Asset	Holly Su Asset Management Company Limited (弘蘇資產管理有限公司), a company incorporated under the laws of Hong Kong with limited liability on 7 July 2016 and a wholly-owned subsidiary of our Company, which is licensed to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
Holly Su Futures	Holly Su Futures (Hongkong) Co., Limited (弘蘇期貨(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 20 October 2011 and a wholly-owned subsidiary of our Company which is licensed to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities under the SFO
Holly Su Industrial	Jiangsu Holly Su Industrial Co., Ltd. (江蘇弘蘇實業有限公司), a limited liability company established under the laws of the PRC on 23 February 2011 and one of the promoters and a Shareholder of the Company
Holly Zijin	Jiangsu Holly Zijin Investment Management Co., Ltd. (江蘇弘業紫金投資管理有限公司), a company established under the laws of the PRC with limited liability on 8 August 2018, which is an affiliated subsidiary of our Company
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hongrui Venture Capital	Jiangsu Hongrui Venture Capital Co., Ltd. (江蘇弘瑞科技創業投資有限公司), a limited liability company established under the laws of the PRC on 29 September 2002 and one of the promoters and a Shareholder of the Company

H Share(s)	overseas listed foreign ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each listed on the Main Board of Hong Kong Stock Exchange
Introducing Broker(s)	a business partner of our Company who introduces clients to our Company for commission
Jiangsu AIC	Jiangsu Administration of Industry and Commerce (江蘇省工商行政管理局)
Jiangsu Chemical Fertilizer	Jiangsu Chemical Fertilizer Co., Ltd. (江蘇省化肥工業有限公司), a limited liability company incorporated in the PRC. Holly Capital entered into the Thermal Coal Basis Trading Cooperation Agreement with Jiangsu Chemical Fertilizer in August 2017, which is a connected person of the Company. Details are set out in the announcement of the Company dated 31 August 2017 in relation to the "Connected transaction – Thermal coal basis trading cooperation agreement"
Jiangsu Holly	Jiangsu Holly Futures Brokerage Company Limited (江蘇弘業期貨經紀有限公司) (formerly known as Jiangsu Jinling Futures Brokerage Company Limited (江蘇金陵期貨經紀有限公司), Jiangsu Holly Futures Brokerage Company Limited (江蘇弘業期貨經紀有限公司) and Jiangsu Holly Futures Company Limited (江蘇弘業期貨有限公司)), a limited liability company established under the laws of the PRC on 31 July 1995 and the predecessor of the Company and, where the context refers to any time prior to its establishment, the business which its predecessors were engaged in
Jiangsu SASAC	State-owned Assets Supervision and Administration Commission of the Jiangsu People's Government (江蘇省人民政府國有資產監督管理委員會)
Jiangsu Securities Bureau	Jiangsu Securities Bureau of the China Securities Regulatory Commission (中國證券監督管理委員會江蘇監管局)
Listing Date	the date, being 30 December 2015, on which the H Shares were listed and from which dealings therein were permitted to take place on the Main Board of the Hong Kong Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
lot	the standardized quantity of futures as set out by the PRC Futures Exchange, and represents the minimum quantity of that futures that may be traded
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules

MOF	Ministry of Finance of the PRC (中華人民共和國財政部)
MOFCOM	Ministry of Commerce of the PRC (中華人民共和國商務部)
Net Capital	equals net assets minus asset adjustment value plus liability adjustment value minus the deposits which the clients fail to fully replenish minus/plus other adjustment items recognised or approved by the CSRC
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), Shanghai Futures Exchange (上海期貨交易所) and Zhengzhou Commodity Exchange (鄭州商品交易所)
PRC or China	the People's Republic of China which, for the purpose of this report, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
Prospectus	the prospectus in relation to H Shares of the Company dated 16 December 2015
PTA	pure terephthalic acid
Report	this annual report for 2018 of the Company
Reporting Period	the year ended 31 December 2018
RMB or Renminbi	the lawful currency of the PRC
Rules of Procedure for Meeting of the Board	the Rules of Procedure for Meeting of the Board of Holly Futures Co., Ltd. currently in force
R&D	research and development
SAT	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
settlement reserve funds	unrestricted and unutilised cash balances reserved for the settlement and clearing of the futures trading, which are deposited with the futures exchanges and commercial banks. Settlement reserve funds include client settlement reserve funds and our own settlement reserve funds
SFC	The Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

Shanghai Mingda	Shanghai Mingda Industrial (Group) Company Limited (上海銘大實業(集團)有限公司), a limited liability company established under the laws of the PRC on 26 December 2002 and one of the promoters and a Shareholder of the Company
Share(s)	Domestic Share(s) and H Share(s)
Shareholder(s)	holder(s) of the shares of the Company
SHFE	Shanghai Futures Exchange
SOHO Holdings	Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司) (formerly known as Jiangsu Silk Group Company Limited (江蘇省絲綢集團有限公司), a wholly state– owned limited liability company established under the laws of the PRC on 29 April 1994, which is the Controlling Shareholder and one of the promoters of the Company
State Council	State Council of the PRC (中華人民共和國國務院)
Supervisor(s)	supervisor(s) of our Company
Supervisory Committee	the supervisory committee of our Company
ZCE	Zhengzhou Commodity Exchange

Company Profile

I. BASIC INFORMATION ABOUT THE COMPANY

1. NAME OF COMPANY

Chinese name: 弘業期貨股份有限公司 (a joint stock limited company established in Jiangsu, the PRC on 29 November 2012 under the PRC laws, and carrying on business in Hong Kong as "HOLLY FUTURES")

Chinese abbreviation (in the PRC): 弘業期貨

English name: Holly Futures Co., Ltd.

2. BOARD

Executive Directors

Mr. Zhou Yong (Chairman)
Ms. Zhou Jianqiu

Non-executive Directors

Mr. Xue Binghai
Mr. Zhang Ke
Mr. Shan Bing

Independent non-executive Directors

Mr. Zhang Hongfa
Mr. Lam Kai Yeung
Mr. Wang Yuetang (appointed on 15 November 2018)
Mr. Li Xindan (retired on 15 November 2018)

Special Committees of the Board

Audit Committee	Mr. Lam Kai Yeung (Chairman) Mr. Xue Binghai Mr. Zhang Hongfa
Remuneration Committee	Mr. Zhang Hongfa (Chairman) Mr. Shan Bing Mr. Wang Yuetang (Mr. Li Xindan, the former member, retired on 15 November 2018)
Nomination Committee	Mr. Zhou Yong (Chairman) Mr. Zhang Hongfa Mr. Wang Yuetang (Mr. Li Xindan, the former member, retired on 15 November 2018)
Risk Management Committee	Mr. Wang Yuetang (Chairman) Mr. Xue Binghai Ms. Zhou Jianqiu Mr. Zhang Ke (Mr. Li Xindan, the former Chairman, retired on 15 November 2018)

3. SUPERVISORY COMMITTEE

Ms. Xu Yingying (Chairlady of the Supervisory Committee)
Ms. Wang Jianying
Ms. Yu Hong

4. LEGAL REPRESENTATIVE

Ms. Zhou Jianqiu

5. REGISTERED CAPITAL

RMB907 million

6. QUALIFICATIONS FOR BUSINESSES IN CHINA

Commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management, sales of funds, trading participant for stock options

7. HEAD OFFICE IN CHINA

Registered address of the Company: No. 50 Zhonghua Road, Nanjing, Jiangsu Province, the PRC (postcode: 210001)
Office address of the Company: Holly Tower, No. 50 Zhonghua Road, Nanjing, Jiangsu Province, the PRC (postcode: 210001)
Website of the Company: www.ftol.com.cn
Email address: zqb@ftol.com.cn

8. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

9. SECRETARY TO THE BOARD

Secretary to the Board: Mr. Jia Guorong
Address: 9/F, Holly Tower, No. 50 Zhonghua Road, Nanjing, Jiangsu Province, the PRC (postcode: 210001)
Tel: 025-52278980
Email: jiaguohong@ftol.com.cn

10. JOINT COMPANY SECRETARIES

Mr. Jia Guorong and Ms. Leung Wing Han Sharon

11. AUTHORIZED REPRESENTATIVES OF THE COMPANY

Ms. Zhou Jianqiu and Mr. Jia Guorong

12. STATUTORY AUDIT INSTITUTIONS OF THE COMPANY

Domestic accounting firm: KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥))
International accounting firm: KPMG

13. LEGAL ADVISERS

As to Hong Kong Law: Chungs Lawyers
As to PRC Law: Allbright Law Offices

14. PRINCIPAL BANKERS

Bank of China Limited
China Construction Bank Corporation
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
Industrial Bank Co., Ltd
Evergrowing Bank Co., Ltd.
China CITIC Bank Corporation Limited
China Merchants Bank Co., Ltd.
Bank of Jiangsu Co., Ltd.
Bank of Nanjing Company Limited
China Everbright Bank Co., Ltd
Ping An Bank Co., Ltd.
Bank of Hangzhou Co., Ltd.
Bank of Shanghai Co., Ltd.
Hua Xia Bank Company Limited
China Guangfa Bank Co., Ltd.
Wing Lung Bank Limited
Bank of China (Hong Kong) Limited

15. H SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited

16. STOCK CODE

03678

II. DEVELOPMENT HISTORY

The Company is formerly known as Jiangsu Jinling Futures Brokerage Company Limited (江蘇金陵期貨經紀有限公司) ("Jinling Futures"), which was established on 31 July 1995 upon the approval of the CSRC. Upon its establishment, its registered capital was RMB10.00 million and its equity interest was held as to 60% by Jiangsu Metallurgy Commodities Trading Market (江蘇省冶金物資交易市場) ("Metallurgy Commodities") and as to 40% by Jiangsu Nonferrous Metal Industrial Company Limited (江蘇省有色金屬工業公司) ("Jiangsu Nonferrous").

In 1999, 60% equity interest as held by Metallurgy Commodities and 30% equity interest as held by Jiangsu Nonferrous in Jinling Futures were transferred to Jiangsu Crafts Import & Export Trading Group Co., Ltd. (江蘇省工藝品進出口集團股份有限公司) ("Jiangsu Crafts", and now known as Jiangsu Holly Corporation (江蘇弘業股份有限公司)), and 10% equity interest as held by Jiangsu Nonferrous in Jinling Futures was transferred to Jiangsu Pengcheng International Storage & Transportation Company Limited (江蘇鵬程國際儲運有限公司) ("Pengcheng International", and now known as Jiangsu Holly International Logistics Corporation (江蘇弘業國際物流有限公司)). Upon the transfer, the registered capital of the Company was RMB10.00 million, of which RMB9.00 million or 90% and RMB1.00 million or 10% were contributed by Jiangsu Crafts and Pengcheng International respectively.

In 1999, the Company changed its name to Jiangsu Holly Futures Brokerage Company Limited (江蘇弘業期貨經紀有限公司). Its registered capital increased to RMB30.00 million, and RMB19.20 million and RMB0.80 million of the capital increase were contributed by Jiangsu Crafts and Pengcheng International respectively. After the completion of the capital increase, 94% of its registered capital or RMB28.20 million and 6% or RMB1.80 million were contributed by Jiangsu Crafts and Pengcheng International respectively.

In 2001, Holly Corporation transferred 48% equity interests in Jiangsu Holly to Jiangsu Holly International Group Investment Management Company Limited (江蘇弘業國際集團投資管理有限公司) ("Holly Investment"). After the equity transfer, 48% of the registered capital of Jiangsu Holly or RMB14.40 million was contributed by Holly Investment; 46% or RMB13.80 million by Holly Corporation; and 6% or RMB1.80 million by Holly Logistics.

In 2006, retain profit of RMB8.00 million of Jiangsu Holly was converted into paid-up capital and the registered capital of Jiangsu Holly increased to RMB38.00 million. After the completion of the capital increase, 48% of the registered capital of Jiangsu Holly or RMB18.24 million was contributed by Holly Investment; 46% or RMB17.48 million by Holly Corporation; and 6% or RMB2.28 million by Holly Logistics.

In 2007, the registered capital of Jiangsu Holly increased to RMB50.00 million, and RMB3.195 million, RMB3.955 million, RMB2.45 million and RMB2.40 million of the capital increase were contributed by Holly Investment, Holly Corporation, Hongrui Venture Capital and Shanghai Mingda. After the completion of the capital increase, 42.87% of the registered capital of Jiangsu Holly or RMB21.435 million was contributed by Holly Investment; 42.87% or RMB21.435 million by Holly Corporation; 4.56% or RMB2.28 million by Holly Logistics, 4.90% or RMB2.45 million by Hongrui Venture Capital; and 4.80% or RMB2.40 million by Shanghai Mingda. In 2008, the registered capital of Jiangsu Holly increased to RMB108.00 million, of which RMB20.00 million was converted from audited capital reserve for 2007 of RMB4.92 million and retained profit of RMB15.08 million. Meanwhile, shareholders of Jiangsu Holly made cash contribution of RMB38.00 million to the capital. After the capital increase, the shareholding of each shareholder remained unchanged.

In 2009, the registered capital of Jiangsu Holly increased to RMB138.00 million. After the completion of the capital increase, 44.42% of the registered capital of Jiangsu Holly or RMB61.2996 million was contributed by Holly Investment; 44.42% or RMB61.2996 million by Holly Corporation; 3.57% or RMB4.9248 million by Holly Logistics, 3.83% or RMB5.292 million by Hongrui Venture Capital; and 3.76% or RMB5.184 million by Shanghai Mingda.

In 2011, the registered capital of Jiangsu Holly increased to RMB380 million. After the completion of the capital increase, 21.75% of the registered capital of Jiangsu Holly or RMB82.65 million was contributed by Holly Investment; 21.75% or RMB82.65 million by Holly Corporation; 21.34% or RMB81.0812 million by SOHO Holdings; 21.11% or RMB80.218 million by Holly Su Industrial; 10.00% or RMB38.00 million by High Hope International; 1.39% or RMB5.292 million by Hongrui Venture Capital; 1.36% or RMB5.184 million by Shanghai Mingda; and 1.30% or RMB4.9248 million by Holly Logistics. In 2011, Jiangsu Holly changed its name into Jiangsu Holly Futures Company Limited (江蘇弘業期貨有限公司), where its registered capital and shareholding structure remained unchanged.

In 2012, the 21.75% equity interest in Jiangsu Holly as held by Holly Investment was transferred to SOHO Holdings and SOHO Holdings held 43.09% equity interest in Jiangsu Holly after the transfer.

On 29 November 2012, the whole of Jiangsu Holly was transformed into Holly Futures Co., Ltd. After the overall transformation, the total share capital of the new company amounted to 680,000,000 shares, of which 292,992,674 shares or 43.09% were held by SOHO Holdings; 147,900,000 shares or 21.75% by Holly Corporation; 143,548,000 Shares or 21.11% by Holly Su Industrial; 68,000,000 Shares or 10.00% by High Hope International; 9,469,895 Shares or 1.39% by Hongrui Venture Capital; 9,276,631 Shares or 1.36% by Shanghai Mingda; and 8,812,800 Shares or 1.30% by Holly Logistics.

In 2015, High Hope International was deregistered as a result of the merger with High Hope Corporation by way of absorption. The 68,000,000 shares of the Company as held by High Hope International were transferred to High Hope Corporation.

On 18 August 2015, the CSRC issued the Reply on Approving Holly Futures Co., Ltd.'s Offering of Overseas Listed Foreign Shares (Zheng Jian Xu Ke [2015] No. 1963) (《關於核准弘業期貨股份有限公司發行境外上市外資股的批覆》(證監許可[2015]1963號)) to approve the Company's offering of no more than 261,050,000 overseas listed foreign shares, all of which are ordinary shares of a nominal value of RMB1 each. On 30 December 2015, the shares issued by the Company overseas were listed on the Main Board of Hong Kong Stock Exchange (stock abbreviation: Holly Futures; and stock code: 03678). According to the Reply Concerning Transfer of State-owned Equities of Holly Futures Co., Ltd. (Guo Zi Chan Quan [2015] No. 411) (《關於弘業期貨股份有限公司國有股轉持有關問題的批覆》(國資產權[2015]411號)) by State-owned Assets Supervision and Administration Commission of the State Council, after the completion of such offering of the Company, the state-owned shareholders Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司), Jiangsu High Hope International Group Co., Ltd. (江蘇匯鴻國際集團股份有限公司), Jiangsu Hongrui Venture Capital Co., Ltd. (江蘇弘瑞科技創業投資有限公司) and Jiangsu Holly International Logistics Corporation (江蘇弘業國際物流有限公司) transferred their respective 17,535,897 shares, 4,069,866 shares, 566,782 shares and 527,455 shares (22,700,000 shares in total) to National Council for Social Security Fund. Upon the listing, the total share capital of the Company amounted to 907,000,000 shares, which were held by Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司) as to 275,456,777 shares or 30.37%, by Jiangsu Holly Corporation (江蘇弘業股份有限公司) as to 147,900,000 shares or 16.31%, by Jiangsu Holly Su Industrial Co., Ltd. (江蘇弘蘇實業有限公司) as to 143,548,000 shares or 15.83%, by Jiangsu High Hope International Group Co., Ltd. (江蘇匯鴻國際集團股份有限公司) as to 63,930,134 shares or 7.05%, by Jiangsu Hongrui Venture Capital Co., Ltd. (江蘇弘瑞科技創業投資有限公司) as to 8,903,113 shares or 0.98%, by Shanghai Mingda Industrial (Group) Company Limited (上海銘大實業(集團)有限公司) as to 9,276,631 shares or 1.02%, by Jiangsu Holly International Logistics Corporation (江蘇弘業國際物流有限公司) as to 8,285,345 shares or 0.91% and by public shareholders of H Shares as to 249,700,000 H Shares or 27.53%.

III. ORGANIZATIONAL STRUCTURE

IV. SUBSIDIARIES

Name	Registered and office address	Principal activities	Place of incorporation and principal place of operation	Date of incorporation	Registered capital	Shareholding ratio	Remarks
Holly Capital Management Co., Ltd.	Room 201, Block A, No. 1 Qianwan Road 1, Qianhai Shenzhen Hong Kong Cooperative District, Shenzhen, the PRC	Basis trading, cooperation hedging, warehouse receipts services	PRC	25 June 2013	RMB240 million	100%	
Holly Su Futures (Hongkong) Co., Ltd.	Room 01-02, 24/F, Jubilee Centre, No. 42-46 Gloucester Road, Wanchai, Hong Kong	Provisions of futures trading and securities trading	Hong Kong	20 October 2011	HKD190 million	100%	Acquired by the Company on 30 September 2015
HOLLY CAPITAL (HONG KONG) CO., LIMITED	Room 2103, Tung Chiu Commercial Centre, 193 Lockhart Road, Wanchai, Hong Kong	Fiduciary asset management, import and export business and investment management	Hong Kong	10 May 2016	HKD5 million	100%	Established and wholly owned by Holly Capital
Holly Su Asset Management Company Limited	Room 01-02, 24/F, Jubilee Centre, No. 42-46 Gloucester Road, Wanchai, Hong Kong	Asset management and investment	Hong Kong	7 July 2016	HKD20 million	100%	Established and wholly owned by Holly Su Futures
Holly International Fund Series SPC (弘業國際基金系列SPC)	Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, POBox10240, KY1-1002, Grand Cayman, Cayman Islands	Investment	Cayman Islands	25 October 2018	USD50,000	100% management interest	Established and wholly owned by Holly Su Asset

V. DISTRIBUTION OF FUTURES BRANCHES AND SUB-BRANCHES

As at the end of the Reporting Period, the Company had established 39 futures branches and 6 sub-branches in the PRC with the approval from the CSRC. The details are set out in the following table:

Serial No.	Branch/Sub-branch	Business Address	Date of Establishment
1	Beijing Branch	9/F, Block B, No. 88 Andingmenwai Dajie Ding (Jiangsu Building), Dongcheng District, Beijing City	2 February 2005
2	Changshu Branch	Room A617, A618, A620, No. 45 Haiyu North Road (Changshu World Trade Center), Changshu City, Jiangsu Province	23 July 2013
3	Changzhou Branch	Room 6032, 6053, No. 99 Jiaye Building, Yanlin West Road, Zhonglou District, Changzhou City	24 September 2002
4	Chengdu Branch	Unit 4, 19/F, Section 2, Block 1, No. 88 Shujin Road, Chengdu City	25 January 2013
5	Changsha Branch	Room 1701, 17/F, Cultural Building, No. 139 Shaoshan North Road, Furong District, Changsha City	11 December 2008
6	Chongqing Branch	6-15#, No. 388 Xinhua Road, Yuzhong District, Chongqing City	30 December 2011
7	Fuzhou Branch	Unit 2504, 25th Floor of Lippo Tianma Plaza,1 Wuyibei Road, Gulou District, Fuzhou City, Fujian Province	10 November 2008
8	Guangzhou Branch	Room 1201, No. 138 Tiyu East Road, Tianhe District, Guangzhou City	8 March 2011
9	Haikou Branch	Room 1809, Fortune Centre, No. 38 Datong Road, Longhua District, Haikou City, Hainan Province	25 March 2010
10	Hangzhou Branch	Room 1401, Block B, New Oriental Building, No. 18 Xihu Avenue, Hangzhou City	20 February 2008
11	Hefei Branch	Room 707, Block 1, Wucai Commercial Plaza, No. 129 Wangjiang West Road, Shushan District, Hefei City	26 December 2007
12	Huaian Branch	Room 1111, 1112, office building of Huaihai City One, Qinghe District, Huaian City	8 May 2012
13	Jinan Branch	Room 901, 5/F, Zhong Run Century Square, No. 13777 Jingshi Road, Lixia District, Jinan City, Shandong Province	7 August 2009
14	Jiangyin Branch	Unit A, 14/F, Hailan International Trade Building, No. 118 Chengjiang Middle Road, Jiangyin City	23 July 2013
15	Lianyungang Branch	Room 907 & 908, No. 26. Hailian East Road, Haizhou District, Lianyugang City, Jiangsu Province	16 September 2011
16	Nanning Branch	No. 2518, No. 2519, No. 2520, Building 1 Nanning Qingxiu Wanda Plaza West, No. 118 Dongge Road, Qingxiu District, Nanning City	19 September 2008

Serial No.	Branch/Sub-branch	Business Address	Date of Establishment
17	Nantong Branch	No. 6 Yaogang Road, Nantong City	6 September 2007
18	Ningbo Branch	No. 267 Guangxian Road, Gaoxin District, Ningbo City	7 September 2011
19	Qingdao Branch	Room 2301, Building No. 1, No. 10 Xianggang Zhong Road, Shinan District, Qingdao City	26 November 2007
20	Shanghai Branch	Room 1210, 1211, No. 1589 Century Avenue, China (Shanghai) Pilot Free Trade Zone	15 August 2007
21	Shenzhen Branch	Unit 808A, Modern Commercial Building, intersection between Jintian Road and Fuhua Road, Futian Sub-district, Futian District, Shenzhen City	22 February 2013
22	Shenyang Branch	Room 707, Jiarun Building, No. 161 Nanjing North Street, Heping District, Shenyang City	11 October 2010
23	Suzhou Branch	Room 2160, Bojin Building, No. 1338 Sanxiang Road, Gusu District, Suzhou City	18 December 2001
24	Suqian Branch	Nos. 2401, 2402, 2403, 2404, 2418, Zhejiang Building Commercial Office, Suqian City, Jiangsu Province	5 May 2010
25	Taiyuan Branch	Unit A, 5/F, Block A, Building 1, No. 9 Fuxi Street, Xinghualing District, Taiyuan City	2 February 2012
26	Taizhou Branch	Room 1303, Wanda office building, No. 220 East Jichuan Road, Hailing District, Taizhou City	3 July 2008
27	Tianjin Branch	Room 2212-2214, Jinzuo Plaza, No. 5 Meiyuan Road, Huayuan Industrial Park, Binhai High-tech Zone Tianjin City	19 August 2009
28	Wuxi Branch	Room 531-1706, 1707, 1708, 1709, Zhongshan Road, Wuxi City	12 December 2003
29	Wuhu Branch	Room 1004, 1005, Weixing Times Financial Centre (偉星時代金融中心), Wuhu City, Anhui Province	28 June 2012
30	Xiamen Branch	Room 1304, No. 820 Xiahe Road, Siming District, Xiamen City, Fujian Province	18 November 2013
31	Xi'an Branch	Room G, 13/F, New Times Plaza, No. 55 Beida Street, Lianhu District, Xi'an City	10 April 2009
32	Xuzhou Branch	Room 2206-2207, Didou Building, Heping Road, Yunlong District, Xuzhou City	4 January 2008
33	Yancheng Branch	Room 3A07, 3A08, 4/F, Huabangdong Mansion, No. 1 Renmin South Road, Yancheng City	16 June 2009

Serial No.	Branch/Sub-branch	Business Address	Date of Establishment
34	Yangzhou Branch	2,3/F, 3-storey commercial building next to Grand Skylight CIMC Hotel, No. 368 Yangzijiang North Road, Yangzhou City	25 October 2002
35	Yixing Branch	Room 201-A, 2/F, Yixing International Trade Building, No. 21 Jiao Yu West Road, Yicheng Street, Yixing City	23 August 2013
36	Zhangjiagang Branch	No. 178 Chengbei Road, Zhangjiagang City	6 September 2013
37	Liyang Branch	Room 2507, office building of Futian Center, No. 28 Yanshan Middle Road, Licheng Town, Liyang City	29 August 2017
38	Haimen Branch	Room 507, Building A Guanghua Building, No. 965 Nanhai Road, Haimen Sub-district, Haimen City, Nantong City	30 October 2018
39	Zhenjiang Branch	17/F, Workers Building, No. 8 Guang Cheng Road, Runzhou District, Zhenjiang City	31 October 2008
40	Beijing Sub-branch	Room 914-919, Block B, No. 88 Andingmenwai Dajie Ding, Dongcheng District, Beijing City	24 January 2017
41	Northeast Sub-branch	Room 2302, Dalian Futures Building, Block A, Dalian International Finance Center, No. 129 Exhibition Road, Sha He Kou District, Dalian City	26 November 2008
42	Jiangnan Sub-branch	No. 21 Jiao Yu West Road, Yicheng Street, Yixing City	6 December 2016
43	Shanghai Sub-branch	Room 1208, 1209, No. 1589 Century Avenue, China (Shanghai) Pilot Free Trade Zone	15 October 2016
44	Shenzhen Sub-branch	Unit 808B, Modern Commercial Building, intersection between Jintian Road and Fuhua Road, Futian Sub-district, Futian District, Shenzhen City	13 July 2016
45	Zhengzhou Sub-branch	Room 1006, Futures Building, No. 30 Business Outer Ring Road, Zheng Dong New District, Zhengzhou City	1 July 2008

Financial Summary

1. Major accounting data and financial indicators

(Unless otherwise specified, the accounting data and financial indicators contained in this annual report are prepared in accordance with the Hong Kong Financial Reporting Standards)

Major accounting data and financial indices for the past five years

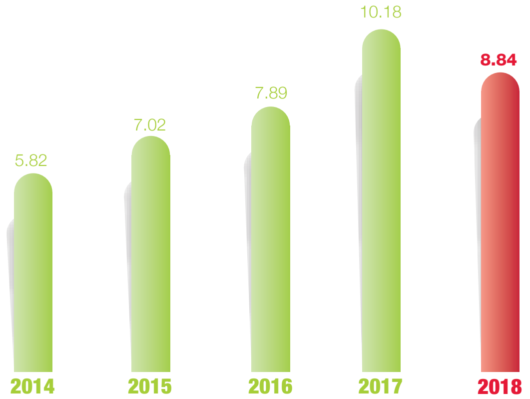
In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%	2016	2015	2014
Operating income	**310,966**	336,267	(25,301)	-8%	311,380	292,583	273,875
Profit before taxation	**113,521**	129,548	(16,027)	-12%	105,259	89,476	76,382
Profit after taxation – attributable to shareholders of the Company	**88,428**	101,764	(13,336)	-13%	78,903	70,170	58,204
Net cash generated from operating activities Inflows/(outflows)	**650,695**	81,155	569,540	701.79%	11,450	255,394	160,588
Earnings per share (RMB/share)							
Basic earnings per share	**0.0975**	0.1122			0.0870	0.1031	0.0856
Diluted earnings per share	**0.0975**	0.1122			0.0870	0.1031	0.0856
Profitability indicators							
Weighted average return on net assets (%)	**5.01%**	5.86%			4.65%	4.79%	4.67%

Scale indicators (RMB'000)	As at 31 December 2018	As at 31 December 2017	Change in 2018 as compared to 2017 Amount	%	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Total assets	**4,296,754**	5,829,042	(1,532,288)	-26%	4,832,513	5,528,765	3,367,640
Total liabilities	**2,525,095**	4,070,617	(1,545,522)	-38%	3,116,827	3,853,374	2,113,661
Accounts payable to brokerage clients	**2,465,323**	3,566,121	(1,100,798)	-31%	3,040,791	3,663,459	1,962,840
Equity attributable to shareholders of the Company	**1,771,659**	1,758,425	13,234	1%	1,715,686	1,675,391	1,253,979
Total share capital ('000)	**907,000**	907,000			907,000	907,000	680,000
Net assets value per share attributable to shareholders of the Company (RMB per share)	**1.95**	1.94			1.89	1.85	1.84
Gearing ratio (%)[Note 1]	**3%**	22%			4%	10%	11%

Note 1: Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

Profit after taxation – attributable to shareholders of the Company

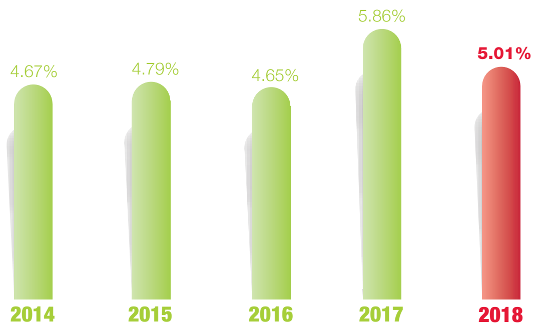
(RMB10 million)



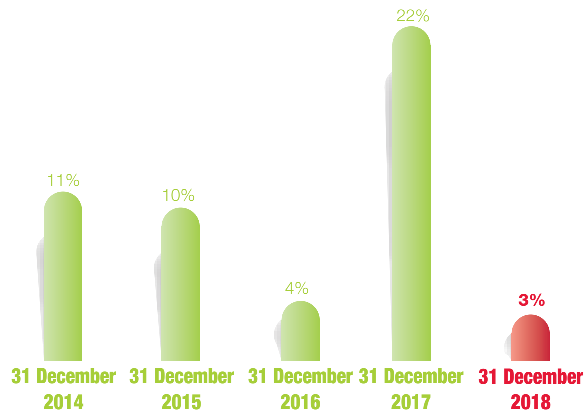
Operating income

(RMB100 million)

Weighted average return on net assets

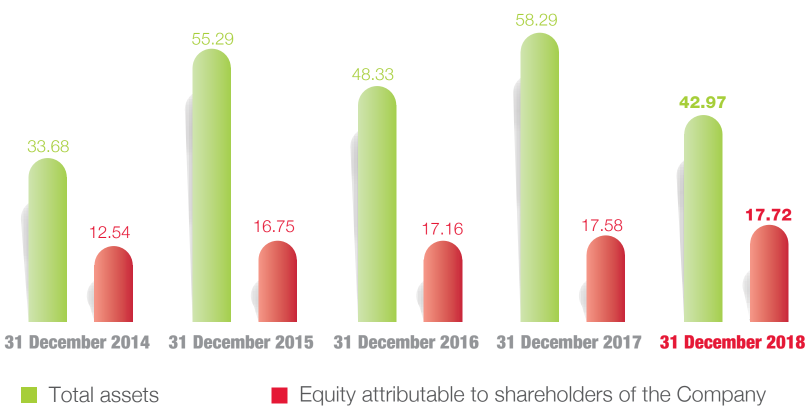


Gearing ratio



Scale indicators

(RMB100 million)



2. Net capital and relevant risk control indicators of the Company

The Net capital of the Company as at 31 December 2018 amounted to RMB1.214 billion, representing an increase of RMB121 million as compared with RMB1,093 million as at the end of 2017. During the Reporting Period, various risk control indicators of the Company including the Net Capital met regulatory requirements. (The following table sets out the Net Capital and the major risk control indicators prepared by the Company in accordance with PRC Accounting Standards and the regulatory requirements in the PRC)

	As at 31 December 2018	As at 31 December 2017	Warning level	Supervision level
Net capital (RMB million)	**1,214**	1,093	36	30
Net capital/total risk capital reserves (%)	**720%**	989%	120%	100%
Net capital/net assets (%)	**74%**	67%	24%	20%
Current assets/current liabilities (%)	**904%**	532%	120%	100%
Total liabilities/net assets (%)	**9%**	12%	120%	150%
Proprietary settlement reserve funds (RMB million)	**617**	345	–	10

Management Discussion and Analysis

I. Industry review

In 2018, despite the complex and challenging domestic and international environment, Chinese economy remained steady with general improvement and the main expected targets for social and economic developments were well achieved, mainly in the following six aspects: First, the economy stably operated within a reasonable range, and the macro-control objectives were better achieved. (1) The economy has maintained a medium-to-high-speed growth, and the total economic output has reached a new level. In 2018, GDP grew by 6.6% over the previous year, achieving an expected growth target of around 6.5%, ranking first among the top five economies in the world. (2) The price increase was lower than expected, and consumer prices rose moderately. In 2018, the Consumer Price Index rose by 2.1% from the previous year. (3) Urban employment continued to expand, and new employment increased substantially. (4) The import and export remained stable with good growth momentum and the international balance of payments was basically balanced. In 2018, the total volume of imports and exports exceeded RMB30 trillion for the first time. The scale of trade in goods also reached a record high, continuing to occupy the world No. 1 position with a continuously optimizing trade structure. Second, the three major battles started well and the weak links were significantly strengthened. The macro leverage ratio has stabilized, the effectiveness of poverty alleviation has been remarkable, and positive progress has been made in energy conservation, emission reduction and pollution prevention and treatment. Third, with the deepening of the supply-side structural reform, the implementation of "eliminating excess capacity, inventory depletion, deleveraging, reducing costs and shoring up weakness" has shown significant effects. (1) The Company adhered to the market-oriented and legal means to eliminate excess capacity to complete the task ahead of schedule. (2) De-leveraging was pushed forward steadily and the macro leverage ratio was stable. (3) The effect of inventory depletion was obvious. The area of commercial housing to be sold at the end of the year 2018 was significantly lower than that at the end of the previous year. (4) Cost reduction continued to be effective. The cost per RMB100 of income from main business of industrial enterprises above designated size continued to decline. The total amount of enterprises and individuals' burden reduction nationwide exceeded RMB1.1 trillion as expected at the beginning of the year 2018, reaching RMB1.3 trillion. (5) More efforts were made to shore up weaknesses. Investments in ecological environment, agriculture and social sectors had accelerated. (6) The overall efficiency of enterprises increased. Fourth, the economic structure was adjusted and optimized, creating new development momentum. (1) The demand structure was adjusted and optimized, and the relationship between investment and consumption ratio changed reasonably. The internal structure of investment was optimized, facilitating the increasing growth of both private investment and manufacturing investment. (2) The industrial structure continued to escalate, and the service industry played a role as a "stabilizer". (3) New industries, new products, new type of operations, and new models continued to grow. Strategic emerging manufacturing and strategic emerging services industries had maintained rapid growth. Fifth, the increasing efforts being put into the reform and opening up enhanced the vitality of development. (1) The reform of key areas was advanced in depth, and the reform of "simplifying procedures, decentralizing powers, enhancing supervision, and optimizing public services" achieved remarkable results. (2) The number of market players increased significantly. (3) The reform of the fiscal and taxation system was fully rolled out. Financial reforms, state-owned enterprise reforms, price reforms, and investment reforms have been steadily advanced. The system of property rights protection has been continuously improved, and the level of opening up has been continuously improved, attracting more foreign investment. Sixth, the income and consumption of residents have increased rapidly, and people's life have continued to improve. Adhere to the protection and improvement of people's livelihood along with the development, the achievement in reform and development will benefit the people more equally.

After nearly 30 years of unremitting efforts, China's futures market has established a series of investor protection systems, such as unified account opening, investor appropriateness, futures deposit security depository monitoring, risk supervision index system of futures company, protection fund for futures investor, etc., establishing a "five in one" coordination work mechanism and investor rights protection system with unique Chinese characteristics. China's futures market has gradually evolved from disorder to maturity, and has gradually entered a stage of healthy and stable development, with increasing economic functions. At the same time, the international influence of China's futures market has significantly increased, gradually becoming the world's largest commodity futures trading market and the largest agricultural futures trading market. With the deepening of the structural reform of the supply side, the futures industry will be centered on serving the real economy. The development of the industry will pay more attention to quality improvement while expanding scale. It is currently at a critical stage of transformation and innovation.

In review of the Chinese futures market in 2018, from the establishment of the crude oil futures at the beginning of the year to the listing of the ethylene glycol futures market at the end of the year, there were four new futures varieties launched in the futures market, of which three futures varieties were internationalized. The first industrial option i.e. the copper option was listed, and the stock index futures ushered in the third adjustment. The dozens of "insurance + futures" pilots were all completed. 2018 is definitely a year of "big harvest". The first was the continuous construction of the futures market. Owing to the innovative and orderly development of futures varieties, risk management tools were further enriched. The second is the increasing overall strength of the futures industry. The exploration of innovative business such as asset management and risk management achieved initial results. The OTC derivatives business started smoothly, the business model of futures companies became more diversified, and the industry concentration was reasonably improved. The third is the accelerating progress of opening up of the futures market. Crude oil and iron ore futures were successfully introduced into the foreign investors market, and the international pricing influence of China's futures market was gradually improved. The implementation of the "Measures for the Administration of Foreign-invested Futures Companies" further opened the futures industry to the outside world. The extent of internationalization of the futures market continued to deepen and played an active role in the process of expanding the opening up of the capital market. China's futures market adhered to the development concept of striving for stability, kept to the development path of marketization, legalization and internationalization, and achieved gratifying results in actively serving for the supply-side structural reform.

2018 is the first year of the opening up of the futures market with a good start. On 26 March 2018, China's first international futures, namely crude oil futures, was listed for trading, marking a milestone step. On 4 May 2018, the first listed iron ore futures were introduced into overseas traders, marking the end of the closed state of China's listed futures and the commencement of the open era. On 30 November 2018, the introduction of PTA futures into overseas traders once again accelerated the pace of internationalization of China's futures. In 2018, new domestic varieties continued to expand and entered the "50+ era". The continuous listing of new varieties of futures options and the increasingly developed derivatives market system have further laid a solid foundation for serving the real economy, providing a more open and fair pricing market for related industries, providing risk management tools for related industry customers, and enriching relevant futures varieties in the industrial chain, and in turn, deriving more trading models. In 2018, the loosening of stock index futures was the first step in restoring normalized trading, and it was also preparing for accelerating the opening up of the financial futures market. On 3 December 2018, CICC announced that it would reduce the stock index futures margin and transaction fees. This has been the third adjustment since the stock index futures trading margin, handling fees, and the number of open positions were stringently tightened in 2015. In 2018, the "insurance + futures" pilot work has achieved remarkable results. "Insurance + Futures" is creating the era of "agriculture, rural areas and farmers" risk control. The insurance + futures business has gradually matured, involving major futures agricultural products futures varieties, and exploring more varieties and benefiting more farmers, which is contributing to agricultural development and the increase in farmers' income.

During the Reporting Period, according to the statistics published by CFA, the accumulated trading volume of China's futures markets were approximately 3,028,865,311 lots with an accumulated turnover of approximately RMB210.818394 trillion calculated as one side of a trade, representing a decrease of 1.54% and an increase of 12.2% as compared with the same period of last year. Particularly, the SHFE achieved a trading volume of 1,175,388,670 lots with an accumulated turnover of RMB81,541.714 billion, representing decreases of 13.84% and 9.33%, respectively, as compared with the same period of last year and accounting for 38.81% and 38.68% of the China market. Shanghai International Energy Center achieved a trading volume of 26,509,423 lots with an accumulated turnover of RMB12,738.347 billion, accounting for 0.88% and 6.04% of the China market. ZCE achieved a trading volume of 817,829,796 lots with an accumulated turnover of RMB38,220.375 billion, representing increases of 39.55% and 78.88%, respectively, as compared with the same period of last year and accounting for 27% and 18.13% of the China market. The DCE achieved a trading volume of 981,927,369 lots with an accumulated turnover of RMB52,195.661 billion, representing a decrease of 10.84% and an increase of 0.36%, respectively, as compared with the same period of last year and accounting for 32.42% and 24.76% of the China market. The CFFE achieved a trading volume of 27,210,053 lots with an accumulated turnover of RMB26,122.297 billion, representing increases of 10.63% and 6.22%, respectively, as compared with the same period of last year and accounting for 0.9% and 12.39% of the China market.

As of the end of the Reporting Period, there were 149 futures companies in China. In 2018, affected by the overall industry situation, China's futures companies realized a net profit of RMB1.299 billion, representing a significant decrease of 83.65% as compared with RMB7.945 billion for the year 2017, mainly because a futures company made a one-off asset impairment loss of RMB5.06 billion in May 2018. Excluding this incident, the net profit for the year 2018 of the Company was RMB6.359 billion, representing a decrease of 19.96% from 2017.

II. Business review

Amidst a complicated economic situation and a fiercely competitive market environment, the Company intensified its existing businesses and successfully overcame the challenges. By taking various measures, the Company consolidated its business advantages to compensate for business shortcomings and to strengthen its business synergies. Its vigorous consolidation of the traditional brokerage business helped to maintain a good momentum of development. Driven by innovation, development was focused on areas such as asset, risk and wealth management. Impetus in international development helped the Company to create new competitive advantages with an increased momentum. However, under the current financial environment, the overall investment and transaction scale of the financial derivatives market shrank, and the Company's major business encountered bottlenecks under the new economy. As of 31 December 2018, our total assets amounted to RMB4,297 million, representing a year-on-year decrease of 26%. Net assets attributable to the Company were RMB1,772 million, representing a 1% increase over 2017. Our total operating income amounted to RMB311 million, or 8% less than in 2017. Net assets attributable to the Company were RMB880 million, representing a 13% decrease over the same period of last year.

The Group is mainly engaged in futures brokerage, asset management, commodity trading and risk management, and financial asset investment (including securities, funds, wealth management products issued by banks and asset management plans). During the Reporting Period, there was no significant change in the nature of the Group's principal business.

(1) The futures brokerage business

The Company's futures brokerage business includes the provision of brokerage services in respect to commodity and financial futures available at all futures exchanges in the PRC, and receiving handling fees from clients. As of 31 December 2018, the Company had 45 branches located in several municipalities, in Jiangsu Province, and in other economically developed cities in the PRC.

In 2018, the Company's daily average client balance (excluding stock options) amounted to RMB3,221 million, representing a decrease of 4.31% as compared with the daily average client balance of RMB3,366 million in 2017. The Group's handling fees interest income generated from the futures brokerage business amounted RMB274 million, representing a decrease of 7% compared to RMB293 million for the same period in 2017. Turnover from brokerage (bilateral statistics, the same below) amounted to RMB3,003.605 billion. The Company's market share was 0.71%. Turnover from commodity futures brokerage amounted to RMB2,823.133 billion. Turnover from financial futures brokerage amounted to RMB180.472 billion. The increase was attributable to the decrease of refundable deposits and handling free of the stock index sector of China Financial Futures Exchange. The Company's trading volume was 52.7905 million lots. In 2018, the Company's handling fee rate for futures transactions was 0.52 bps, representing a decrease of 16.7% compared to the 0.63 bps for the same period in 2017.

In 2019, the Company will continue to optimise its business network structure, explore the pilot business department, integrate resources, improve key areas of service capacity, strengthen its marketing promotion, and expand customer coverage.

(2) The asset management business

As of 31 December 2018, the Company's AUM amounted to RMB13,554 million, an increase of 801.2% compared to RMB1,504 million at the end of 2017. The asset management business achieved a handling fee income of approximately RMB6.00 million. There were 26 trading asset management accounts in aggregate. We have filed 12 new collective asset management schemes (industry average: under 5) and 2 individual products for directional products, which demonstrated our stable development. During the year 2018, the Company was rewarded the Best Asset Management Business Award, and Holly Xingyuan No. 1 Asset Management Scheme was awarded the "Junding Prize for Excellent Futures Asset Management Product in China in 2018" (2018中國優秀期貨資管產品君鼎獎).

The Company further optimised its asset management centre and established an improved big asset management system which integrates product design, investment transaction, risk control and operational management. In the context of stringent industry supervision, the Company actively adapted to the new rules of capital management and sought new development opportunities. First, it has made new breakthroughs in cooperation with large financial institutions. It cooperated with large state-owned banks to issue an individual fixed asset management plan and collection mixed asset management plan. It successfully issued a mixed-use asset management plan with a scale of RMB45 million. The FOF products cooperated with securities companies were promoted in an orderly manner. Second, it has increased investment in fixed-income products, including asset-backed securities, to prepare for further enriching the asset management customer base of the Company. Third, it has innovatively designed the "fixed income +" active management product model, and launched the related products to enhance the active management capabilities and expand the asset scale of active management.

(3) The commodity trading and risk management business

In 2018, the commodity trading and risk management business entered a new stage. In accordance with the development direction of "Commodity Supply Chain Integration Service Provider", Holly Capital has formed the business characteristics of energy and black variation basis trading business, and made new achievements in futures market making business, becoming one of the first batch of business traders of Dalian Commodity Exchange. As of the end of 2018, Holly Capital had total assets of RMB284 million, net assets of RMB247 million, had achieved sales revenue of RMB322 million for the year, representing a 85.25% year-on-year increase and was awarded the title of "Excellent Risk Management Subsidiary" by Dalian Commodity Exchange. By implementation of the development concept of "combination of trade and finance", Holly Capital signed strategic cooperation agreements with large institutions and a number of spot leading enterprises. At the same time, we will further improve the risk control system and continuously promote the construction of internal control system.

Options are mature underlying risk management tools in the international derivatives market. In the case of changes in market supervision policies, the Company's options business has risen against the trend with many bright highlights. The number of stock options business customers, market share and trading volume were among the highest in the industry. The OTC option business developed rapidly with 146 newly increased corporate clients. The notional principal amount of new transactions was RMB1.4 billion, representing a year-on-year increase of 6 times, and turnover of premiums reached RMB26 million. The independent research and development strength has gradually improved, and the annualized rate of return on stock option accounts has reached 9%. We steadily expanded the "Insurance + Futures" business pilot project, and carried out "insurance + futures" projects in Zhenlai County, Jilin Province, Guannan County of Lianyungang, Tongshan District of Xuzhou City, Hai'an County of Nantong City, Jiangning District of Nanjing City, etc., for 60,000 tons of corn. 9,200 tons of soybeans and 840 tons of eggs to provide risk management services. Among them, as to the 8,000-ton soybean income insurance project carried out in Zhenlai County, Jilin Province, farmers received a compensation of RMB1.17 million. During the year 2018, the corn price index "Insurance + Futures" poverty alleviation project won the second prize of Nanjing Financial Innovation.

(4) Financial assets investment

With an aim of optimising its capital operation, the Company invested in a variety of financial assets including securities, wealth management products issued by banks, trusts, funds and asset management plans so as to make effective capital allocation, facilitate the development of principal business and improve profitability while putting risks under control.

As of the end of December 2018, the Group achieved gains of RMB2.30 million from financial assets investment business, representing a decrease of 82% as compared to RMB12.7 million for the same period in 2017, which was mainly due to the stock market continued to decline, the market valuation continued to be bottomed out.

III. Financial statement analysis

(1) Financial statement analysis

1. Profitability analysis

During the Reporting Period, the Company seized the opportunities of the industry innovation and development and gradually enhanced its comprehensive strength. The Group achieved total operating income of RMB311 million with a year-on-year decrease of 8%. The net profit attributable to Shareholders of the Company amounted to RMB88 million with a year-on-year decrease of 13%. The earnings per share amounted to RMB0.0975 and the weighted average return on net assets was 5.01% with a year-on-year decrease of 0.85 percentage point.

2. *Asset structure and asset quality*

As at the end of 2018, the total assets of the Group amounted to RMB4,297 million, representing a year-on-year decrease of 26% as compared with RMB5,829 million at the end of 2017; the total liabilities amounted to RMB2,525 million, representing a year-on-year decrease of 38% as compared with RMB4,071 million at the end of 2017; and the net assets attributable to the shares of the Company increased by 1% as compared with RMB1,758 million at the end of 2017 to RMB1,771 million at the end of 2018.

The asset structure remained stable while the quality and liquidity of assets were well maintained. At the end of 2018, the Group's total assets recorded a year-on-year decline, mainly due to the decrease of customers' equity and drop in the number of consolidated asset management plans. As at the end of 2018, the total assets of the Group consisted of: current assets of RMB4,192 million, accounting for 97.56% of the total assets and mainly include cash held on behalf of clients of RMB1,543 million (accounting for 35.92%), retentions deposited into exchange clearing house of RMB1,113 million (accounting for 25.9%), cash and bank deposits of RMB941 million (accounting for 21.89%), assets for financial investment of RMB560 million (accounting for 13.03%), receivables of RMB25 million (accounting for 0.58%), and other assets of RMB10 million (accounting for 0.23%). There was no indicator for material impairment of the assets of the Company in 2018.

As at the end of 2018, the liabilities deducting accounts payable to brokerage clients amounted to RMB60 million, representing a decrease of 88.15% as compared with RMB504 million at the end of 2017. The decrease was mainly attributable to the decrease in the number of consolidated asset management plans. The gearing ratio of the Group was 3%, representing a decrease of 19 percentage points as compared to 22% at the end of 2017 (Note: Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)). The operating leverage was 1.03 times, representing a decrease of 19.67% as compared with 1.29 times at the end of 2017 (Note: Operating leverage = (Total assets – Accounts payable to brokerage clients)/ Equity attributable to the Shareholders of the Company).

3. *Liquidity level management*

The Company places great emphasis on liquidity management based on the principle of "comprehensive, prudent and predictability" while focusing on the organic combination of the security, liquidity and profitability of capital. The liquidity monitoring index of the Company in each month throughout 2018 complied with the regulatory requirements of the CSRC.

4. *Cash flows*

The net increase in cash and cash equivalents amounted to RMB340 million in 2018.

Net cash generated from operating activities of the Group amounted to RMB651 million in 2018, representing a year-on-year increase of RMB570 million as compared with RMB81 million for 2017; net cash used in investing activities amounted to RMB-232 million in 2018, representing a year-on-year decrease of RMB169 million as compared with RMB-63 million used in 2017; net cash generated from financing activities amounted to RMB-78 million in 2018, representing a year-on-year decrease of RMB22 million as compared with RMB-56 million used in 2017; net increase in cash and cash equivalents amounted to RMB340 million in 2018, representing a year-on-year increase of RMB378 million as compared with RMB-38 million for 2017.

(2) Income statement items

In 2018, the Group's profit before income tax amounted to RMB113.521 million, representing a year-on-year decrease of RMB16.027 million or 12%. The key financial results are as follows:

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Revenue	**310,966**	336,267	(25,301)	-8%
Net investment gains	**(35,517)**	10,020	(45,537)	-454%
Net income from other business activities	**22,868**	6,467	16,401	254%
Operating income	**298,317**	352,754	(54,437)	-15%
Other income	**8,016**	(738)	8,754	1,186%
Operating and management expenses	**198,442**	220,803	(22,361)	-10%
Profit from operations	**107,891**	131,213	(23,322)	-18%
Share of losses of associates	**5,630**	(1,665)	7,295	438%
Profit before taxation	**113,521**	129,548	(16,027)	-12%
Income tax expense	**25,093**	27,784	(2,691)	-10%
Profit after taxation	**88,428**	101,764	(13,336)	-13%
Basic and diluted earnings per share	**0.0975**	0.1122		
Other comprehensive income				
Share of other comprehensive income of the investee accounted for using the equity method that will be reclassified to profit or loss	**(9,705)**	9,854	(19,559)	-198%
Other comprehensive income that maybe reclassified to income statement	**0**	(4,470)	4,470	100%
Exchange differences on translation of financial statements in foreign currencies	**7,071**	(9,989)	17,060	171%
Comprehensive income	**85,794**	97,159	(11,365)	-12%

1. *Revenue*

In 2018, the Group achieved revenue of RMB310.966 million, representing a year-on-year decrease of RMB25.301 million or 7.25%. For 2018 and 2017, the Group's proportion of fee income were 58.7% and 58.86% respectively while the proportion of interest income were 41.3% and 41.14%, respectively. Breakdown is set out in the following table:

	2018		2017		Change in 2018 as compared to 2017	
In RMB'000	Amount	Proportio	Amount	Proportio	Amount	%
Fee income	**182,527**	**58.7%**	197,910	58.86%	(15,383)	-7.77%
Interest income	**128,439**	**41.3%**	138,357	41.14%	(9,918)	-7.17%
Total	**310,966**	**100%**	336,267	100%	(25,301)	-7.52%

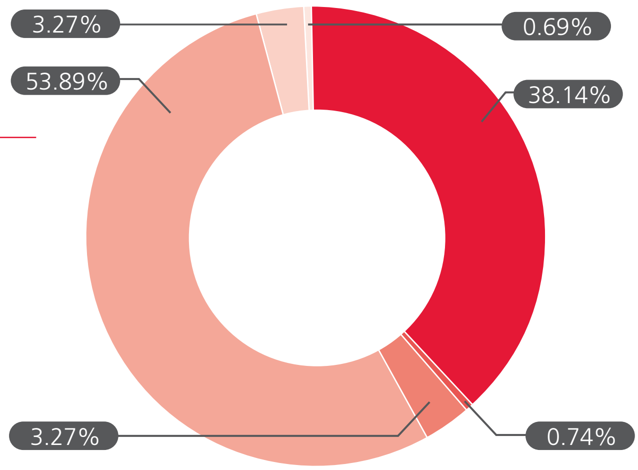
(1) Fee income

The Group achieved fee income of RMB182,527 million, representing a year-on-year decrease of RMB15.383 million or 7.77%. Breakdown is set out in the following table:

	2018		2017		Change in 2018 as compared to 2017	
In RMB'000	Amount	Proportio	Amount	Proportio	Amount	%
Commodity futures brokerage business	**69,607**	**38.14%**	89,827	45.39%	(20,220)	-22.51%
Financial futures brokerage business	**1,352**	**0.74%**	808	0.41%	544	-67.33%
Overseas futures business	**5,964**	**3.27%**	7,081	3.58%	(1,117)	-15.77%
Fee refund	**98,366**	**53.89%**	97,388	49.21%	978	1%
Asset management business	**5,969**	**3.27%**	2,224	1.12%	3,745	168.39%
Options brokerage business	**1,269**	**0.69%**	582	0.29%	687	118.04%
Total fee income	**182,527**	**100%**	197,910	100%	(15,383)	-7.77%

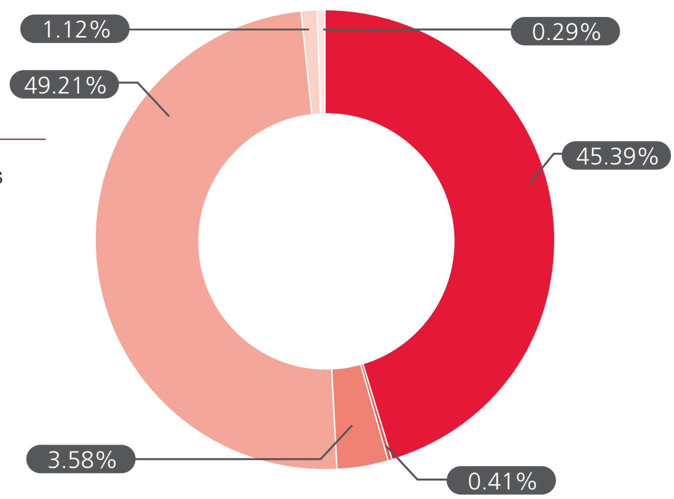
2018 Fee Income

- Commodity futures brokerage business
- Financial futures brokerage business
- Overseas futures business
- Fee refund
- Asset management business
- Options brokerage business



2017 Fee Income

- Commodity futures brokerage business
- Financial futures brokerage business
- Overseas futures business
- Fee refund
- Asset management business
- Options brokerage business



Total Fee Income Chart of the Group

① The income from futures business amounted to RMB175.289 million, representing a year-on-year decrease of RMB19.815 million or 10.16%, which mainly comprised fee income from commodity futures, financial futures and overseas futures brokerage business, as well as refunds of handling fees from the exchanges. Fee income from commodity futures amounted to RMB69.607 million, representing a year-on-year decrease of RMB20.220 million; and fee income from financial futures amounted to RMB1.352 million, representing a year-on-year increase of RMB0.544 million; the income from overseas futures business amounted to RMB5.964 million, representing a year-on-year decrease of RMB1.117 million, which was mainly due to the fact that fee income from Holly Su Futures declined; refunds of handling fees amounted to RMB98.366 million, representing a year-on-year increase of RMB0.978 million, which was main attributable to the fact that the stock exchange increased its efforts in the refund of handling fees.

② The income from asset management business amounted to RMB5.969 million, representing a year-on-year increase of RMB3.745 million or 168.39%. Income from asset management business mainly consisted of management fees and performance-based commissions. Management fees are accrued based on the net value of asset management plans, while performance-based commissions are accrued based on the operational efficiency of asset management plans. As of 31 December 2018, the net value of asset management plans amounted to RMB13,554 million, representing a year-on-year growth of 801.2% as compared to RMB1,504 million on 31 December 2017. Number of asset management plans decreased from 43 in 2017 to 26 in 2018.

③ Income from option brokerage business amounted to RMB1.269 million, representing a year-on-year increase of RMB0.687 million or 118.04%, which was mainly due to the increase of options business, investment consulting and agency fund income. Such businesses are new business of the Group in recent years and currently account for a relatively small proportion of fee income.

(2) Interest income

Interest income of the Group amounted to RMB128.439 million, representing a year-on-year decrease of RMB9.918 million or 7.17%. Breakdown is set out in the following table:

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Bank deposits	**121,197**	126,752	(5,555)	-4.38%
Futures exchanges	**6,990**	5,743	1,247	21.71%
Asset management plans and trust schemes	**–**	5,763	(5,763)	-100%
Repurchase agreements	**252**	99	153	154.55%
Total	**128,439**	138,357	(9,918)	-7.17%

Interest income is mainly attributable to: ① the interest income derived from the demand and time deposits of the Company's own funds and client deposits placed in financial institutions; ② Unlisted bonds and interest income derived from reverse repurchase agreements. The interest income decreased mainly because: the interest income derived from the time deposits decreased by RMB5.755 million or 5.03% as compared to 2017. Interest income derived from asset management plans and trust schemes decreased by RMB5.763 million or 100% as compared to 2017.

2. *Net investment gains*

In 2018, the Group achieved net investment gains of RMB-35.517 million, representing a year-on-year decrease of RMB45.537 million or 454%, which was mainly attributable to the decrease in proceeds from disposal of financial assets and decrease in the market value of the financial assets held. Breakdown is set out in the following table:

			Change in 2018 as compared to 2017	
In RMB'000	**2018**	**2017**	**Amount**	**%**
Investment gains	**(21,222)**	928	(22,150)	-2,387%
Gain or loss on fair value changes	**(29,270)**	(585)	(28,685)	4,903%
Dividends from securities and funds	**14,975**	9,677	5,298	55%
Total	**(35,517)**	10,020	(45,537)	-454%

(1) Investment gains

Investment gains of the Group amounted to RMB-21.222 million, representing a year-on-year decrease of RMB22.150 million or 2,387%. Breakdown is set out in the following table:

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Disposal of financial assets at fair value through profit or loss				
– Trading securities	**(12,451)**	2,371	(14,822)	-625%
– Funds	**–**	(6,073)		
– Asset management plans	**(870)**	–	(870)	N/A
– Bonds	**(501)**	–	(501)	N/A
– Wealth management products	**399**	–	399	N/A
– Trust schemes	**748**	–	748	N/A
Disposal of financial assets designated at fair value through profit or loss				
– Physical commodities	**–**	1,861	(1,861)	-100%
Disposal of financial liabilities at fair value through profit or loss				
– Payables	**–**	249	(249)	-100%
Disposal of derivative financial instruments	**(8,547)**	(4,209)	(4,338)	-103%
Disposal of available-for-sale financial assets				
– Listed securities	**–**	6,220	(6,220)	-100%
– Wealth management products	**–**	235	(235)	-100%
– Asset management plans	**–**	262	(262)	-100%
– Bonds	**–**	12	(12)	-100%
Total	**(21,222)**	928	(22,150)	-2,387%

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Proceeds from disposal of financial assets	**(12,675)**	3,026	(15,701)	-519%
Futures and other risk management business	**(8,547)**	(2,098)	(6,449)	-307%
Total	**(21,222)**	928	(22,150)	-2,387%

In 2018, the investment gains of the Group were mainly generated from the proceeds from disposal of financial assets and futures and other risk management business. The increase of investment gains was relatively higher as compared to 2017, of which proceeds from disposal of financial assets and futures and other risk management business both decreased. Proceeds from disposal of financial assets and futures and other risk management business decreased RMB15.701 million and RMB6.449 million respectively.

Proceeds from disposal of financial assets mainly comprised of proceeds from disposal of securities, funds, wealth management products, asset management plans and bonds. In 2018, the proceeds from disposal of financial assets decreased year on year by RMB15.701 million or 519%, mainly due to the decrease in gain generated from stock trading due to the downturn in securities market during the year as compared to the same period of last year.

(2) Gain or loss on fair value changes

In 2018, gain or loss on fair value changes of the Group amounted to RMB-29.270 million, representing a year-on-year decrease of RMB28.685 million or 4,903%. Breakdown is set out in the following table:

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Financial assets held for trading				
– Trading securities	**(14,484)**	(2,795)	(11,689)	-418%
– Funds	**(8,924)**	1,078	(10,002)	-928%
– Wealth management products	**(4,615)**	–	(4,615)	N/A
– Asset management plans	**(545)**	–	(545)	N/A
– Trading bonds	**(49)**	–	(49)	N/A
– Trust schemes	**65**	–	65	N/A
Financial liabilities designated at fair value through profit or loss	**(32)**	268	(611)	-112%
Derivative financial assets	**1,511**	(646)	177	-334%
Derivative financial liabilities	**(2,197)**	1,510	(1,107)	-245%
Subtotal	**(29,270)**	(585)	(28,685)	-4,903%

(3) Dividends from securities and funds

In 2018, dividends from securities and funds of the Group amounted to RMB14.975 million, representing a year-on-year increase of RMB5.298 million, which was mainly contributed by the dividend income generated from the funds held by the Group since 2018.

3. *Other net operating income*

In 2018, the Group achieved other net operating income of RMB22.868 million, representing a year-on-year increase of RMB16.401 million or 254%, mainly due to the further expansion of the operating scale of Holly Capital's variation basis trading business and risk management consulting business.

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Other operating income	**329,072**	184,025	145,047	79%
Other operating cost	**306,204**	177,558	128,646	72%
Total	**22,868**	6,467	16,401	254%

4. *Other income*

In 2018, the Group recorded other income of RMB8.016 million, representing a year-on-year increase of RMB8.754 million or 1,187%, which was mainly attributable to the increase in foreign exchange losses. Breakdown is set out in the following table:

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Government grants	**2,628**	2,215	413	19%
Subsidies from China Financial Future Exchange	**1,252**	1,749	(497)	-28%
Foreign exchange gains or losses	**3,436**	(6,622)	10,058	152%
Others	**700**	1,920	(1,220)	-64%
Other income	**8,016**	(738)	8,754	1,187%

(1) *Government grants*

The government grants of the Group amounted to RMB2.628 million with a year-on-year increase of RMB0.413 million or 19%. Government grants mainly comprised of:

(i) the development support fund of RMB0.9 million of Pudong New District, Shanghai received by the Shanghai Branch in April 2018;

(ii) the employment subsidies of RMB164,000 from the Nanjing Social Insurance Management Center received by Holly Futures in July 2018;

(iii) the provincial-level special fund for modern service industry development RMB1 million received by Holly Futures in December 2018;

(iv) the key industry development support fund of approximately RMB64,000 from Financial Services Bureau of Zhengzhou New District Management Committee by Holly Futures in December 2018;

(v) the Nanjing Financial Innovation Prize of RMB0.5 million in 2018.

(2) *Subsidies from China Financial Futures Exchange*

The subsidies from China Financial Futures Exchange of the Group amounted to RMB1.252 million with a year-on-year decrease of RMB0.497 million or 28%, which mainly comprised of certain amount of subsidies from China Financial Futures Exchange to futures companies every year for encouraging them to conduct activities, including conference fees, activities fees and research issue fees.

(3) *Foreign exchange gains and losses*

In 2018, foreign exchange gains and losses of the Group amounted to RMB3.436 million, which was mainly attributable to the listing of the Company in end of 2015. As at 31 December 2018, the unutilized proceeds totally amounted to HKD101.21 million. As, exchange rates of Hong Kong dollar against Renminbi climbed from 0.8359 on 31 December 2017 to 0.8762 on 31 December 2018, gains of RMB3.436 million were incurred. In 2018, the Group did not use financial instruments to hedge our exposure to exchange rate fluctuations.

5. *Operating and management expenses*

The operating and management expenses of the Group amounted to RMB198.442 million in 2018, representing a year-on-year decrease of RMB22.361 million or 10%. Breakdown is set out in the following table:

In RMB'000	2018	2017	Change in 2018 as compared to 2017 Amount	%
Staff costs	**129,429**	137,297	(7,868)	-6%
Office expenses	**24,014**	28,964	(4,950)	-17%
Lease charges	**20,437**	21,070	(633)	-3%
Commission	**5,277**	10,582	(5,305)	-50%
Audit fees	**2,051**	2,033	18	1%
Default fees	**–**	1,132	(1,132)	-100%
Taxes and surcharges	**1,199**	974	225	23%
Others	**16,035**	18,751	(2,716)	-14%
Total	**198,442**	220,803	(22,361)	-10%

(1) Staff costs

Staff costs mainly comprised of salaries, bonuses and allowances, pension and other social welfare such as "5 insurances and 1 pension". In 2018, the staff costs of the Group amounted to RMB129.429 million with a year-on-year decrease of RMB7.868 million or 6%, which was mainly due to the downward adjustment in employee bonus, which was awarded based on the overall results of the Group, so the total staff costs in general fell as compared to 2017.

(2) Office expenses

Office expenses mainly comprised of office supplies fees, information fees, promotion and business development expenses, postal and communication expenses, business travel expenses and operation and maintenance costs for electronic equipment. In 2018, the office expenses of the Group amounted to RMB24.014 million with a year-on-year decrease of RMB4.950 million or 17%.

(3) Lease charges

Lease charges mainly comprised of housing rental, vehicle rental and equipment rental, among which, lease charges for housing accounted for 99% of lease charges. In 2018, the lease charges of the Group amounted to RMB20.437 million with a year-on-year decrease of RMB0.633 million or 3%, which was mainly due to the reduction of housing area, resulting in the decrease in leasing charges.

(4) Taxes and surcharges

In 2018, the taxes and surcharges of the Group amounted to RMB1.199 million with a year-on-year increase of RMB225,000 or 23%, which was mainly because our sales revenue and actual payment of value-added tax increased as compared with last year as a result of the continuous expansion of the operating scale of our subsidiary, Holly Capital's variation basis trading business.

6. Share of gains of investment in associates

In 2018, the share of gains of investment in associates of the Group amounted to RMB5.630 million with a year-on-year increase of RMB7.295 million or 438%, which was mainly attributable to the increase in the net gains of the associates invested by the Group.

(3) Asset items

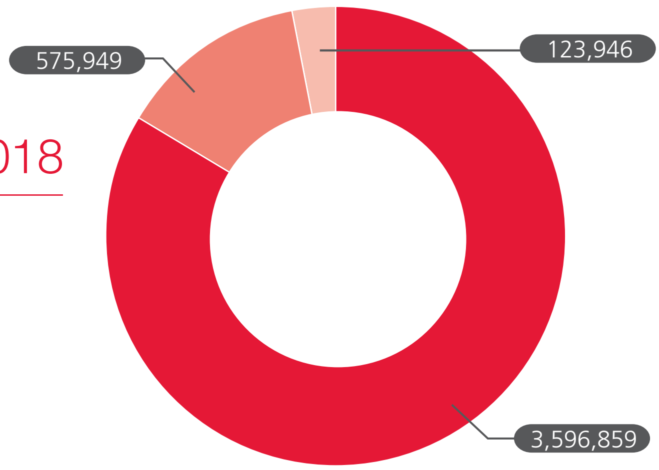
As at 31 December 2018, the total assets of the Group decreased year on year by RMB1,532 million or 26% to RMB4,297 million, including cash assets amounting to RMB3,597 million with a year-on-year decrease of 22%, financial investment assets amounting to RMB576 million with a year-on-year decrease of 43%, and other operating assets such as property and equipment amounting to RMB124 million with a year-on-year decrease of 37%. The change in the total amount of principal assets of the Group is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017	
			Amount	%
Cash assets	**3,596,859**	4,618,665	(1,021,806)	-22%
Financial investment assets	**575,949**	1,013,159	(437,210)	-43%
Other operating assets such as property and equipment	**123,946**	197,218	(73,272)	-37%
Total	**4,296,754**	5,829,042	(1,532,288)	-26%

The composition of the total assets of the Group:

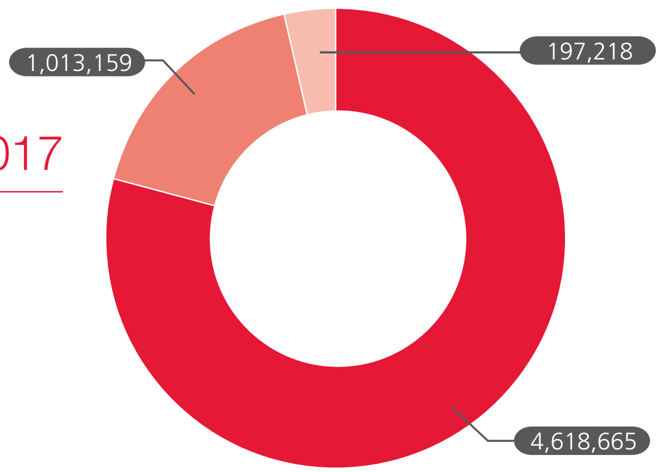
Asset distribution as at 31 December 2018

- Cash assets
- Financial investment assets
- Other operating assets such as property and equipment



Asset distribution as at 31 December 2017

- Cash assets
- Financial investment assets
- Other operating assets such as property and equipment



1. *Cash assets*

As at 31 December 2018, the cash assets of the Group amounted to RMB3,597 million, accounting for 83.71% of the total assets of the Group, with a year-on-year decrease of RMB1,022 million or 22%. The composition of the cash assets of the Group is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017 Amount	%
Retentions deposited into exchange clearing house	**1,112,959**	1,415,746	(302,787)	-21%
Cash held on behalf of clients	**1,543,210**	2,290,147	(746,937)	-33%
Cash and bank balances	**940,690**	912,772	27,918	3%
Total	**3,596,859**	4,618,665	(1,021,806)	-22%

The change in cash assets was mainly reflected in the retentions deposited into exchange clearing house and cash held on behalf of clients, which mainly comprised of RMB1,112 million of currency deposits receivable and RMB1 million of pledged deposits receivable, amounted to RMB1,113 million all together, accounting for 25.90% of the total assets of the Group, representing a decrease of RMB303 million or 21% as compared to 2017. Cash held on behalf of clients of RMB1,543 million (accounting for 35.92% of total assets of the Group), representing a decrease of RMB747 million or 33% as compared with 2017.

2. *Financial investment assets*

As at 31 December 2018, the financial investment assets of the Group amounted to RMB576 million, accounting for 13.40% of the total assets of the Group, with a year-on-year decrease of RMB437 million or 43%. The composition of the financial investment assets of the Group is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017 Amount	%
Investment in associates	**16,024**	19,932	(3,908)	-20%
Available-for-sale financial assets	**–**	131,035	(131,035)	-100%
Financial assets at fair value through profit or loss	**559,871**	862,143	(302,272)	-35%
Derivative financial assets	**54**	49	5	10%
Total	**575,949**	1,013,159	(437,210)	-43%

3. *Other operating assets such as property and equipment*

As at 31 December 2018, the other operating assets such as property and equipment of the Group amounted to RMB124 million, accounting for 2.88% of the total assets of the Group, and representing a year-on-year decrease of RMB70 million or 37%. The composition of other operating assets such as property and equipment of the Group is set out in the table below:

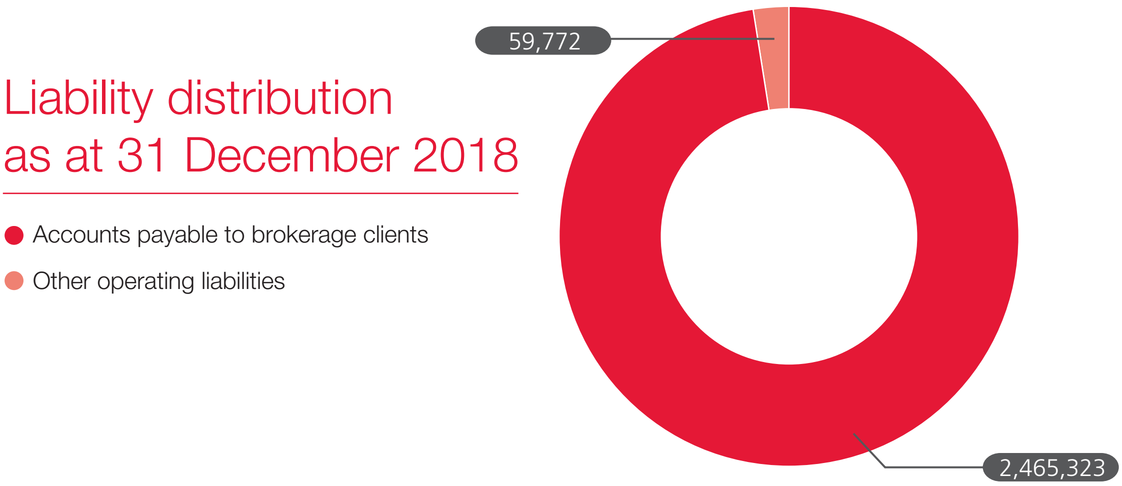
In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017 Amount	%
Property, plant and equipment	**11,889**	7,959	3,930	49%
Goodwill	**43,322**	43,322	–	0%
Intangible assets	**22,534**	22,692	(158)	-1%
Deferred income tax assets	**9,553**	7,887	1,666	21%
Other current assets, non-current assets	**36,648**	115,358	(78,710)	-68.23%
Total	**123,946**	197,218	(73,272)	-37%

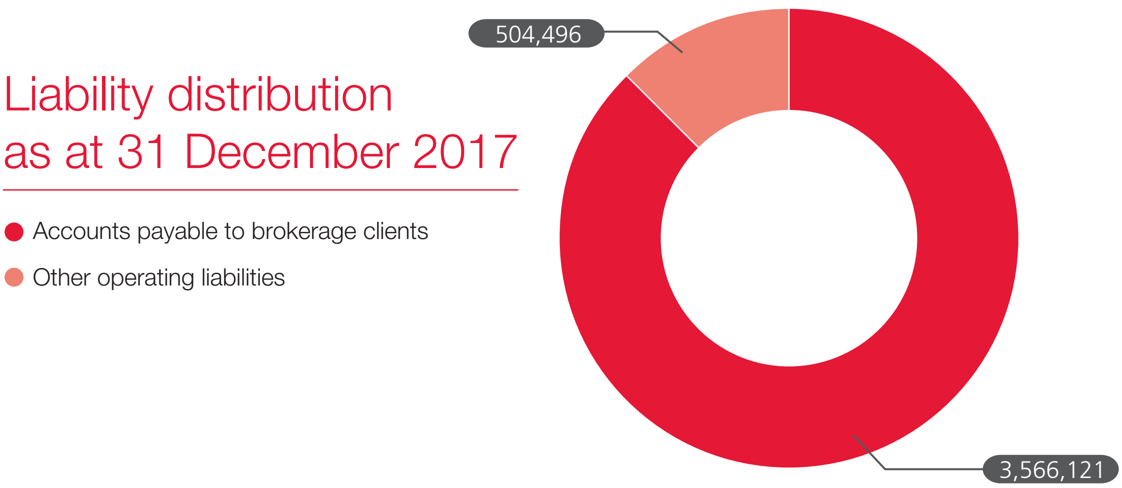
(4) Liabilities items

As at 31 December 2018, the total liabilities of the Group decreased year on year by RMB1,546 million or 38% to RMB2,525 million, in which accounts payable to brokerage clients amounted to RMB2,465 million with a year-on-year decrease of 31%, which was mainly attributable to the decrease in the deposits contributed by clients and loss in customer transactions. The change in the total amount of principal liabilities of the Group is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017 Amount	%
Accounts payable to brokerage clients	**2,465,323**	3,566,121	(1,100,798)	-31%
Other operating liabilities	**59,772**	504,496	(444,724)	-88%
Total	**2,525,095**	4,070,617	(1,545,522)	-38%

The composition of the total liabilities of the Group:





1. *Accounts payable to brokerage clients*

As at 31 December 2018, the accounts payable to brokerage clients of the Group amounted to RMB2,465 million, accounting for 97.62% of the total liabilities of the Group, with a year-on-year decrease of RMB1,101 million or 31%, which was mainly attributable to the decrease in the deposits contributed by clients and loss margin. Of which, currency deposits payable and pledged deposits payable amounted to RMB2,465 million and RMB1 million respectively. The composition of the accounts payable to brokerage clients of the Group is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017 Amount	%
Natural person clients	**1,653,495**	2,228,830	(575,335)	-26%
Corporate clients	**811,146**	1,329,625	(518,479)	-39%
Total	**2,464,641**	3,558,455	(1,093,814)	-31%

2. *Other operating liabilities*

As at 31 December 2018, the other operating liabilities of the Group amounted to RMB60 million, accounting for 2% of the total liabilities of the Group, with a year-on-year decrease of RMB445 million or 88%. The composition of the other operating liabilities of the Group is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017 Amount	%
Other current liabilities	**57,740**	79,613	(21,873)	-27.47%
Financial liabilities and derivative financial liabilities at fair value through profit or loss	**2,032**	424,883	(422,851)	-99.52%
Total	**59,772**	504,496	444,724	-88%

The change in the other operating liabilities was mainly reflected in the financial liabilities and derivative financial liabilities at fair value through profit or loss, representing a year-on-year decrease of RMB423 million or 99.52%, which were mainly attributable to the assets plans included in the consolidated statements.

(5) Equity

As at 31 December 2018, the total equity of the Group amounted to RMB1,772 million, representing a year-on-year increase of RMB14 million or 1%. The composition of the equity of the Group as of the dates indicated is set out as follows:

In RMB'000	As at 31 December 2018	As at 31 December 2017	Change as at 31 December 2018 as compared to 31 December 2017	
			Amount	%
Share capital	**907,000**	907,000	–	–
Reserve	**864,659**	851,425	13,234	2%
Total equity	**1,771,659**	1,758,425	13,234	1%

(6) Contingent liability and assets pledge

As at 31 December 2018, the Group had no asset pledge and contingent liabilities.

IV. Changes in branches and subsidiaries and impact on results

(1) Branches

1. *Establishment of and changes in operation branches*

(1) Establishment and closing of futures branches

During the Reporting Period, the Company established the Haimen Branch and closed its Kunshan Branch.

(2) Relocation

The Company constantly adjusted and optimized its branch network. During the Reporting Period, 3 branches, namely the branches at Lianyungang, Nanning and Suzhou were relocated.

2. *Establishment of and changes in sub-branch offices*

Nil.

(2) Subsidiaries

On 28 August 2018, Holly Su Asset was licensed under the SFO and was approved to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

On 25 October 2018, Holly Su Asset established Holly International Fund Series SPC (弘業國際基金系列SPC) in Cayman Islands with a registered capital of USD50,000.

(3) Impact on results

Currently, fund investment business of Holly Su Asset has not been carried out, thus it shall not have significant influence on our results for the year ended 31 December 2018. After Holly Su Asset acquired relevant new licenses, it would start its business subsequently.

V. Major investment and financing

(1) Equity financing

Nil.

(2) Debt financing

Nil.

(3) Equity investments

The Company completed one equity investments throughout the Reporting Period.

On 20 August 2018, the Company injected capital of RMB3 million into Holly Zijin.

VI. Disposal, acquisition, substitution and spin-off of material assets of the Company, and reorganization of subsidiaries, associates and joint ventures

For the year ended 31 December 2018, the Company has no material acquisition or disposal of subsidiaries, associates and joint ventures.

VII. Business innovation, its impact, and controlling risk

(1) Business innovation and its impact

The Company has set business innovation as a key to strategic development. It continued to research and explore means of business innovation during the Reporting Period.

1. International business influence strove for new breakthrough

In 2018, crude oil futures were successfully listed, iron ore and PTA successfully introduced foreign investors, and Management Methods for Foreign-invested Futures was officially promulgated. All these evidenced the accelerated opening-up pace of the China's futures market. The Company attaches great importance to international business, and successfully opened two overseas iron ore enterprises on the first day of the iron ore internationalization of DCE, and completed overseas institutional transactions. The first "China Iron Ore Futures Internationalization Salon" was successfully held in Hong Kong. Under the background of the continuous tightening of foreign exchange control, Holly Su Futures has embarked on the development of "diversification", namely by providing the license application service for asset management and securities investment advisory business, and establishing the first Holly International Fund in the Cayman Islands, In addition, securities margin business by expanding the scope of investors and other businesses received the approval from SFC.

2. The brand value of risk management business was promoted

Holly Capital endeavoured to pursue the development path of "bulk commodity supply chain integration service provider", to form the operating characteristics mainly on energy and black basis trade business, to accomplish new achievements in market-making business and to become the first batch of commodity swap business traders in DCE. By the end of 2018, the total asset of Holly Capital was RMB284 million, the net asset was RMB247 million, the sales revenue achieved was RMB339 million with year-on-year growth of 85%, meanwhile, Holly Capital was awarded the title of "Excellent risk management subsidiary" by DCE. Holly Capital attached great importance to the implementation of the development concept for "Combination of trade and financing", and signed the strategic cooperation agreements with large-scale organizations and several spot leading enterprises. Meanwhile, Holly Capital further implemented the risk control, and constantly promoted the construction of internal control system.

Option is a mature basic risk management instrument in the international derivatives market. Under the change of market regulation policy, the Company's option business rose against the tendency, and the bright spots appeared. The Company's number of customers, market share and turnover of stock option business are in the forefront of the industry. The over-the-counter option business developed rapidly, with 146 new corporate clients, RMB1,400 million of the new notional principal of the transaction with year-on-year growth of over 6 times, and RMB26 million of the equity transaction amount. The over-the-counter option project of 39,000 tons coke was approved by the exchange at the first time. In 2018, the independent R&D strength gradually increased, and the annualized return of stock option account reached 9%. Throughout the year 2018, the Company steadily expanded the business pilots of "insurance + futures", and implemented projects in Zhenlai County of Jilin Province, Guannan County of Lianyungang City, Tongshan District of Xuzhou City, Haian County of Nantong City, Jiangning District of Nanjing City, and other places, to provide the risk management service for corn of 60,000 tons, soybean of 9,200 tons, and egg of 840 tons. Among them, for the project of 8,000 tons soybean income insurance implemented in Zhenlai County, Jilin Province, farmers were compensated RMB1.17 million. During the year 2018, the poverty alleviation project of corn price index "insurance + futures" was awarded the Second Prize for Financial Innovation in Nanjing.

3. *Wealth management business development model digged a new path*

In 2018, the Company actively looked for high-quality cooperation units, launched products for 11 fund companies, and sold up to 567 fund product on a commission basis the Company prepared well for sales training and market promotion of fund products, and preliminarily formed a training system for "Sales-operation-research". The Company mainly promoted bond funds, money funds, index funds and other categories of funds, and reached fund sales of nearly RMB100 million during the year 2018. With provding full-service privately offered fund as the core to develop wealth management business, the Company established equity-like assets management company about equity – Jiangsu Holly Zijin Investment Management Co., Ltd.

(2) Controlling risk in innovative business

1. *Enhancing prior system construction and staff training*

The Company focuses on risk prevention and control, and strives to improve its regulations system and risk control system. We make great effort on strengthening the management at source, which effectively enhances our level of modern enterprise management. Prior to the commencement of new business, the Company will formulate a self-contained complementary system and the relevant terms for contracts according to the standards of business operation. At the same time, it recruits suitable talents with reference to the nature of the business and enhances staff training.

2. *Strengthening ongoing monitoring*

The Company strengthened ongoing monitoring to facilitate risk control. Monitoring of risk control was maintained on a real-time basis. The Company also established "Chinese walls" to control business risk.

3. *Implementing post-inspections*

The Company maintains a combined system of self-inspection and accountability. A dedicated risk inspection team is responsible for rationalising and inspecting innovative business. The team formulates solutions for each identified issue and supervises rectification, thereby effectively minimises risk.

(3) Prospects

In 2019, the market trend became more and more obvious, creating favorable conditions for futures companies on transformation deepening, compliance management and competitiveness enhancing. First, the introduction of new contracts will be accelerated. In early January 2019, three exchange-traded option products in each exchange were launched at the same time, and a number of new products in each exchange completed the preparation for listing; second, financial futures are expected to reinvigorate. Stock index futures, treasury bond futures and other varieties are expected to be closer to the market and institutional investors' demands in terms of the revision of trading rules, so as to attract more institutional investors to use financial derivative instruments to enrich their portfolios and prevent systemic risks; third, the function of risk management subsidiary is more prominent. With the trend of the combination of industry and finance in the futures industry, and the increasing demand for personalized risk management in real enterprises, the role of risk management subsidiary of futures company is further enhanced, and the business of subsidiary will become an important driving force for the growth of business of futures company; fourth, the pace of opening to the outside world is accelerated. International varieties are constantly launched; foreign-invested background futures companies deepen their participation; the number and type of overseas investors increased; exchanges at home and abroad are closely linked; fifth, the focus of regulation is clearer. The regulatory authorities encourages futures companies to serve the real economy, which makes the orientation of service institutional investors clearer; on this basis, the requirements for futures companies on customer appropriateness, anti-money laundering and other aspects are more stringent; in the process of trading, the supervision for actual control relationship of trading subjects, market manipulation and other behaviors is more effective.

In the new year, the Company will adhere to the concept of promoting development through reform, and focus on improving the contribution rate of innovation business profit by gathering elements to create synergy. From the perspective of revenue, the Company's innovative business segment has a low profit contribution rate and is highly dependent on traditional brokerage business. Among them, the two subsidiaries of Holly Capital and Holly Su Futures should explore the profit contribution points in depth, and make contributions to the improvement of the company's profit; under the guidance of the most stringent new asset management rules, it is necessary to further improve the ability of active management and increase the profit contribution rate under the premise of compliance development; owing to the weak customer base of OTC option legal person, the abilities of product design and trading need to be strengthened, and the pace of transformation and upgrading needs to be further accelerated; the wealth management business should effectively improve economic efficiency.

Facing the new development situation, the Company will take deepening reform and transformation and upgrading as the main line, and make efforts to "good" operating efficiency; emphasize on improving the return on net assets level of subsidiaries by researching scientifically and identifying competitive advantages.

First, the Company will strengthen the Holly Su Futures (Hong Kong) Co., Ltd., optimize the organization structure of Holly Su Futures, apply for more business licenses, complete direct connection to Singapore Exchange and open overseas options business. Under the general environment of foreign exchange policy control, the Company will innovate the brokerage business expansion model and try to introduce brokerage talents who are familiar with the Hong Kong futures market to develop futures customers in the Hong Kong market and other overseas market. Further, the Company will speed up the expansion of innovative business, increase the proportion of the income of securities and asset management licenses to its total income, and achieve double breakthroughs in the scale of securities margin business and the scale of reserve funds for issuance. The Company will strengthen team construction and management to give full play to the biggest advantages and roles of existing licensees and team members. At the same time, give full play to the advantages of Holly Su Futures overseas platform, take the opportunity of crude oil futures listing and iron ore internationalization, actively develop overseas customers and do a good job in market cultivation.

Second, the Company will optimize Holly Capital Management Co., Ltd. by developing the core businesses such as basis trade and derivative centrally, introducing a new business management team, exploring the business model of “trade, finance, logistics” and striving for higher growth in profits. The Company will actively carry out the standard warehouse receipt trading business of related varieties to strive to become the main business model of Holly Capital by taking the opportunity of enabling of integrated business platform of Zhengzhou Commodity Exchange and standard warehouse receipt trading platform of DCE; complete the establishment of Holly Capital Shanghai Branch; explore the market making business of risk management and apply for the qualification of futures and options market making business of exchange. Third, the Company will refine its business units and explore the construction of multi-level network system of “headquarters-branch-business department”. At the same time, the Company will combine the professional and regional advantages of each business unit, give play to the synergistic effect of “brokerage business +” mode, and realize the parallel of comprehensive development and dedicated development.

The Company will maintain steady development of the asset management business. According to the latest development trend of asset management, the Company will further improve the asset management business from the aspects of system, process and team, lay a solid foundation for the sustainable development of asset management business, and strive to achieve the growth rate of the number of asset management products and business scale not lower than the average level of the industry. Relying on the existing development advantages, the Company will formulate the Company’s private placement white list system, focusing on strengthening cooperation with private placement institutions. The Company will enrich the design model of asset management products, increase the development and design of low-risk and fixed-income product lines, realize the simplification of asset management products, and copy simple products to strive to improve customer experience and return on customer assets, and self-management ability. At the same time, the Company will further strengthen project review and evaluation, post-investment management, and strictly guard against project risks under the guidance of the new regulations on asset management.

The Company will seek development breakthrough for risk management business; actively expand the option brokerage business, and strive to achieve the leading position of option business in the industry; vigorously promote the development of OTC option business and establish a stable customer group for OTC business; constantly expand the business service field of “insurance + futures” and explore the pilot projects of “contract farming + insurance + futures (options)” and “OTC + option”, so as to play a positive role in the futures market for China’s three rural issues and poverty alleviation; accelerate the training of the transaction team and further enhance the ability of option strategy research and development.

The Company will actively look for high-quality partners in wealth management business to represent more high-quality public funds, private funds and other financial products to strive to build a brand effect of “financial supermarket”; speed up the establishment of public fund management company and apply for public fund licenses to strengthen our wealth management business.

VIII. Risk factors and uncertainties faced by the Company and its risk strategy

The risks entailed by the Company’s business activities include those inherent to management and risks of internal control, professional conduct, markets, credit and investment. In 2018, the Company put into place measures to effectively deal with these risks and safeguards the efficiency of its business activities.

(1) Risk management and internal control risk

The Company relies on consistent application of management and internal control systems by relevant personnel to manage risks. The said systems are used to identify, monitor and control a wide range of risks, including those pertaining to the market, operations, credit and compliance. Some risk management methods used are based on internally established control systems, observation and summary of past market behaviours, and standard industry practices. These may not predict future risk exposure or identify unexpected or unforeseen risks occurring in the process of business innovation and diversification development of the Company. Other risk management methods rely on the assessment and analysis of information associated with market and operating conditions, but their assessment and analysis may not be accurate. Taking factors such as changes in market conditions and regulatory policies into consideration, if the Company cannot make timely adjustments and improvements to its risk management and internal control policies and procedures in light of future futures market development and business expansion, its business, financial condition and operating performance may be materially and adversely affected.

The Company's risk management approach also relies on the control and supervision of the executive staff. As errors and mistakes may occur in actual operation, despite that the Company can identify potential risks, its assessment of the risks involved and the corresponding measures to deal with them may not be fully effective. Due to the Company's large number of branches, it cannot guarantee that every employee will comply fully with its risk management and internal control policies. The Company's risk management and internal control policies do not necessarily protect the Company from all risks, and in certain circumstance, this could potentially have a material adverse impact on the business, financial condition and operating results of the Company.

(2) Professional conduct risk

Professional conduct risk refers to any legal sanctions, prosecutions, litigation claims, penalties, financial loss as well as damage to the reputation of the Company as a result of the failure to comply with the rules and regulations, the requirements of supervisory authorities or agencies, the self-discipline code of conduct, or any guidelines concerning the futures brokerage business of the Company. The major professional conduct risk concerns (i) the employees of the Company and (ii) Introducing Brokers.

The professional conduct risk posed by employees includes managing customers' assets, opening accounts and trading on behalf of customers without their consent or authorization. The risk largely stems from the low integrity level of individual staff members who cannot resist the temptation of the market, resulting in those staff members managing customers' finance in violation of rules and regulations, or opening accounts on their own accord to trade. Currently, the Company is screening and shielding the trading terminals of the personnel's computers through technical measures to prevent staff members from accepting customers' instructions in the business premises to manage their assets on their behalf improperly and from opening accounts on their own accord to trade. Against the professional conduct risk posed by staff members, the Company has begun the strengthening of the internal system and established the mechanism of accountability. Through joint problem shooting by related departments, the risk of staff members opening accounts to trade will be eliminated at source and at the same time, through strengthening the training and education of staff members, their professional conduct awareness will become stronger, which will avoid the occurrence of such risk.

In relation to Introducing Brokers, the Company's professional conduct risk comes from: (i) Introducing Brokers concealing their identity of Introducing Brokers and representing to related customers that they are the employees of the Company and do something in violation of the rules and regulations and (ii) Introducing Brokers infringing customers' interests, accepting instructions from customers privately to manage their finance and engaging in futures trading without customers' consent in order to earn more commission from futures trading.

In respect of the introductory brokerage business, the Company has strictly monitored the account opening procedures, strengthened the management of futures brokerage contracts, and investors will be informed of their rights and interests through re-visits and their signed confirmation of the Company's bills. At the same time, the risk posed by the intermediary business will be avoided through the continuous strengthening of the management and risk education of the intermediaries and the strict enforcement of related rules and regulations and the intermediary management system.

(3) Market risk

Market risk refers to the possibility of loss or decrease in income resulting from keen competition in the investment industry or change in the market such as changes in interest rates or economic cycle.

Firstly, owing to centralized dealings and continuous price fluctuations, it is possible for price fluctuations that build up over a long period to occur in the futures market in a very short period of time. Secondly, the margin system makes futures a highly leveraged financial derivative product. Thirdly, the futures market allows speculators to enter, thus increasing further uncertainty and risk in the market.

Since there are a large number of futures companies, the price war of handling charges has become fierce year after year for traditional brokerage business whose development prospect is not optimistic. Meanwhile, investors enter the futures market without adequate investment experience and skills nor good risk control capability but simply emphasize speculative trading and neglect risk control, or have to be forced to terminate trading as a result of their own factors being influenced by the economic environment. The combined effect of various factors has resulted in futures companies facing the material risk of customers incurring losses in trading.

To address this kind of risk, the risk control department of the Company, through close tracking of the market trend, has monitored market fluctuations, reasonably adjusted investors' margin standards, strengthened the monitoring of risk indicators such as the change to position holding and the level of margin, adopted actions to liquidate the customers' position through raising the amount of margin timely and regulated investors' trading behavior according to relevant rules and regulations. The Company has also exerted greater force on monitoring the daily trading, especially the unusual trading behavior of less favored commodities and contracts, discovered, reported and dealt with straddling buy and sell positions in time and strengthened the education of customers to remind investors to take risk management well so as to prevent the inherent risks to them as a result of their failure to understand the related rules and weak risk prevention consciousness.

(4) Credit risk

When futures brokerage companies engage in futures trading on behalf of their customers, they would incur losses if their customers are unable or refuse to fulfill their contractual obligations. There are two kinds of credit risk from customers. The first one is the inability of corporate customers to fulfill their contractual obligations due to change of legal persons, change in ownership, poor business performance and other force majeure events. The second kind of credit risk comes from the turbulence in the futures market, resulting in great price fluctuations and also in some customers not being able to fulfill their contractual obligations.

In order to control credit risk, the Company will control the account opening process strictly. The Company will assess the identity and creditworthiness of each new customer, and the adequacy of the funds that they will be using in the futures trading. The Company will also conduct necessary training and examinations to ensure that the customers understand the risks involved in futures trading adequately and will provide them with training on transaction skills so as to reduce the likelihood of a massive loss.

(5) Investment risk

Investment risk refers to the risk of loss or decrease in the investment income of the Company resulting from the investment on developing the business of the Company. Specifically, it refers to the following risks:

1. Investment target risk: It refers to the uncertainties in the growth and development of the investment target, including but not limited to technical risk, operation risk and financial risk;

2. Investment analysis risk: It refers to the risk of loss resulting from incorrect or incomplete due diligence conducted in an investment project;

3. Investment decision-making risk: It refers to the risk of loss resulting from an imperfect decision-making process and bias before any decision-making;

4. Project management risk: It refers to the risk resulting from insufficient supervision or improper management after investment and failure to discover and exercise control of the problems in an investment project in a timely manner; and

5. Project exit risk: It refers to the risk resulting from exit from an investment project with losses or inability to exit from an investment project.

The Company will formulate comprehensive procedures for approval and supervision of investment projects through authorities such as the asset management business investment decision committee, general manager office, Board, general meetings, in order to minimize investment risk. The Company will take reasonable steps in carrying out investment and enter into comprehensive investment agreements to protect the legal rights of the Company.

IX. Constructing the risk management system of the Company

The objective of risk management of the Company is to implement a comprehensive risk management system to ensure the business operation complies with the relevant rules and regulations, and limit the risk related to the business operation to a tolerable level, thereby maximizing the corporate value of the Company. The CSRC has rated the Company the “Class A of the A Category” for the past nine consecutive years since 2009 when the rating of futures companies was first introduced.

(1) Risk management principles

The Company values the importance of the risk management system, which is established to achieve the following business goal:

1. Preventing operation, compliance, market and credit risks;

2. Ensuring the safety and integrity of the assets of the Company' customers and the Company's own assets;

3. Ensuring the reliability, completeness and timeliness of the business records, financial records and other information of the Company; and

4. Enhancing the operation efficiency and the efficiency in future business development of the Company.

The risk management and internal control system of the Company has been designed based on the following principles:

1. Comprehensiveness: The Company has developed a comprehensive and unified risk management system which covers the entire process of the Company's business and the various processes of different departments and individual employees permeating through decision-making, execution, supervision and evaluation. Each department and individual employee must have a clearly defined role and responsibility in the risk management process.

2. Sustainability: The Company takes the initiative in actively setting risk management objectives and implementing risk management measures with proper supervision and evaluation on a sustainable basis.

3. Independency: The Compliance and Risk Control Department, Discipline Inspection, Supervision and Audit Department as well as Justice Department operate independently from other departments in inspecting, assessing and monitoring various risks applicable to the Company on a regular basis.

4. Effectiveness: Risk management should be in proportion to the scale of the Company's business, scope of business as well as actual circumstances and unite with the efficacy of actual delivered results, so as to realize the risk management objectives of the Company.

The Company has established an internal structure and designed the business process for the purpose of segregating the powers of decision-making department, execution department and inspection and evaluation department and implemented check and balance among these departments.

(2) Risk management system

The organization structure of risk management of the Company is illustrated below:

There are four management levels in risk management of the Company, namely, the Board, the risk management committee, the Chief Risk Officer and the officers responsible for risk management of each business department.

The Board is responsible for setting the strategic objectives of risk management, fulfilling the values of risk management, appointing and removing the Chief Risk Officer, evaluating and approving risk management policies, ensuring the implementation of risk management systems and providing feedback on the effectiveness of risk management systems.

The risk management committee of the Company is responsible for: (i) reviewing the risk management strategies of the Company, including the goals, risk tolerance and plans for managing and resolving material risks; (ii) analyzing and evaluating the risk profiles and the overall risk management of the Company; (iii) making suggestions and proposals in enhancing risk management of the Company; and (iv) supervising the implementation of the risk control system in the aspects of application of fund, marketing, operation and compliance. As at the end of the Reporting Period, the risk management committee of the Company has four members with an average of master or higher degrees and one of them is a senior accountant. The risk management committee of the Company is led by Mr. Wang Yuetang, who is one of the independent non-executive Directors of the Company.

The Chief Risk Officer of the Company is responsible for ensuring the effective implementation of the internal policies of the Company and compliance with the business policy of the Company; evaluating and advising on the risks and compliance by the management of the Company in and as regards the major decisions making and main business activities of the Company; inspecting and investigating possible regulatory violations and risk concerns in the operation of the Company, reporting to the Board, the Shareholders and the regulatory authority independently on any non-compliance and enhancing the risk management of the Company through training, inspection and supervision. Mr. Qiu Xiangjun is the Chief Risk Officer of the Company and has approximately 11 years of experience in the financial industry.

Officers in each business department responsible for risk management shall be responsible for implementing the risk management policies.

X. Industry competition, market position and core competitiveness

(1) Industry competition

In 2018, China's futures market developed steadily and its ability to serve the real economy continued to increase. With the advancing construction of the futures market and the orderly implementation of variety innovation, the risk management tools were further enriched. While the market continues to develop, the forms and requirements for the development of futures companies are constantly changing. The global economy is complex and volatile, the major economies are recovering and diverging, and the risk of trade friction is increasing. Domestically, China is in the midst of high-quality development and transformation. With the deepening of supply-side structural reform, the adjustment pressure on the relevant industrial structure and price fluctuations risks have increased. In addition, while the futures market has just introduced foreign investors, futures companies are still in the stage of trial and accumulation in terms of relevant business compliance and control, coupled with the continuous enrichment of futures products and the cross-cutting of related businesses. The risk transfer across business, industry, market, and region was also gradually increasing. These have put forward new requirements and challenges for futures companies in risk prevention and control capabilities.

In 2018, the accumulated trading volume of China's futures markets were approximately 3,028,865,311 lots with an accumulated turnover of approximately RMB210.818394 trillion calculated as one side of a trade, representing a decrease of 1.54% and an increase of 12.2% as compared with the same period of last year. As of the end of the Reporting Period, there were 149 futures companies in China. In 2018, affected by the overall industry situation, China's futures companies realized a net profit of RMB1.299 billion, representing a significant decrease of 83.65% as compared with 2017, mainly because a futures company made a one-off asset impairment loss of RMB5.06 billion in May 2018. Excluding this incident, the net profit for the year 2018 of the Company was RMB6.359 billion, representing a decrease of 19.96% from 2017.

(2) Market position

In 2018, the Company continued to maintain a development edge. Leveraging various advantages of its platforms, network distribution and qualification of comprehensive license and fully integrating with Internet services, the Company consolidated the scale of traditional business. In 2018, the turnover was RMB3.003605 trillion (bilateral statistics), accounting for 0.71% of the market share. At the same time, the Company actively developed innovative business with significant growth in risk management and asset management business.

In 2018, the Company has been rated "Class A of the A Category" for the tenth consecutive year.

(3) Core competitiveness

1. *Superior geographical location*

The Company's headquarters is located in Nanjing, capital of Jiangsu Province, where it boasts an exceptionally solid presence. At the end of the Reporting Period, the Company had a total of 45 branches (39 futures branches and six sub-branches), of which 19 were located in Jiangsu. Jiangsu Province is located in the eastern coastal areas of China and is developed in economy. In 2018, Jiangsu's Gross Domestic Product reached RMB9,259.54 billion, representing an increase of 6.7% as compared with 2017. It is unshakable in China as a major economic province. Driven by China's stable economic growth, leveraging on its superior location, Jiangsu Province is an important manufacturing center in East China, which offers it a large number of economic and industry opportunities. In recent years, the People's Government of Jiangsu Province issued a series of new policies to stimulate its economic development, and especially that of the financial services industry. At the provincial finance work conference on 1 September 2017, it was proposed that Jiangsu Province would thoroughly implement the spirit of the National Financial Work Conference by achieving the three tasks of serving the real economy, preventing and controlling financial risks and deepening financial reform, and making efforts to create a new situation in financial reform and development. Thus, Jiangsu is now geared to become a province with tremendous progress in financial business. The People's Government of Jiangsu Province issued the Opinions on Speeding up the Innovation of Financial Reform, promoting the development of a financial holding platform in Jiangsu Province, enhancing the overall investment capability of futures companies, banks, securities companies, insurance companies and trust companies, and further raising the securitisation rate of Jiangsu Province. Under continuing favourable policy conditions, the Company will gain more market opportunities.

Among futures companies in Jiangsu, the Company ranked first in terms of registered capital, net assets, net capital, customer balance and annual net profits, firmly occupying the leading position in the regional market. From its position as the province's largest futures company, the Company will leverage its deep understanding of the local market and its grasp of local customer demand to seize more development opportunities in the future.

2. *Widely distributed business network*

The Company has a total of 45 branches (39 futures branches and six sub-branches), of which 19 are located in Jiangsu Province. The rest are mainly located in economically developed and financially prosperous areas such as Beijing, Shanghai and Shenzhen, giving coverage of financially developed areas and other major areas. In addition, Holly Su Futures, a subsidiary of the Company, provides securities and futures brokerage services at the Hong Kong Stock Exchange, the Hong Kong Futures Exchange, and other major futures exchanges around the world.

The relatively wide distribution of the Company's futures branches has obvious advantages as it enables the Company to secure high-end customers from developed regions and benefit from the urbanisation and economic development of eastern coastal areas and central and western regions. The distribution and geographical coverage of futures branches will provide convenient financial services to customers and further enhance awareness of the Company brand and customer loyalty.

3. *Strong innovative ability enables the Company to grasp opportunities generated from the reform of China's futures industry*

With competition intensifying in China's futures industry, the Company has worked to identify and seize new opportunities created by the industry's reform. These actions have broadened the Company's futures business, its revenue channels and customer base. In July 2012, the CSRC issued its Pilot Measures on Asset Management Business of Futures Companies and granted qualifications for asset management business to futures companies. In December 2014, the China Futures Association issued the Rules for the Administration of Asset Management Business of Futures Companies (Trial), which allowed futures companies to provide asset management services to multiple clients. In August 2014, the China Futures Association issued the Guidelines on Pilot Work for Establishment of a Subsidiary by Futures Company to Commence the Business Mainly Focusing on Risk Management Services (Revised), enabling futures companies to engage in commodity trading and risk management businesses through risk management subsidiaries. In September 2014, the CSRC issued its Opinions on Further Promoting the Innovative Development of Futures Business Institutions to further expand the pilot scope of futures companies' establishment of risk management subsidiaries. The Company seized the opportunity to commence various businesses, including assets management, commodities trading and risk management.

4. *Efficient, comprehensive and stable online trading platform*

As an online futures trading service provider, the Company provides clients with an efficient and stable platform for real-time trading. Through the Company's online platform, clients can trade futures in real time as the market opens, as well as accessing details and records of their accounts, charting systems, news highlights, past market data, and other services such as technical analysis. Clients can quickly execute trades using free PC software trading programs and smartphone apps.

The Company's ability to maintain a stable trading platform – supplemented by a backup system – is a key factor in gaining and fostering customer loyalty and attracting new customers. There have been no major incidents affecting the activities of clients since the platform went into operation. To ensure the smooth execution of clients' trading activities, the Company established four independent data centres, two of which are located in Nanjing and two in Shanghai. These can back up the daily records of the online trading platform.

5. *Strong customer service capabilities*

The Company provides multiple layers of service support to its clients. The Company's sales team has remained stable, the Company's account managers have close contact with their clients, and through customer service support, the Company can leverage customer relationships to support its domestic expansion and operations.

The Company provides its clients with guidance on using its online trading platform, including that pertaining to technical issues, questions encountered regarding the trading system, and their account status. The Company's research team also led in establishing a national post-doctoral workstation to provide clients with such value-added services such as price trend analysis of futures commodities. Clients can contact the Company's account manager to discuss market conditions and investment strategy.

A 400 hotline maintained by the Company gives clients access to additional comprehensive services including information consulting, quotation transactions and opening online accounts. These services can also be reached via a WeChat public account and the Hongyuntong (弘運通) mobile app.

6. *Experienced and stable senior management team*

Members of the Company's senior management team boast an average of 18 years' experience in the futures industry. The Company was awarded the title of a state-owned enterprise in Jiangsu Province with an advanced team in building the "four good (四好)" leading group. The Company believes the strength and experience of its senior management team to be a vital key to realising its long-term growth strategies.

7. *Comprehensive business qualifications*

The Company and its subsidiaries have obtained comprehensive domestically and internationally recognised business qualifications which have enabled them to offer services across the whole futures spectrum, from spot to on-and off-exchange, to domestic and international, online to offline. Company qualifications issued by the CSRC or industry regulators include those for commodity futures brokerage, financial futures brokerage, futures investment advisory, asset management, fund sales and participants of stock options trading.

Holly Su Futures, a subsidiary of the Company, holds the securities and futures licences in Hong Kong under which it (or by agent) can trade main foreign futures products around the world, including CME (Chicago Board of Trade), LME (London Metal Exchange), HKEX (Hong Kong Futures Exchange), Eurex (European Futures Exchange), SGX (Singapore Futures Exchange), TOCOM (Tokyo Commodity Exchange) and ICE (American Intercontinental Exchange). Additionally, it uses Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect to carry out agency securities trading on the Hong Kong Stock Exchange, providing advice on securities trading and providing asset management.

Holly Capital, another Company subsidiary, is principally engaged in commodity trading and risk management, including variation basis trading, cooperative hedging, pricing services, market making business and warehouse receipt services. It is a trader on the Dalian Commodity Exchange in corn and iron ore futures, and is a special trader on the National Cotton Exchange Market and the China Coal Trading Center.

XI. Company prospects

Facing the new situation of development, the Company will adhere to Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, in accordance with the requirements for high quality development, with the development objectives of "integrity, excellence, innovation, win-win", unswervingly carry out special actions, namely "focus on practical work, strengthen execution and ensure implementation", actively promote the reform of the system and mechanism with consumer centered and striver oriented to fully release the vitality of operation and management, and finally realize the steady growth of business development and the gradual improvement of industry ranking.

(I). Focus on lifting the quality of the development and concentrate on "new" system and mechanism

Innovation of system and mechanism is the foundation of high-quality development of the Company. First, the Company will raise the level of capital securitization to continuously follow up A-share initial public offering work. Second, the Company will implement market-oriented compensation reform. It will conform to the business development and market demand to accelerate the establishment of a market-oriented compensation system featuring "clear responsibilities and rights, clear rewards and punishments, outstanding effectiveness, and orderly mobility", so as to put talents in their proper places and give full play to their strengths.

(II). Deepen reform and transformation and upgrading as the main line, and make efforts to "good" operating efficiency

1. Emphasize on improving the return on net assets level of subsidiaries by researching scientifically and identifying advantages

First, the Company will strengthen the Holly Su Futures (Hongkong) Co., Ltd., The organizational structure of Holly Su Futures will be optimized, and the corresponding subsidiaries will be set up based on the business license. Under the general environment of foreign exchange policy control, the Company will innovate the brokerage business expansion model and try to introduce high-end brokerage talents who are familiar with the Hong Kong futures market to develop futures customers in the Hong Kong market and other overseas market. It will accelerate innovation and business development, as well as strengthening team construction and management to give full play to the biggest advantages and roles of existing licensees and team members. At the same time, the Company will give full play to the advantages of Holly Su Futures overseas platform, take the opportunity of crude oil futures listing and iron ore internationalization, actively develop overseas customers and do a good job in market cultivation.

Second, the Company will optimize Holly Capital Management Co., Ltd. by developing the core businesses such as basis trade and derivative centrally, introducing a new business management team, exploring the business model of "trade, finance, logistics" and striving for higher growth in profits. It will actively carry out the standard warehouse receipt trading business of related varieties to strive to become the main business model of Holly Capital by taking the opportunity of enabling of integrated business platform of Zhengzhou Commodity exchange and standard warehouse receipt trading platform of Shanghai Futures Exchange; complete the establishment of Holly Capital Shanghai Branch; explore the market making business of risk management and apply for the qualification of futures and options market making business of DCE. Third, the Company will refine its business units. It will explore the construction of multi-level network system of "headquarters-branch-business department". At the same time, it will combine the professional and regional advantages of each business unit, give play to the synergistic effect of "brokerage business +" mode, and realize the parallel of comprehensive development and dedicated development.

2. *Focus on improving the contribution rate of innovation business profit by gathering elements to create synergy*

First, the Company will upgrade the traditional brokerage business. It will endeavour to be customer-oriented, pay close attention to new customers and new assets, focus on income indicators, and gradually improve market share, to form a comprehensive business development model based on brokerage business. The Company will fully explore the Company's research and channel functions to enhance the ability of preservation and increment of customer value. According to customer classification and hierarchical management of the big data analysis, the Company will implement data management for futures customer service and industry chain risk to effectively exert futures functions.

Second, the Company will maintain steady development of the asset management business. According to the latest development trend of asset management, the Company will further improve the asset management business from the aspects of system, process and team; lay a solid foundation for the sustainable development of asset management business; and strive to achieve the growth rate of the number of asset management products and business scale not lower than the average level of the industry. Relying on the existing development advantages, the Company will formulate its private placement white list system, focusing on strengthening cooperation with private placement institutions. It will enrich the design model of asset management products, increase the development and design of low-risk and fixed-income product lines, realize the simplification of asset management products, and copy simple products to strive to improve customer experience and return on customer assets. Self-management ability will be improved to achieve at least an attractive firm performance curve in the trading system. Investment-oriented asset management products linked to the Holly Futures commodity index will be officially launched. At the same time, the Company will further strengthen project review and evaluation, post-investment management, and strictly guard against project risks under the guidance of the new regulations on asset management.

Third, the Company will seek development breakthrough for risk management business. It will actively expand the option brokerage business, and strive to achieve the leading position of option business in the industry; vigorously promote the development of OTC option business and establish a stable customer group for OTC business; constantly expand the business service field of "insurance + futures" and explore the pilot projects of "contract farming + insurance + futures (options)" and "OTC + option", so as to play a positive role in the futures market for China's three rural issues and poverty alleviation; accelerate the training of transaction team and further enhance the ability of option strategy research and development;

Fourth, the Company will enhance economic efficiency of wealth management business. It will actively look for high-quality partners to represent more high-quality public funds, private funds and other financial products to strive to build a "financial supermarket". It will speed up the pace of establishment of public fund management company to strengthen our wealth management business.

(III). Lay stress on talent strategy and focus on "vigorous" sustainable ability

First, the Company will strengthen the establishment of talent group. It will fully implement talent strategy, actively create a carrier for talent innovation and entrepreneurship, and create a favorable environment for the development of talents, so as to attract, retain and make good use of all kinds of talents urgently needed by the development of the Company. The Company will maintain the combination of internal training and external introduction, and cultivate the outstanding employees into the backbone for the Company's development. It will strengthen the planning and design of the cultivation of young cadres and reserve talents, carry out regular and targeted training to build a good talent training base from the need for enterprise reform and transformation. The Company will strengthen the incentives, tolerance, error correction, and preparation for both promotion and demotion, and support the cadres and workers who dare to take responsibility and work hard.

Second, create a systematic management process. It will continue to increase the management and control of all aspects of business operations to prevent major operational risks; establish and improve multi-level risk management system and all-around risk management process to promote the effective operation of the management system and process; and strengthen risk management by information technology to accelerate the implementation of the risk management process involved in the information system. With the "year of system implementation" as the medium, the Company continue to focus on the "abolition, reform and establishment" of the system, the study and publicity of the system, the implementation of the system and the supervision of the implementation of the system, to constantly enhance the scientificity and operability of the system documents.

Third, the Company will strengthen IT technology support. It will adhere to the technology-leading strategy, continue to increase investment, and strive to create a fast, safe, industry-leading online service platform in accordance with the industry development trend, the Company's transformation and innovation requirements. It will eplore the establishment of a "one-point response, multi-point support" front-back collaboration mechanism, build a front, middle and back end linkage operation platform to effectively solve the business process congestion problem. On this account, the Company will comprehensively promote the construction of large background operation systems to deepen the construction of high-quality large background management models.

Fourth, the Company will strengthen the support for research and development. It will establish the business divisions of agricultural products, non-ferrous, ferrous, industrial products and other dominant varieties, and truly implement the "Five in One" customer mode for service industries, to form "horse racing" mechanism with win-win cooperation. With the goal of the "integrated construction of research and investment", the research and investment will be further expanded to achieve the seamless connection between the research team and the customer base. At the same time, the assessment scheme of classified regulation shall be established to provide a good career platform for excellent research and development personnel.

XII. Business overview

(1) Key financial ratios

	2018	2017
Net assets per Share attributable to shareholders of the Company (RMB/share)	**1.95**	1.94

The Group's net assets per Share attributable to shareholders of the Company for the year 2018, was substantially the same as 2017.

Gearing ratio

	2018	2017
Gearing ratio (%)[Note]	**3%**	22%

Note: Gearing ratio = (Total liabilities – accounts payable to brokerage clients)/(Total assets – accounts payable to brokerage clients)

Gearing ratio of the Group decreased during the year of 2018, which was mainly attributable to the year-on-year decrease in the balance of financial liabilities designated at fair value through profit or loss.

Weighted average return on net assets

	2018	2017
Weighted average return on net assets	**5.01%**	5.86%

Weighted average return on net assets of the Group slightly decreased in 2018, which was mainly attributable to the significant decrease of 13% in profit after tax in 2018.

(2) Corporate social responsibility

1. *Relationship with employees*

The employees are the valuable wealth for the Company, the foundation of the survival and development for the Company. The Company treats employees with fairness and respect. The talents are the base of strong company, the foundation of development and the requirement of transition. The Company endeavours to be employee centered, and strives to create a people oriented and caring working environment, and is sparing no effort to build “enrichment platform”, “entrepreneurial platform” and “career platform” for employees. A total of 104 people were employed during the year, and the total number of employees was 670 as of 31 December 2018.

The Company is committed to building platforms for training talents. It established diversified talents training system, and successfully held the first 5-day closed new employee training. Relying on the SOHO online learning platform and the China Futures Association network continuing education platform, the Company vigorously promoted the online training of employees, and developed the assessment methods for the online learning platform. During the year 2018, more than 90 internal and external training sessions were organized. It promoted the in-depth development of school-enterprise cooperation; cooperated with Nanjing University and other famous universities, participating in the “China Financial Futures Exchange Cup” national college students’ financial futures and derivatives knowledge competition for six consecutive sessions; won the “Second Prize for Outstanding Organization”; cooperated with Nanjing Audit University to organize and participate in the first “Zhengzhou Commodity Exchange Cup” college student trading simulation contest; launched the college talents cultivation program for DCE, signed the agreement of education base with Nanjing Agricultural University, and jointly hosted the “Cultivation Project for College Futures Talents” with Jiangsu University of Science and Technology.

The Company is committed to sound mechanisms to retain talents. The Company will further improve the remuneration plan for the principals of subsidiaries and business departments, revise and improve some provisions of the Compensation Management System, and develop more reasonable compensation mechanisms and assessment schemes for the principals of business departments. The Company will revise the assessment scheme for deferred payment of monthly bonuses for personnel of the asset management center, and introduce the Incentive Measures for Sales of Securities Investment Funds, the Incentive Measures for Account Opening in the Energy Center and the Incentive Measures for Overseas Account Opening of Iron Ore to provide policy support for innovative business development. The Company will further improve the comprehensive personnel assessment index system, fix work posts and define personnel quota for functional department and personnel. At the same time, strict attention should be paid to attendance management and employee professional behavior, and the Attendance Management System and Employee Handbook should be revised. The Company will build multi-level security system which enables employees to share the achievements of enterprise development, revise the Management Methods of Expenses for Overseas Employees, and properly improve the standards of allowances for overseas employees.

The Company is committed to carrying out rich and colorful employee activities. It held reading festival activities with the theme of “Happy Reading • Being a Wisdom Person”. It organized activities such as enjoying beautiful scenery in Pukou District during spring time, appreciating folk custom and doing handwork as beauty, the female employees picking strawberries in Lishui and mountain climbing in the Double Ninth Festival; held health lecture, inquiry of TCM, and bought sphygmomanometers, thermometers, bathroom scales, etc.; held “Holly Futures Cup” photo contest; participated in the Fangshan climbing activities of the holding group and won the high morality prize; participated in the second staff sports meet of the holding group and won the first prize of the team and the prize for the best organization; participated in the holding group activities such as “Bright League Flag and League Badge • Show Graceful Bearing of Youth-Struggling Youth Most Beautiful”. In addition, the leading group also carried out in-depth research at the grassroots level and carried out “Deliver Coolness” activities at several branches.

The Company adheres to the principle of giving priority to efficiency with due consideration to fairness, and establishes and perfects the performance assessment system.

The Company provides and establishes (including but not limited to) statutory benefits such as reserve fund, basic medical insurance, endowment insurance, maternity insurance, employment injury insurance and unemployment insurance for employees in accordance with laws, regulations and relevant policies of Hong Kong and China. Employees are also entitled to public holidays, marriage leave, bereavement leave and maternity leave.

Over the years, the Group has been able to get through the channels for self-improvement of employees through training courses and lectures to enhance professional competence.

2. *Environmental protection*

The Company aims to minimize the impact of our activities on the environment and will remind our staff to follow the same principle. The Company adheres to the approach of low carbon, emission reduction, energy saving and environmentally friendly in business management. It has adopted the following measures:

(1) improve the official vehicle-using arrangement and advocate taking public transportation;

(2) encourage staff to print on two sides of paper and remind staff to reduce waste production when printing and photocopying documents;

(3) encourage staff to turn off lights when leaving, so as to reduce unnecessary lightings;

(4) adopt an office automatic online management system to promote electronic office work and reduce paper consumption;

(5) encourage employees to bring their own cups to save the use of disposable cups and so on.

By implementing appropriate measures, the Company has improved efficiency, saved energy and further improved the overall environmental awareness of the Company.

3. *Compliance with relevant laws and regulations*

The Group has adopted internal control to monitor the continuous compliance with relevant laws and regulations. During the Reporting Period, the Company did not violate any laws or regulations that resulted in material effect on the business of the Group.

4. *Key relationships with customers and suppliers*

The Group maintains good relationships with existing and potential customers, so as to better understand the market trends and fulfil the diverse needs and requirement of individual and corporate customers more effectively. As a result, the Group is able to take up cooperation opportunities with customers and timely adjust its operating and development strategies. Given its business nature, the Company has no major suppliers.

XIII. Event subsequent to the Reporting Period

(1) Subsequent investment and financing of the Company

Nil.

(2) Subsequent investment and financing of subsidiaries

Nil.

Report of the Board

The Board of the Company are pleased to present the audited combined financial statements (the “Financial Statements”) of the Company for the year ended 31 December 2018.

I. The principal business lines of the Company

As set out in Section VI “2. Business review” of this Report.

II. Business overview

As set out in Section V “Financial Summary” and Section VI “XII. Business overview” of this Report.

III. Major risks and uncertainties faced by the Company

As set out in Section VI “XIII. Risk factors and uncertainties faced by the Company and its risk strategy”, “IX. Constructing the risk management system of the Company” and “X. Industry competition, market position and core competitiveness” of this report.

IV. Event subsequent to the Reporting Period and prospects of the Company

As set out in “XI. Prospects of the Company” and “XIII. Event subsequent to the Reporting Period” of Section VI of this Report.

V. Profit distribution and profit distribution plan

The audit institution confirmed through audit in accordance with the accounting standards of the PRC that, the Company generated net profit of RMB90,278,277.35 for 2018. According to relevant regulations such as the Company Law, Securities Law, Financial Rules for Financial Enterprises and Articles of Association, and Proposal on Distribution Plan of Accumulated Profits before Issue of H Shares of Holly Futures Co., Ltd. (《關於弘業期貨股份有限公司發行H股之前滾存利潤分配方案的議案》) (which stipulated that “the proceeds from the current issue of H Shares and accumulated undistributed profits before listing shall be shared by existing and new shareholders in proportion to their shareholding after H Shares are offered”) considered and passed at the 2015 first extraordinary general meeting, the Company plans to distribute its undistributed profits in 2018 according to the following order: 1. Withdraw 10% of such sum as statutory surplus reserve, amounting RMB9,027,827.74; 2. Withdraw 10% as general risk reserve, amounting RMB9,027,827.74; 3. After deducting the above two items, the net profit of the Company in 2018 was RMB72,222,621.87, and the adjusted undistributed profit at the beginning of 2018 was RMB87,041,721.82, hence the accumulated distributable profits for 2018 was RMB86,704,343.69 (excluding the distributed profit of RMB72,560,000 for last year).

In view of the long-term development and interests of investors, the Company is expected to make the following profit distribution plan: the Board proposed distribution of cash final dividend for the year ended 31 December 2018 ("2018 Final Dividend") of RMB0.08 per Share (tax inclusive) to Shareholders whose names appeared on the register of members on the equity registration date ("Equity Registration Date") of the distribution of cash dividend for 2018, namely Tuesday, 18 June 2019, and who are entitled to such distribution. Based on the total equity of the Company as of 31 December 2018, the aggregate amount to be distributed will be RMB72,560,000. The proposed 2018 Final Dividend is subject to approval at the 2018 annual general meeting of the Company. The 2018 Final Dividend of the Company is intended to be paid on Thursday, 25 July 2019. Please refer to the circular of the 2018 annual general meeting to be published by the Company in due course for details and the actual arrangement regarding the distribution of dividend. The dividend payable to holders of Domestic Shares of the Company will be in RMB while those payable to holders of H Shares of the Company will be in Hong Kong Dollars. The exchange rate shall be calculated on the basis of the average benchmark exchange rate between RMB and Hong Kong Dollars as announced by the People's Bank of China for the five working days prior to the date of the 2018 annual general meeting of the Company.

The Company intended to hold its 2018 annual general meeting on Thursday, 6 June 2019. In order to determine the shareholders eligible to attend and vote at the 2018 annual general meeting, the share registrar of the Company will be closed from Tuesday, 7 May 2019 to Thursday, 6 June 2019 (both days inclusive), during which no transfer of Shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Monday, 6 May 2019 after close of business are entitled to attend and vote at the 2018 annual general meeting. In order to qualify for attending and voting at the 2018 annual general meeting, the transfer documents must be lodged with the Board office of the Company at No. 50 Zhonghua Road, Nanjing, China (for holders of Domestic Shares) or the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) for registration no later than 4:30 p.m. on Monday, 6 May 2019.

Subject to the approval of the resolution regarding the declaration of 2018 Final Dividend at the 2018 annual general meeting, 2018 Final Dividend will be paid to the Shareholders whose names appear on the register of members of the Company on Tuesday, 18 June 2019, and who are entitled to such distribution. The share registrar of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for receiving 2018 Final Dividend, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any case no later than 4:30 p.m. on Wednesday, 12 June 2019. The Company has no obligation and will not be responsible for confirming the identities of the shareholders. The Company held no liability in respect of any claims arising from any delay in, or inaccurate determination of the identity of the Shareholders or any disputes over the mechanism of withholding.

VI. Issue of Shares and use of proceeds

(1) Use of proceeds

As approved by CSRC Zheng Jian Xu Ke [2015] No. 1963, the Company was listed on the Main Board of the Hong Kong Stock Exchange on 30 December 2015 and it issued 249,700,000 H Shares (comprising 227,000,000 H Shares offered by the Company and 22,700,000 H Shares offered by the selling Shareholders) under the global Offering. The numbers Offer Shares under the Hong Kong Public Offering was 24,970,000 H Shares, representing 10% of total number of Offer Shares offered under Global Offering. The numbers of Offer Shares under the International Placing was 224,730,000 H Shares, representing 90% of total number of Offer Shares offered under Global Offering, with an offer price of HKD2.43 per Share, raising total proceeds of approximately HKD607 million. The net proceeds of the Company amounted to approximately HK$536 million (after deducting the Group's underwriting fees and all related expenses).

According to the use of proceeds from global offering as set out in the Prospectus, the Group intended to use the proceeds to: develop the Hong Kong and global futures business of the Group; develop the asset management business; develop the commodity trading and risk management business; develop and strengthen the existing futures brokerage business; purchase information technology equipment and software; and serve as general working capital of the Group.

After deducting all listing expenses, transferred payments of the social insurance and the part used in developing Hong Kong and global futures business, the total proceeds of the Company are remitted to the PRC and converted to RMB.

(2) Use of proceeds for committed items

As of 31 December 2018, the abovementioned proceeds, for the purposes as set out in the Prospectus, were used as follows:

	Consolidated usage of the proceeds raised (as of 31 December 2018)		
Description	Usable amount HKD'000	Used amount HKD'000	Balance HKD'000
Development of the future business in Hong Kong and throughout world	171,567	165,000	6,567
Development of the asset management business	134,037	121,356	12,681
Development of the commodity trading and risk management business	107,230	97,838	9,392
Development and enhancement of the existing futures brokerage business	53,615	520	53,095
Acquisition of IT equipment and software	26,807	7,336	19,471
General working capital	42,892	42,886	6
Total	536,148	434,936	101,212

VII. Directors

Information on Directors of the Company, their biographies and the changes during the Reporting Period and as of the date of this Report is set out in Section X "Directors, Supervisors, Senior Management and Staff" of this Report.

VIII. The service contracts of Directors and Supervisors

No Directors and Supervisors of the Company, or their related entities, entered into any service contract with the Company or its subsidiaries which shall be compensated (except for statutory compensation) upon termination within one year.

IX. Interests of Directors and Supervisors in material transactions, arrangements or contracts

As of 31 December 2018, the Company or its subsidiaries did not enter into any material transactions, arrangements or contracts entitling direct or indirect substantial interests to the Directors or Supervisors of the Company (or the related entities of any Director or Supervisor) during the Reporting Period.

X. Interests of Directors in business that competes with the Company

As of 31 December 2018, none of the Directors of the Company had any interest in businesses directly or indirectly competing with the Company.

XI. Directors' right to purchase shares or debentures

As of 31 December 2018, the Company has not given Directors, Supervisors or their respective spouse or children under the age of 18 the rights to purchase the Shares or debentures of the Company to obtain benefit, nor did they exercise any such rights; nor have any arrangements been made by the Company or any of its subsidiaries to entitle such rights to the Directors, Supervisors or their respective spouse or children under the age of 18 in any other body corporate.

XII. Interests and short positions of Directors, Supervisors and chief executive in the Shares, underlying shares or debentures of the Company and any of its associated corporations

As at 31 December 2018, based on the information obtained by the Company and the knowledge of the Directors, the Directors, Supervisors and chief executive of the Company have no (i) interests and short positions that shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) shall be entered in the register maintained pursuant to Section 352 of the SFO, or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code in the Shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO).

XIII. Purchase, sale and redemption of securities

During the year ended 31 December 2018, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

XIV. Controlling shareholders' interests in contracts

Save as disclosed in this Report and Prospectus, no contracts of significance to which the Company or its controlling companies or any of its subsidiaries was a party and in which the controlling shareholder or its subsidiaries had a material interest subsisted at the end of the Reporting Period or at any time during the year.

XV. Permitted indemnity provision

Pursuant to the Articles of Association of the Company, every Director shall be entitled to be indemnified out of the assets of the Company against all loss or liabilities (to the fullest extent permitted by the Companies Ordinance) which he may sustain during his service or incur in or in connection with the execution of the duties of his office. The Company has arranged for appropriate insurance cover for the Directors' and senior management' liabilities in respect of legal actions against them arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance when this report of the Board prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

XVI. Share option scheme

The Company and its subsidiaries have no share option scheme.

XVII. Compliance with non-competition undertaking

As disclosed in the Prospectus of the Company, the Company and SOHO Holdings entered into the non-competition undertaking in favor of the Company on 8 December 2015 (the "Non-competition Undertaking"), pursuant to which SOHO Holdings and its close associates (as defined in the Listing Rules) (other than subsidiaries of the Company) undertook that, save as disclosed in the Prospectus, neither SOHO Holdings nor any of its close associates (as defined in the Listing Rules) (other than subsidiaries of the Company) would, in any form, engaged in, assisted or supported any third party in the operation of, participate, or has any interest in, any business that, directly or indirectly, competes or will compete or may compete with the business carried on or contemplated to be carried on by the Company from time to time, namely futures-related financial services including futures brokerage, asset management and commodity trading and risk management business.

SOHO Holdings has confirmed to the Company that, during the Reporting Period, it has complied with all the undertakings and requirements under the Non-competition Undertaking. The independent non-executive Directors of the Company have conducted annual review over the compliance with and performance of all the undertakings and requirements under the Non-competition Undertaking by SOHO Holdings, during the Reporting Period, and confirmed that SOHO Holdings was in full compliance with the Non-competition Undertaking and there was no breach.

XVIII. Other disclosures

(1) Equity

Details of changes in equity of the Group for the year ended 31 December 2018 are set out in Note 34(c) to the financial statement of this annual report.

(2) Pre-emptive rights arrangements

Pursuant to the PRC laws and the Articles of Association, the Company has no pre-emptive rights arrangements during the Reporting Period.

(3) Sufficiency of public float

Based on the information obtained by the Company and to the knowledge of the Directors, during the Reporting Period, the public float of the H Shares of the Company was approximately 27.53%, which was in compliance with the relevant regulations of Rule 8.08 and Rule 13.32 of the Listing Rules.

(4) Management contract

No contracts concerning the management and administration of the whole or any substantial part of the Company's business (other than the service contracts entered into with the Directors, Supervisors and the senior management) were entered into or existed during the Reporting Period.

(5) Data on tax reduction and exemption of the shareholders of H Shares

Individual investors

In accordance with the Individual Income Tax Law of the People's Republic of China issued by the Fifth Session of the Standing Committee of the National People's Congress on 10 September 1980, revised on 31 August 2018 and came into effect on 1 January 2019 and the "Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China" revised by the State Council on 28 December 2018 and came into effect on 1 January 2019, the dividends paid by Chinese companies shall be subject to the withholding tax at a rate of 20.0%. Non-Chinese resident foreign individuals shall be imposed 20.0% of individual income tax on the dividends from Chinese companies, unless specific exemptions allowed by the tax authorities of the State Council or special deductions in accordance with applicable tax treaty.

According to the Notice on the Management of Individual Income Tax Impose after the Abolition of Guo Shui Fa [1993] No. 045 issued by the State Administration of Taxation (Guo Shui Han [2011] No. 348), for domestic non-foreign-invested enterprises publicly listed in Hong Kong, its overseas resident individual shareholders are entitled to the preferential tax treatments under the taxation agreement entered into between China and the countries in which they reside. Dividends paid by domestic non-foreign-invested enterprises listed in Hong Kong to its H share individual holders who are not Chinese residents shall be subjected to individual income tax at the rate of 10.0%, and without prior approval from the Chinese tax authorities. In the event that the tax rate of 10.0% is not applicable, (i) for a foreign citizen who receives dividend in the capacity of an H share individual holder, where an income tax treaty prescribing a rate of less than 10.0% was entered into between China and the country in which he resides, the non-foreign-invested enterprises listed in Hong Kong may, on behalf of such holder, apply for further preferential tax treatment; and upon approval from the competent tax authorities, the withholding tax paid in excess will be refunded; (ii) for a foreign citizen who receives dividend in the capacity of an H share individual holder, where an income tax treaty prescribing a rate higher than 10.0% but less than 20.0% was entered into between China and the country in which he resides, the non-foreign-invested enterprises listed in Hong Kong shall withhold dividends pursuant to the agreement, without making an application; (iii) for a foreign citizen who receives dividend in the capacity of an H share individual holder, where the country he resides in has not entered into any tax treaty or otherwise with China, the non-foreign-invested enterprises listed in Hong Kong shall withhold dividends at the rate of 20.0%.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (Guo Shui Han [2006] No. 884) with respect to taxes on income signed on 21 August 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10.0% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25.0% equity interest in a PRC company, such tax shall not exceed 5.0% of the gross amount of dividends payable by the PRC company.

Enterprise

According to the prevailing effective Enterprise Income Tax Law of the People's Republic of China and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China, the non-resident enterprises shall be subject to 10.0% enterprise income tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, but there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty. According to the Notice Regarding Questions on Withholding Enterprise Income Tax When PRC Resident Enterprises Distribute Dividends to Overseas Non-resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, which became effective on 6 November 2008, PRC resident enterprises should withhold enterprise income tax at a rate of 10.0% when they distribute dividends to Overseas non-resident enterprise shareholders of H Shares from the year of 2008. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

(6) Reserves and reserves of profits available for distribution

Details of changes in reserve of the Group for the year ended 31 December 2018 are set out in Note 34(d) to the financial statement of this annual report.

(7) Charity donation

During the Reporting Period, the Group made donations of approximately RMB52,870 in total.

(8) Major customers and suppliers

The Company provides services for various institutional and individual customers engaged in a number of industries. Clients of the Company include large, small and medium enterprises, high net worth clients and retail customers mainly located in China. As the Company expands to overseas market, it is expected to provide services for more overseas customers in the future.

During the Reporting Period, income and other gains generated by the largest customer of the Company was RMB1,824,052.41, accounting for 2.3105%, while income and other gains generated by the five largest customers was RMB5,074,634.38, accounting for 6.4280%.

To the knowledge of the Directors, no Directors or any of their close associates or any shareholders holding more than 5% of the issued share capital of the Company have any beneficial interests in any of the top five customers of the Company during the Reporting Period.

Given its business nature, the Company has no major suppliers.

(9) Property and equipment

Details of changes in property, plants and equipment of the Group for the year ended 31 December 2018 are set out in Note 13 to the financial statement of this annual report.

(10) Social responsibilities

During the Reporting Period, Holly Futures stepped up its corporate social responsibility efforts and actively participated in charitable donations and social welfare activities. Leveraging on it professional advantages of futures industry in terms of targeted poverty alleviation, we applied to join the Targeted Poverty Alleviation of Jiangsu Futures Industry. The Company carried out its professional and feature poverty alleviation for national key poverty counties through various measures, such as sending training and information to countryside and benefits in kind to farmers, “insurance + futures” to help farmers to achieve the insured price and income increase for their agricultural products. The Company was awarded the “2018 Excellent Fixed-Point Poverty Alleviation Award of China Securities and Futures Industry “, “Innovation + Poverty Alleviation Pioneer Enterprise of 2018 “ and “Best Precision Poverty Alleviation Public Welfare Award”. The Company’s effort in the promotion of targeted poverty alleviation has been reported on province-level media, such as the website of China Futures Association, Futures Daily, STCN, Shanghai Securities News and Futures Regulatory Brief, and the number of relevant articles achieved 25. In addition, we also arranged our staff to participate in voluntary blood donation activities among provincial enterprises and “charity one-day donation” activity, so as to perform our model role as “national civilized unit”.

By order of the Board
Mr. Zhou Yong
Chairman

Nanjing, the PRC
22 March 2019

Other Material Matters

I. Punishment and public censure against the Company during the Reporting Period

1. The Company received the Notice of Rectification Regulatory Measures on Holly Futures Co., Ltd. (《關於對弘業期貨股份有限公司採取責令改正監管措施的決定》) ([2018] No. 67) which is a notice on administrative regulatory measures from the Jiangsu Securities Bureau in 22 October 2018.

2. The Company received the Decision on Issuing a Warning Letter to Holly Futures Co., Ltd. (《關於對弘業期貨股份有限公司採取出具警示函監管措施的決定》) ([2018] No. 71) which is a notice on administrative regulatory measures from the Jiangsu Securities Bureau in 25 October 2018.

II. Material litigations and arbitrations

(I) Material litigations and arbitrations occurring during the Reporting Period

1. In July 2016, the Company found that an employee ("Mr. A") and his wife entered into the personal borrowing contracts with 3 clients under which they took the Company as the guarantor without informing the Company. (among them, cases of "Customer Y" and "Customer Z" have entered into execution process as set out in Case 3 concluded during the Reporting Period. The third customer was dismissed by the People's Court of Jing Hai District of Tianjin City (the "Jing Hai Court") in December 2016. On 25 May 2018, the customer filed two civil lawsuits against Mr. A and his wife as well as the Company and Tianjin Gandaji E-Commerce Co., Ltd. ("Gandaji") with the Jing Hai Court.)

   The claim of the first lawsuit includes requesting Mr. A and his wife to jointly repay the loan of RMB3.712 million to the plaintiff and pay interest at the monthly rate of 2% based on the amount of RMB3.712 million from 27 October 2016 to the date of the actual payment of the loan and that the Company and Gandaji shall be jointly and severally liable, with interest incurred as at 26 May 2018 amounted to RMB1,410,560 and the total amount of the lawsuit of RMB5,122,560; litigation costs to be borne by the defendants. The claim of the second lawsuit includes requesting Mr. A and his wife to jointly repay the loan of RMB1.12 million to the plaintiff and pay interest at the monthly rate of 2% based on the amount of RMB1 million from 27 October 2016 to the date of the actual payment of the loan and that the Company and Gandaji shall be jointly and severally liable, with interest incurred as at 26 May 2018 amounted to RMB380,000 and the total amount of the lawsuit of RMB1.5 million; litigation costs to be borne by the defendants. The two cases are currently in the first instance trial.

(II) Material legal litigation concluded in the Reporting Period

In July 2016, the Company found that an employee, (the same person as the aforesaid “Mr. A”), was suspected of forging the seal of the Company for signing contracts. As required by the contract, the commissioned funds are transferred directly into the private bank account of such employee, and the Company had reported the case to the public security organ.

1 On 1 August 2017, a customer (“Company I”) filed a lawsuit to the People’s Court of Qinhuai District, Nanjing (the “Qinhuai District Court”) for requesting the Company for repayment of the principal of wealth products of RMB21 million with interest of RMB5.04 million; and the Company shall bear the cost of litigation. Two meetings for the case before hearing were held on 29 August and 12 September 2017. The case was heard on 8 February 2018. On 21 March 2018, the Company received a civil ruling from Qinhuai District Court, dismissing the claims against Company I. The case was transferred to the public security organ for handling. In June 2018, the Company received a second instance civil ruling from Nanjing Intermediate People’s Court (the “Nanjing Intermediate Court”) which ruled that the appeal of Company I was dismissed and the original decision was upheld. Such ruling was the final decision.

2 On 28 August 2017, a customer (“Mr. J”) filed a lawsuit to Qinhuai District Court for requesting the Company for repayment of the principal of wealth products of RMB0.4 million with gain of RMB75,000; and the Company shall bear the cost of litigation. On 22 September 2017, the Company received summon, petition and other materials for such case. On 17 October 2017, the case was discussed before hearing. The case was heard on 5 February 2018. On 20 March 2018, the Company received a civil ruling from Qinhuai District Court, dismissing the claims against Mr. J. The case was transferred to the public security organ for handling. On 19 June 2018, the Company received a second instance civil ruling from Nanjing Intermediate Court which ruled that the appeal was dismissed and the original decision was upheld. Such ruling was the final decision.

3 On 28 August 2017, a customer (“Mr. K”) filed a lawsuit to Qinhuai District Court for requesting the Company for repayment of the principal of wealth products of RMB1.0 million with gain of RMB0.28 million; and the Company shall bear the cost of litigation. On 17 October 2017, the Company received summon, petition and other materials for such case, and the case was discussed before hearing. The case was heard on 5 February 2018. On 16 March 2018, the Company received a civil ruling from Qinhuai District Court, dismissing the claims against Mr. K. The case was transferred to the public security organ for handling. On 27 June 2018, the Company received a second instance civil ruling from Nanjing Intermediate Court which ruled that the appeal was dismissed and the original decision was upheld. Such ruling was the final decision.

4 On 22 September 2016, a customer (“Company B”) filed a lawsuit to Qinhuai District Court against Mr. A for requesting the Company for repayment of the principal assets of RMB9.86072 million and the risk compensation of RMB875,000, totalling RMB10.73572 million; and the Company shall bear the cost of litigation and legal fee. The case was heard on 26 October 2016, 16 March, 27 April and 26 July 2017, respectively. On 23 March 2018, the Company received a civil ruling from Qinhuai District Court, dismissing the claims against Company B. The case was transferred to the public security organ for handling. On 28 June 2018, the Company received a second instance civil ruling from Nanjing Intermediate Court which ruled that the appeal was dismissed and the original decision was upheld. Such ruling was the final decision.

(III) Outstanding material legal litigations during the Reporting Period

On 3 November 2017, the Beijing Futures Branch of the Company in Beijing received the summon and related materials for two cases of Customer L and Customer M suing the Beijing Futures Branch of the Company on dispute of the wealth management entrusted contract from the People's Court of Dongcheng District, Beijing. The two customers opened their futures accounts with the Company in October 2005 and April 2007, respectively. The two petitions alleged that a former employee of the Company promoted the wealth management products to them, and the Beijing Futures Branch carried out the futures trading without their authorization and transferred the wealth management entrusted funds in the clients' account to the account of Beijing Futures Branch for non-compliance transaction, resulting in a total loss of clients' funds. They requested the court to make an order that the Beijing Futures Branch returns the plaintiffs the deposits for wealth management of RMB1.5 million and RMB8,352,495 together with interest, respectively, and the Company shall bear the cost of litigation. After preliminary verification, the Company and the Beijing Futures Branch have never signed the wealth management entrusted contract with the two customers, and the Company strictly complied with regulatory requirements in relation to the futures industry that neither the Company nor its branched have set up any futures account.

The dissent of jurisdiction for the case was discussed on 21 November and 14 December 2017, respectively. On 15 January 2018, the Company received a civil ruling on dissent of jurisdiction and the case was transferred to the jurisdiction of the Second Intermediate People's Court of Beijing ("Beijing Second Intermediate People's Court"). On 6 November 2018, the Company received a first instance ruling from Beijing Second Intermediate People's Court which ruled that all the appeal of the two customers were dismissed and the appeal fees (already paid) and appraisal costs for such case were born by two plaintiffs.

The two cases as aforesaid in (I) were also material litigations during the Reporting Period.

(IV) New material legal litigations after the Reporting Period

Nil.

III. Material contracts and fulfillment

During the Reporting Period, the Company had not engaged in any material trust, sub-contract and lease arrangements of over RMB10 million and no such matters were carried forward to the Reporting Period from the previous period.

IV. Connected parties and connected transactions

Connected Transactions

(1) Connected Transactions

During the Reporting Period, the Group conducted its connected transactions in strict compliance with the Hong Kong Listing Rules and the Administrative Measures on Connected Transactions. The connected transactions of the Group were mainly entered into with the controlling shareholder, SOHO Holdings, and the substantial shareholder, Holly Corporation, of the Company. See Note 38 to the financial statements of this annual report for information about other related party transactions and continuing connected transactions. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions or continuing connected transactions.

(II) Connected persons

The Company has entered into certain transactions in the ordinary and usual course of business with the following connected persons:

SOHO Holdings

SOHO Holdings, a state-owned enterprise owned as to wholly-owned by Jiangsu SASAC, was established as a limited liability company under the laws of the PRC in April 1994 and is one of the promoters of the Company. As at the date of this Report, SOHO Holdings holds approximately 47.59% of equity interest in the Company, and hence is a Controlling Shareholder of the Company.

SOHO Holdings is an investment holding company principally engaged in (i) financial and industrial investment, authorized operation and management of state-owned assets; (ii) domestic and international trading; (iii) property leasing; and (iv) production, R&D and sales of silk, textiles and garments.

Holly Corporation

Holly Corporation, one of the Company's promoters, is a joint stock limited company established under the laws of the PRC on 30 June 1994 and was listed on the Shanghai Stock Exchange in September 1997 (stock code: 600128). As at the date of this Report, Holly Corporation directly holds approximately 16.31% of the equity interest of the Company and hence is a Substantial Shareholder of the Company.

Holly Corporation is principally engaged in (i) undertaking overseas engineering projects compatible with its strength, size and performance, and overseas dispatch of labor to implement such overseas projects; (ii) wholesale and mining of coal, wholesale of dangerous chemicals (specific projects to be operated pursuant to the requirements of relevant license); (iii) wholesale and retail of pre-packaged foods and dairy products (including infant formula milk powder) as well as class II and III medical devices (excluding implant products, in vitro reagents and plastic contact lenses); and (iv) industrial investment, domestic trade, self-operated and commissioned import and export business for various commodities and technologies.

Jiangsu Chemical Fertilizer

Jiangsu Chemical Fertilizer was incorporated in accordance with the laws of the PRC on 16 November 1992. As at the date of this Report, Jiangsu Chemical Fertilizer is held as to 60% and 40% by Holly Corporation and Jiangsu Textile respectively. Since Holly Corporation is the Substantial Shareholder of the Company and Jiangsu Textile is a wholly-owned subsidiary of SOHO Holdings (being the Controlling Shareholder of the Company), Jiangsu Chemical Fertilizer is a Connected Person of the Company.

So far as the Company is aware, Jiangsu Chemical Fertilizer is principally engaged in, inter alia, import and export of commodities and technologies for itself or as agent and domestic trading; sales of mine products, coal, coking coal, metal materials, packaging materials and wood; production and sales of apparels and fabrics, knitted textiles, chemical fertilizers, chemical equipment, textile machinery and equipment, crafts; sales of pesticides, chemical products, chemical raw materials and hazardous chemicals; and chemical technology consulting services and property leasing.

(III) Continuing connected transactions

1. SOHO Financial Services Framework Agreement between the Group and SOHO Holdings

As the Original SOHO Financial Services Framework Agreement expired on 31 December 2017 and the Group continued to provide similar transactions contemplated under the Original SOHO Financial Services Framework Agreement with SOHO Holdings, the Company entered into the New SOHO Financial Services Framework Agreement with SOHO Holdings on 29 September 2017 (after trading hours of the Hong Kong Stock Exchange). Pursuant to the agreement, the Group provided a variety of financial services to SOHO Holdings and its subsidiaries, including futures brokerage services, asset management services and commodity trading and risk management services. The annual cap for 2018 amounted to RMB5 million, with an actual amount of RMB20,000 in 2018.

2. Holly Property Lease and Management Services Agreement between the Group and Holly Corporation

As the Original Holly Property Lease Agreement expired on 31 December 2017 and the Group continued to lease the Property from Holly Corporation under the Existing Holly Property Lease Agreement after 31 December 2017, the Company entered into the New Holly Property Lease Agreement with Holly Corporation on 29 September 2017 (after trading hours of the Hong Kong Stock Exchange). The annual cap for 2018 amounted to RMB7 million, with an actual amount of RMB6.635 million in 2018.

3. *Thermal Coal Basis Trading Cooperation Agreement between the Group and Jiangsu Chemical Fertilizer*

Holly Capital and Jiangsu Chemical Fertilizer shall contribute no more than RMB13,000,000 for variation basis trading from 31 August 2017 to 30 August 2018. In view of the nation-wide supply-side structural reform policies, the Directors consider that the domestic thermal coal market will continue to prosper gradually. Leveraging Jiangsu Chemical Fertilizer's extensive experience in thermal coal trading, its state-owned enterprises background, its well-established credibility and reliability, and its possession of a wide range of customers in the thermal coal market, the Company would be able to tap into growing business opportunities brought by thermal coal trading in both the spot and futures market. In light of this, the Company and Jiangsu Chemical Fertilizer intend to engage in variation basis trading regarding the thermal coal futures contract and spot rates onwards on a continuing basis. As such, the Company entered into the New Thermal Coal Variation Basis Trading Cooperation Framework Agreement with Jiangsu Chemical Fertilizer on 29 September 2017 (after trading hours of the Hong Kong Stock Exchange), and proposed the annual caps for the two years ending 31 December 2019 under the New Thermal Coal Variation Basis Trading Cooperation Framework Agreement. The annual cap for 2018 amounted to RMB120 million, with an actual amount of RMB739,000 in 2018.

The following table set out the annual caps for continuing connected transactions of the Group in 2018 and the actual transaction amounts for connected transactions of the Group in 2018. For the twelve months ended 31 December 2018, the continuing connected transactions of the Group were aggregated as follows:

	2018	
	Actual Amount (RMB'000)	**Annual Cap (RMB'000)**
1 SOHO Financial Services Framework Agreement		
Income generated from the provision of services from the Group to SOHO Holdings and its subsidiaries	**20**	**5,000**
2 Holly Property Lease and Management Services Agreement		
Expenses incurred by leasing properties by the Group from Holly Corporation	**6,635**	**7,000**
3 Jiangsu Chemical Fertilizer Thermal Coal Basis Trading Cooperation Agreement		
Contribution from Holly Capital for the development of thermal coal basis trading	**739**	**120,000**

The Directors, including the independent non-executive Directors of the Company, have reviewed the abovementioned continuing connected transactions and confirmed that, the transactions were entered into according to the following conditions:

(a) such transactions were entered into in the ordinary course of business of the Group;

(b) such transactions were conducted on normal or better commercial terms; and

(c) such transactions were conducted in accordance with the terms of relevant agreements, and such terms were fair and reasonable and in the interest of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the abovementioned continuing connected transactions and confirmed to the Board that:

(a) nothing has come to its attention that may cause it to believe that these transactions have not been approved by the Board;

(b) for the transactions involved the provision of goods or services by the Group, nothing has come to its attention that may cause it to believe that these transactions were not, in all material respects, in accordance with the pricing policy of the Group;

(c) nothing has come to its attention that may cause it to believe that these transactions were not entered into, in all material respects, in accordance with the relevant agreements governing these transactions; and

(d) nothing has come to its attention that may cause it to believe that these transactions have exceeded their respective annual caps for such transactions. The Company had complied with the disclosure requirements under Chapter 14A of the Listing Rules throughout the Reporting Period.

V. Acquisition, merger and separation during the Reporting Period

Nil.

VI. Attained qualifications for single business

Nil.

VII. Major off-balance sheet items

There are no major off-balance sheet items such as guarantee and mortgage that may affect the financial conditions and operating results of the Company and its subsidiaries during the Reporting Period.

VIII. Engagement of accounting firm

Details of the engagement of accounting firms by the Company and change of accounting firms in the past are as follow:

To maintain consistency and completeness of the audit work of the Company, as approved by the 2017 annual general meeting of the Company on 30 May 2018, the Company appointed KPMG Huazhen LLP and KPMG as its external audit firms for 2018 to respectively provide related audit and review services based on the China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards with a term ending at the date of the conclusion of the 2018 annual general meeting of the Company.

Remunerations for accounting firm: Pursuant to the related authorization of the Board, the external auditing fees of the Company for 2018 was RMB1.95 million, including the fees for annual audit of H Share and annual statutory audit in the country in the amount of RMB1.50 million. In 2018, the Company paid RMB1.95 million for the audit services and RMB0 for non-audit service for 2018.

For the past four years ended 31 December 2018, the Company did not change its accounting firm.

IX. Other important particulars and subsequent events

(1) Change of Directors, Supervisors and senior management of the Company and its subsidiaries

1. *The Company*

   As set out in Section X "Directors, Supervisors, Senior Management and Staff".

2. *Holly Su Futures*

   On 2 November 2018, Mr. Tan Haijun was appointed as a director.

   On 30 November 2018, Ms. Zhou Jianqiu was appointed as a director.

3. *Holly Su Asset*

   On 11 February 2019, Mr. Shan Guoliang no longer served as a director.

   On 4 March 2019, Mr. Kong Xiangwei was appointed as a director.

(2) Annual profit distribution plan of the Company

The profit distribution plan for 2018 is set out in Section VII "V. Profit distribution and profit distribution plan" of this Report.

(3) Profit distribution of subsidiaries

Nil.

(4) Major investment and financing

1 *Major investment and financing of the Company*

Major investment and financing of the Company is set out in Section VI – "Management Discussion and Analysis" of this Report.

2 *Major investment and financing of subsidiaries*

Major investment and financing of the subsidiaries is set out in Section VI "Management Discussion and Analysis" of this Report.

(5) Major legal proceedings and arbitration

Details of major legal proceedings and arbitration are set out in Section VIII – "II. Material Litigations and Arbitrations" of this Report.

(6) Merger or disposal of subsidiaries

Nil.

(7) Other events to cause material impact on financial positions, business performance and cash flow

Nil.

(8) Changes to the Articles of Association and Rules of Procedure for Meeting of the Board after the Reporting Period

Nil.

Changes in Share and Substantial Shareholders

I. Shareholding structure

The shareholding structure of the Company as of 31 December 2018 is as follows:

Name of shareholders	Class of shares	Number of shares	Approximate percentage of total number of issued Shares of the Company (%)①
Jiangsu SOHO Holdings Group Co., Ltd.	Domestic Shares	275,456,777	30.37%
Jiangsu Holly Corporation	Domestic Shares	147,900,000	16.31%
Jiangsu Holly Su Industrial Co., Ltd.	Domestic Shares	143,548,000	15.83%
Jiangsu High Hope International Group Corporation	Domestic Shares	63,930,134	7.05%
Shanghai Mingda Industrial (Group) Company Limited	Domestic Shares	9,276,631	1.02%
Jiangsu Hongrui Venture Capital Co., Ltd.	Domestic Shares	8,903,113	0.98%
Jiangsu Holly International Logistics Corporation	Domestic Shares	8,285,345	0.91%
Public shareholders	H Shares	249,700,000	27.53%
Total		907,000,000	100%

Note: ① The calculation is based on the total issued 907,000,000 Shares of the Company as at 31 December 2018.

II. Changes in Shares

The total number of shares of the Company is 907,000,000 Shares without any changes in the Reporting Period.

III. Interests and short positions of substantial shareholders in Shares and underlying shares of the Company

As at 31 December 2018, to the knowledge of the Directors, Supervisors and the chief executives of the Company, the interests or short positions of substantial shareholders (except the Directors, Supervisors and chief executives of the Company) in Share or underlying shares of the Company which are required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which are required to be entered into the register of the Company pursuant to section 336 of the SFO are as follows:

Name of shareholders	Class of Shares	Capacity	Number of shares held	Approximate percentage to total issued Shares [(1)]	Approximate percentage to relevant Share class [(2)]
Jiangsu SOHO Holdings Group Co., Ltd. [(3)]	Domestic Shares	Beneficial owner and interest in controlled corporation	431,642,122 (long position)	47.59%	65.67%
Jiangsu Holly Corporation	Domestic Shares	Beneficial owner	147,900,000 (long position)	16.31%	22.50%
Jiangsu Holly Su Industrial Co., Ltd.	Domestic Shares	Beneficial owner	143,548,000 (long position)	15.83%	21.84%
Shenzhen Changhong Investment Partnership (Limited Partnership) (深圳昌鴻投資合夥企業(有限合夥))[(4)]	Domestic Shares	Interest in controlled corporation	143,548,000 (long position)	15.83%	21.84%
Shanghai Taihe Yitian Investment Partnership (Limited Partnership) (上海泰合翌天投資合夥企業(有限合夥))[(4)]	Domestic Shares	Interest in controlled corporation	143,548,000 (long position)	15.83%	21.84%
Zhongshan Yigao Investment Development Co., Ltd. (中山易高投資發展有限公司)[(4)]	Domestic Shares	Interest in controlled corporation	143,548,000 (long position)	15.83%	21.84%
Huang Jieping [(4)]	Domestic Shares	Interest in controlled corporation	143,548,000 (long position)	15.83%	21.84%
Jiangsu High Hope International Group Corporation	Domestic Shares	Beneficial owner	63,930,134 (long position)	7.05%	9.73%
Success Indicator Investments Limited	H Shares	Beneficial owner	15,234,000 (long position)	1.68%	6.10%

Note:

(1) The calculation is based on the total number of 907,000,000 Shares in issue of the Company as at 31 December 2018.

(2) The calculation is based on the 657,300,000 Domestic Shares in issue and 249,700,000 H Shares in issue of the Company as at 31 December 2018.

(3) On 31 December 2018, Jiangsu SOHO Holdings Group Co., Ltd. (i) directly held 275,456,777 Domestic Shares; (ii) was the beneficial owner of 24.02% equity interest in Jiangsu Holly Corporation (directly holding 147,900,000 Domestic Shares of the Company); and (iii) was the beneficial owner of the entire equity interests of Artall Culture Group Company Limited (deemed to be interested in the 8,285,345 Domestic Shares directly held by Jiangsu Holly International Logistics Corporation). As disclosed in the 2018 interim report of Jiangsu Holly Corporation, according to relevant Chinese laws, SOHO Holdings is deemed to be the controlling shareholder of Jiangsu Holly Corporation. Accordingly, SOHO Holdings is deemed to be interested in the 147,900,000 Domestic Shares of the Company directly held by Jiangsu Holly Corporation and 8,285,345 Domestic Shares of the Company directly held by Artall Culture Group Company Limited, and hence directly and indirectly interested in 431,642,122 Domestic Shares Under the SFO.

(4) According to the current information available to the Company, on 31 December 2018, (i) Shenzhen Changhong Investment Partnership (Limited Partnership) (深圳昌鴻投資合夥企業(有限合夥)) held 99% equity interests in Jiangsu Holly Su Industrial Co., Ltd.; (ii) Shanghai Taihe Yitian Investment Partnership (Limited Partnership) (上海泰合翌天投資合夥企業(有限合夥)) held 99.71% equity interests in Shenzhen Changhong Investment Partnership (Limited Partnership) (深圳昌鴻投資合夥企業(有限合夥)); (iii) Zhongshan Yigao Investment Development Co., Ltd. (中山易高投資發展有限公司) held 79.5% equity interests in Shanghai Taihe Yitian Investment Partnership (Limited Partnership) (上海泰合翌天投資合夥企業(有限合夥)); (iv) Ms. Huang Jieping was the beneficial owner of 100% equity interests in Zhongshan Yigao Investment Development Co., Ltd. (中山易高投資發展有限公司). Accordingly, under the SFO, each of Shenzhen Changhong Investment Partnership (Limited Partnership) (深圳昌鴻投資合夥企業(有限合夥)), Shanghai Taihe Yitian Investment Partnership (Limited Partnership) (上海泰合翌天投資合夥企業(有限合夥)), Zhongshan Yigao Investment Development Co., Ltd. (中山易高投資發展有限公司) and Ms. Huang Jieping is deemed to be interested in the 143,548,000 Domestic Shares directly held by Holly Su Industrial.

Save as disclosed above, the Directors, Supervisors and chief executives of the Company are not aware that, as at 31 December 2018, any other person (other than the Directors, Supervisors or chief executives of the Company) had an interest or short position in the Shares or underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are required to be entered into the register of the Company pursuant to Section 336 of the SFO.

As at the end of the Reporting Period, SOHO Holdings, the Controlling Shareholder of the Company, held approximately 47.59% of the total issued Shares of the Company. SOHO Holdings was established in April 1994 with a registered capital of RMB2,000 million. It is a state-owned enterprise wholly-owned by the State-owned Assets Supervision and Administration Commission of Jiangsu. SOHO Holdings is an investment holding company and its business scope includes finance, industrial investment, operation and management of state-owned assets as authorised, domestic and international trade, property lease, and manufacturing, R&D and sales of silk, textile and clothing.

Directors, Supervisors, Senior Management and Staff

I. Basic Information about current and resigned Directors, Supervisors and senior management during the Reporting Period

(1) Directors

Name	Age	Gender	Position(s)	Date of appointment	Time of joining the Company	Remunerations received during the Reporting Period (RMB'0,000)	Relationship with other Directors, Supervisors or members of senior management	Remarks
Zhou Yong	52	Male	Chairman and Executive Director	15 January 2001	May 1998		N/A	
Zhou Jianqiu	49	Female	Executive Director and general manager	9 June 2015	March 1999	79.3	N/A	
Xue Binghai	48	Male	Non-executive Director	30 June 2012	June 2012		N/A	
Shan Bing	51	Male	Non-executive Director	26 May 2017	May 2017		N/A	
Zhang Ke	46	Male	Non-executive Director	31 May 2016	May 2016		N/A	
Zhang Hongfa	54	Male	Independent non-executive Director	8 July 2013	July 2013	11.90	N/A	
Lam Kai Yeung	49	Male	Independent non-executive Director	9 June 2015	June 2015	12.12	N/A	
Wang Yuetang	56	Male	Independent non-executive Director	15 November 2018	November 2018	1.49	N/A	Appointed on 15 November 2018
Lin Xindan	52	Male	Independent non-executive Director	30 June 2012	June 2012	10.42	N/A	Retired on 15 November 2018

(2) Supervisors

Name	Age	Gender	Position(s)	Date of appointment	Time of joining the Company	Remunerations received during the Reporting Period (RMB'0,000)	Relationship with other Directors, Supervisors or members of senior management	Remarks
Xu Yingying	34	Female	Chairlady of the Supervisory Committee	22 November 2012	July 2007	30.62	N/A	
Wang Jianying	52	Female	Supervisor	25 December 2014	December 2014		N/A	
Yu Hong	43	Female	Supervisor	20 November 2017	July 2016	65.12	N/A	

(3) Senior management

Name	Age	Gender	Position(s)	Date of appointment	Relationship with other Directors, Supervisors or members of senior management	Remarks
Zhou Jianqiu	49	Female	Excutive Director and general manager	General manager since May 2015	N/A	
Zheng Peiguang	53	Male	Deputy general manager	Deputy general manager since May 2002	N/A	
Jia Guorong	48	Male	Deputy general manager	Deputy general manager since August 2017	N/A	
			Board secetary and joint company secretary	Board secetary and joint company secretary since June 2017		
Zhao Dong	49	Male	Deputy general manager	Deputy general manager since March 2014	N/A	
Chu Kairong	44	Male	Deputy general manager	Deputy general manager since June 2016	N/A	
Wang Min	41	Female	Supervisor of finance	Supervisor of finance since July 2015	N/A	
Qiu Xiangjun	38	Male	Chief Risk Officer	Chief Risk Officer since August 2017	N/A	

II. Appointment of Directors, Supervisors and senior management in companies of Shareholders and other companies during the Reporting Period

(1) Directors

Name	Position(s) at the Company	Employment in other companies	Position(s) at other companies
Zhou Yong	Chairman and Executive Director	SOHO Holding	Director and CEO
		Huatai Securities Co., Ltd.	Director (resigned in October 2018)
		Zking Property & Casualty Insurance Co., Ltd.	Director
Zhou Jianqiu	Executive Director and general manager	Holly Capital	Director
		Holly Su Futures	Director
Xue Binghai	Non-executive Director	SOHO Holding	Assistant to CEO
		Jiangsu SOHO Investment Group Company Limited	Director, general manager
		Jiangsu Soho Belt and Road Capital Management (江蘇蘇豪一帶一路資本管理有限公司)	Chairman
		Jiangsu Soho Venture Capital Investment Co., Ltd. (江蘇蘇豪創業投資有限公司)	Chairman
		Jiangsu Jin Su Zheng Investment Development Co., Ltd. (江蘇金蘇證投資發展有限公司)	Chairman
		Jiangsu Zhonghe Venture Investment Co., Ltd. (江蘇眾合創業投資有限公司)	Chairman, general manager
		Jiangsu SOHO Jisheng Investment Management Co., Ltd. (江蘇蘇豪基盛投資管理有限公司)	Chairman
Zhang Ke	Non-executive Director	Holly Corporation	General manager, director
		Jiangsu Artall Cultural Industrial Co., Ltd. (江蘇愛濤文化產業有限公司)	Chairman
		Jiangsu Holly (Myanmar) Industrial Co., Ltd. (江蘇弘業(緬甸)實業有限公司)	Chairman
Shan Bing	Non-executive Director	Jiangsu Holly Su Industrial Co., Ltd. (江蘇弘蘇實業有限公司)	Non-executive director
		Jiahe Fund Management Co., Ltd. (嘉合基金管理有限公司)	Chairman of the board of supervisors

Name	Position(s) at the Company	Employment in other companies	Position(s) at other companies
Zhang Hongfa	Independent non-executive Director	Jiangsu Province Appraisal Society	Executive secretary-general
		Guolian Futures Co., Ltd.	Independent director
		Nanjing Kangni Mechanical & Electrical Co., Ltd. (南京康尼機電股份有限公司)	Director
		Jiangsu Equity Exchange Center Co., Ltd. (江蘇股權交易中心有限責任公司)	Director
		Chongyi Zhangyuan Tungsten Co., Ltd	Independent director
		Wiscom System Co., Ltd.	Independent director
		Jiangsu Zijin Rural Commercial Bank Limited (江蘇紫金農村商業銀行股份有限公司)	Independent director
Lam Kai Yeung	Independent non-executive Director	Silverman Holdings Limited	Independent non-executive director
		Highlight China IoT International Limited	Executive director and CEO and company secretary
		Sunway International Holdings Limited	Executive director
		Finsoft Financial Investment Holdings Limited	Independent non-executive director
		Kong Shum Union Property Management (Holding) Limited	Independent non-executive director
		Kin Shing Holdings Limited	Independent non-executive director
		Starrise Media Holdings Limited	Independent non-executive director
Wang Yuetang	Independent non-executive Director	Jiangsu Guoxin Group Co., Ltd. (江蘇省國信集團有限公司)	External director
Li Xindan	Independent non-executive Director	Nanjing University	Professor, PHD supervisor
		C. banner International Holdings Limited	Independent director
		Nanjing Securities Co., Ltd.	Independent director
		China Southern Asset Management Co., Ltd.	Independent director
		Bank of Jiangsu Co., Ltd.	External supervisor
		Youzu Interactive Co., Ltd. (游族網絡股份有限公司)	Director

(2) Supervisors

Name	Position(s) at the Company	Employment in other companies	Position(s) at other companies
Xu Yingying	Chairlady of the Supervisory Committee	Jiangsu Tianhong Automobile Group Co., Ltd. (江蘇天泓汽車集團有限公司)	Member of the Party committee and secretary of the discipline committee
Wang Jianying	Supervisor	High Hope International	General manager of corporate management department
		Zhongrong Xinjia Investment Guaranty Co., Ltd. (中融信佳投資擔保有限公司)	Chairman
		Lian Life Insurance Co., Ltd. (利安人壽保險股份有限公司)	Director
Yu Hong	Supervisor	Holly Capital	Supervisor

(3) Senior management

Name	Position(s) of the Company	Employment in other companies	Position(s) at other companies
Zhou Jianqiu	Executive Director and general manager	Please refer to the above subsection "Appointment of Directors, Supervisors and senior management in companies of Shareholders and other companies during the Reporting Period-Directors"	
Zheng Peiguang	Deputy general manager	Holly Capital	Chairman
		Hong Rui Growth	Director
Jia Guorong	Deputy general manager	Holly Capital	Director
		Holly Su Futures	Director
Zhao Dong	Deputy general manager	–	–
Chu Kairong	Deputy general manager	Jiangsu Holly Asset Management Co., Ltd. (江蘇宏業資產管理有限公司) (deregistered on 25 December 2018)	Chairman
Wang Min	Supervisor of finance	Hong Rui New Era	Director
Qiu Xiangjun	Chief Risk Officer	–	–

III. Biographies of Directors, Supervisors and senior management

Particulars in relation to the positions held by Directors, Supervisors and Senior Management at other companies are set out in "II. Appointment of Directors, Supervisors and senior management in companies of Shareholders and other companies during the Reporting Period" of this section.

(1) Directors

Executive Directors

Mr. Zhou Yong (周勇), with Chinese nationality but without permanent residency abroad, was born in December 1966, aged 52, and holds a doctor's degree. Mr. Zhou is a senior economist (正高級經濟師) and a senior international commerce economist (高級國際商務師) as credentialed by the Human Resources Department of Jiangsu Province (江蘇省人事廳) (now known as the Department of Human Resources and Social Security of Jiangsu Province (江蘇省人力資源和社會保障廳)). He is also a research fellow as credentialed by the Department of Human Resources and Social Security of Jiangsu Province.

Mr. Zhou Yang has been appointed as the Chairman and a Director of the Company since January 2001 (he was designated as an executive Director in July 2015) and is primarily responsible for the overall management and supervision of the Company, making strategic plans and organising Board meetings. Mr. Zhou Yong was the general manager of Jiangsu Holly International Group Investment Management Co., Ltd. (江蘇弘業國際集團投資管理有限公司) ("Holly Investment") from February 1999 to June 2006. He had also been engaged with Jiangsu Holly International Group Company Limited from June 2006 to July 2010 as its vice president. Mr. Zhou Yong served as the vice president of SOHO Holdings from July 2010 to May 2013 and has been the director and president of SOHO Holdings since May 2013.

Ms. Zhou Jianqiu (周劍秋), with Chinese nationality but without permanent residency abroad, was born in August 1969, aged 49, and holds a master's degree.

Ms. Zhou Jianqiu was appointed as an executive Director in June 2015 and the general manager of the Company in May 2015. She is primarily responsible for the management and operation of the Company. Ms. Zhou Jianqiu has been engaged with Jiangsu Holly, the predecessor company of the Company (that is the Company) since March 1999, working at various times as the supervisor of its finance department, chief financial officer, deputy general manager and executive deputy general manager. She has also been a director of Holly Capital, the wholly-owned subsidiary of the Company, since January 2014. She has been a director of Holly Su Futures since October 2018.

Non-executive Directors

Mr. Xue Binghai (薛炳海), with Chinese nationality but without permanent residency abroad, was born in September 1970, aged 48, holds a master's degree and is a senior accountant.

Mr. Xue served as a staff, the assistant to the general manager and the deputy general manager of the asset and finance department of Jiangsu SOHO International Group Co., Ltd. (江蘇蘇豪國際集團股份有限公司) from July 1995 to June 2007. He worked as the deputy general manager of the asset and finance department of Jiangsu SOHO Holding Group Co., Ltd. (the former Jiangsu Silk Group Co., Ltd.) from June 2007 to December 2007. He served as the general manager of the asset and finance department of Jiangsu SOHO Holding Group Co., Ltd. from January 2008 until March 2013. He worked as the director and general manager of both Jiangsu SOHO Venture Capital Investment Co., Ltd. (江蘇蘇豪創業投資有限公司) and Jiangsu SOHO Investment Management Co., Ltd. (江蘇蘇豪投資管理有限公司) from February 2008 to March 2013. He served as the chief financial officer of Jiangsu SOHO International Group Co., Ltd. from June 2008 to March 2013. He has served as the assistant to the president of Jiangsu SOHO Holding Group Co., Ltd. and the director and general manager of Jiangsu SOHO Investment Group Co., Ltd. (江蘇蘇豪投資集團有限公司) since March 2013.

Mr. Zhang Ke (張柯), with Chinese nationality but without permanent residency abroad, was born in February 1973, aged 46, holds a master's degree and is a senior international business executive.

Mr. Zhang Ke worked as a financial manager at the financial department of Jiangsu Silk Import & Export Group Co., Ltd. (江蘇省絲綢進出口集團股份有限公司) from August 1995 to December 1998. He served as a salesman at the knitwear department of Jiangsu SOHO International Group Garment Co., Ltd. (江蘇蘇豪國際集團服裝有限公司) from January 1999 to December 1999. He was the deputy general manager of the brand development department of Jiangsu SOHO International Group Garment Co., Ltd. from December 1999 to August 2000. He served as the assistant to the general manager of Jiangsu SOHO International Group Garment Co., Ltd. from August 2000 to July 2002. He was the deputy general manager of Jiangsu SOHO International Group Garment Co., Ltd. from July 2002 to January 2003. He was the deputy general manager of the garment branch of Jiangsu SOHO International Group Co., Ltd. from January 2003 to December 2004. He worked as the general manager of the garment branch of Jiangsu SOHO International Group Co., Ltd. from December 2004 to August 2005. He served as the assistant to the general manager of Jiangsu SOHO International Group Co., Ltd. from March 2005 to April 2008. He was the deputy general manager of Jiangsu SOHO International Group Co., Ltd. from April 2008 to August 2010. He served as the general manager of Jiangsu Suho Garment Co., Ltd. (江蘇蘇豪服裝有限公司) from August 2005 to August 2013. He was as a member of the Party committee of Jiangsu SOHO International Group Co., Ltd. from August 2010 to April 2015. He served as the chairman of Jiangsu SOHO Garment Co., Ltd. from May 2011 to June 2015. Mr. Zhang has been a deputy secretary of the Party committee, general manager and a director of Jiangsu Hongye Company Limited (江蘇弘業股份有限公司) since April 2015.

Mr. Shan Bing (單兵), with Chinese nationality but without permanent residency abroad, was born in December 1967, aged 51, and holds a master's degree.

Mr. Shan Bing was the board secretary of Nantong Machine Tool Co., Ltd. (南通機床股份有限公司) from July 1990 to April 2000. He had been a fund manager and the head of the research department of Shanghai research department of Guosen Securities Co., Ltd. (國信證券有限責任公司) from April 2000 to April 2002. He served as the chief researcher of the asset management division and the head of portfolio investment department of Xing'an Securities Co., Ltd. (興安證券有限責任公司) from May 2002 to January 2006. From April 2006 to June 2007, he was the vice-president and investment director of Shanghai Yuanji Investment Co., Ltd. (上海源吉投資有限公司).

From April 2006 to June 2007, he was also the investment director of Shanghai Junding Investment Co., Ltd. (上海駿鼎投資有限公司). He had been the deputy general manager and research director of Jiangsu Winfast Investment Holding Group Co., Ltd. (江蘇瑞華投資控股集團有限公司) from June 2007 to March 2013. He was a partner and the investment director of Shanghai Vstone Capital Co., Ltd. (上海凱石益正資產管理有限公司) from March 2013 to February 2017. He has been a non-executive director of Jiangsu Holly Su Industrial Co., Ltd. (江蘇弘蘇實業有限公司) since February 2017. He has been an executive director and the general manager of Shanghai Beiyuan Investment Management Co., Ltd. (上海貝元投資管理有限公司) from February 2017 to August 2018. He has been a chairman of the board of supervisors of Jiahe Fund Management Co., Ltd. (嘉合基金管理有限公司) since September 2018.

Independent non-executive Directors

Mr. Zhang Hongfa (張洪發), with Chinese nationality but without permanent residency abroad, was born in September 1964, aged 54, holds a bachelor's degree and is a senior accountant and a Certified Public Accountant.

Mr. Zhang Hongfa had been a lecturer at Jiangsu Radio and Television University (江蘇廣播電視大學, now known as Jiangsu Open University (江蘇開放大學)) from September 1986 to August 1993 and performed social audit work for Jiangsu Provincial Firm of Accountants (江蘇省會計師事務所) from September 1993 to May 1998. He has worked in the Jiangsu Institute of Certified Public Accountants (江蘇省註冊會計師協會) from June 1998 to August 2014. He has also been the deputy secretary-general of Jiangsu Province Appraisal Society (江蘇省資產評估協會) from August 2014 to June 2017; he has been the secretary-general of Jiangsu Province Appraisal Society (江蘇省資產評估協會) since July 2017.

Mr. Lam Kai Yeung (林繼陽), with Chinese nationality and permanent residency in Hong Kong, was born in July 1969, aged 49, and holds a master's degree. Mr. Lam Kai Yeung is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and also a licensed person for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Mr. Wang Yuetang (王躍堂), with Chinese nationality, was born in June 1963, aged 55. He holds a doctor's degree in management (accounting) from Shanghai University of Finance and Economics, and is currently a Professor of Accounting at Nanjing University, a doctoral tutor and a Certified Public Accountant in the PRC, with qualification certification of independent director. He has worked as a visiting scholar at Cornell University in the United States and conducted cooperative research. He is also the vice president of Jiangsu Accounting Association, the vice president of Jiangsu Provincial Auditing Society, and the executive director of China Empirical Accounting Research Association.

Mr. Li Xindan (李心丹), with Chinese nationality but without permanent residency abroad, was born in April 1966, aged 52, and holds a doctor's degree. He was recognised as a Zhao Shiliang Chair Professor (趙士良講座教授) by Nanjing University (南京大學) in 2014.

Mr. Li Xindan worked as a lecturer, associate professor, professor and department head of the School of Economics & Management of Southeast University from July 1988 to December 2000. He served as the vice president and president of the School of Management and Engineering of Nanjing University from January 2001 to April 2016. He has served as a professor and a doctoral supervisor in Nanjing University since April 2016.

Mr. Li Xindan was retired on 15 November 2018.

(2) Supervisors

Ms. Xu Yingying (徐瑩瑩), with Chinese nationality but without permanent residency abroad, was born in November 1984, aged 34, and holds a bachelor's degree.

Ms. Xu Yingying was appointed as the chairlady of the Supervisory Committee and an employee representative Supervisor in November 2012 and is primarily responsible for supervising the performance of duties by the Directors and members of the senior management. Ms. Xu Yingying has been engaged with Jiangsu Holly (the predecessor company of the Company) since July 2007 and worked at various times as a staff, person-in-charge and assistant to manager of the administration and human resource department. She has served as the deputy general manager of the human resources department of the Company from February 2012 to June 2016 and was promoted to general manager of the human resources department and the head of the Party committee office from July 2016 to May 2018. She has been the deputy secretary of the disciplinary committee and the general manager of discipline inspection & supervision department of Holly Futures from June 2018 to January 2019. She has been the member of the Party committee and secretary of the discipline committee of Jiangsu Tianhong Automobile Group Co., Ltd. (江蘇天泓汽車集團有限公司) since February 2019.

Ms. Wang Jianying (王健英), with Chinese nationality but without permanent residency abroad, was born in October 1966, aged 52, holds a postgraduate's degree and is a senior accountant. Ms. Wang Jianying served as a clerk, senior staff member and section chief of Jiangsu Provincial Foreign Trade and Economic Cooperation Department (江蘇省外經貿廳) from August 1986 to December 2000. She worked as the deputy general manager and general manager of the financial department of Jiangsu Skyrun International Group Co., Ltd. (江蘇開元國際集團有限公司) from January 2001 to July 2007. She has served as the chief accountant, the general manager of the enterprise management department and the operation department of Jiangsu High Hope International Group Co., Ltd. (江蘇匯鴻國際集團有限公司) from August 2007 to February 2019. She has been the vice president and chief financial officer of Dongjiang Environmental Company Limited since February 2019.

Ms. Yu Hong (虞虹), with Chinese nationality but without permanent residency abroad, was born in August 1975, aged 43, and holds a master's degree and a postgraduate's degree.

Ms. Yu Hong was appointed as a Supervisor, primarily responsible for supervising the performance of duties by the Directors and members of the senior management since November 2017. Before joining the Company, Ms. Yu Hong worked at Jiangsu Silk Group Company Limited (the former name of SOHO Holdings) from May 2006 to August 2010 as the chief secretary of the office and assistant for the general manager of the human resources department successively. From August 2010 to May 2015, Ms. Yu served successively as deputy general manager and general manager of the human resources department, the chief of the general manager office and the director of the party office at Jiangsu SOHO International Group Co., Ltd.. She served as deputy general manager of the legal department (in charge) at Jiangsu SOHO Holding Group Co., Ltd. from May 2015 to July 2016. She has worked at Holly Futures since July 2016, where she served as the secretary of the Board and she is currently the deputy secretary of the Party committee and the secretary of the Disciplinary Committee. Since May 2017, she has also become a supervisor of Holly Capital.

(3) Senior management

Ms. Zhou Jianqiu (周劍秋), for details of Ms. Zhou Jianqiu, please see the sub-section headed "Directors — Executive Directors" above.

Mr. Zheng Peiguang (鄭培光), with Chinese nationality but without permanent residency abroad, was born in October 1965, aged 53, and holds an associate degree.

Mr. Zheng Peiguang was appointed as the deputy general manager in May 2002 and is primarily responsible for the option department, the brokerage business management department, some non-local operation departments, as well as several business departments of the head office. Mr. Zheng Peiguang has been engaged with Jiangsu Holly, the predecessor company of the Company (that is, Company) since September 1999, working at various posts, including but not limited to deputy manager of the marketing development department, deputy manager and manager of our business headquarters, and the deputy general manager. He also held the positions of director and chairman of Holly Capital, the wholly-owned subsidiary of the Company, respectively since August 2016 and September 2016. Currently, he is also a director of the Jiangsu Hong Rui Growth Venture Investment Co., Ltd..

Mr. Jia Guorong (賈國榮), with Chinese nationality but without permanent residency abroad, was born in November 1970, aged 48, and holds a master's degree.

Mr. Jia Guorong was appointed as the vice general manager of the Company in August 2017, and as the secretary of the Board of the Company and joint company secretary in June 2017. He is mainly responsible for several integrated departments in the Company's headquarters and the labor union. Mr. Jia Guorong has been engaged with Jiangsu Holly, the predecessor company of the Company (that is, the Company) since February 1999, working at various times as the deputy manager and manager of the settlement department, risk director, deputy general manager and Chief Risk Officer of the Company. He has also been a director of Holly Capital, the wholly-owned subsidiary of the Company, since November 2013. He has been a director of Holly Su Futures, a wholly-owned subsidiary of the Company, since July 2017.

Mr. Zhao Dong (趙東), with Chinese nationality but without permanent residency abroad, was born in December 1969, aged 49, and holds an associate degree.

Mr. Zhao Dong was appointed as the deputy general manager in March 2014 and is primarily responsible for a part of the futures branches. Prior to joining the Group, Mr. Zhao Dong had been the manager of marketing department of Wuxi Lida Futures Brokerage Co., Ltd. (無錫利大期貨經紀有限公司) from September 1999 to April 2000 and the manager of marketing division of Yixing Huazheng Futures Brokerage Co., Ltd. (宜興華證期貨經紀有限公司) from May 2000 to December 2005, respectively. Mr. Zhao Dong had been engaged with Huazheng Futures Brokerage Co., Ltd. (華證期貨經紀有限公司) from December 2005 to February 2014, working at various times as its manager of marketing department, deputy general manager and general manager.

Mr. Chu Kairong (儲開榮), with Chinese nationality but without permanent residency abroad, was born in July 1974, aged 44, and holds a bachelor's degree.

Mr. Chu Kairong was appointed as deputy general manager of the Company in June 2016, primarily responsible for managing the business department of the head office and some of the non-local operation departments. Mr. Chu Kairong joined the Company since September 2004, successively held the positions of deputy manager, manager, assistant of general manager and deputy general manager.

Ms. Wang Min (王敏), with Chinese nationality but without permanent residency abroad, was born in June 1977, aged 41, and holds a bachelor's degree. She holds the professional certificates of accounting, statistics, funds and futures and is an intermediate accountant.

Ms. Wang Min was appointed as the supervisor of finance in July 2015 and is primarily responsible for the finance and accounting work. Ms. Wang Min has been engaged with Jiangsu Holly, the predecessor company of the Company (that is, the Company) since July 1999, working at various times as, including but not limited to, deputy manager and manager of the finance department. From September 2003 to October 2009, she had served as the assistant to manager and deputy manager of the finance department of Holly Investment. Currently, she is also a director of Jiangsu Hong Rui New Era Venture Investment Co., Ltd. (江蘇弘瑞新時代創業投資有限公司). The Company aware the matter related to the resignation of Ms. Wang Min from the position of supervisor of finance of the Company on 22 March 2019, the date of resignation is subject to the date of filing with the relevant agency.

Mr. Qiu Xiangjun (邱相駿), with Chinese nationality but without permanent residency abroad, was born in May 1980, aged 38, and holds a master's degree.

Mr. Qiu Xiangjun was appointed as the Chief Risk Officer of the Company in August 2017, primarily responsible for compliance and risk management of the Company. Since January 2008, Mr. Qiu Xiangjun has worked for the Company as the assistance and deputy manager of the audit department, deputy manager and manager of the compliance and audit department, manager of the audit and legal department, person-in-charge of the trading settlement department, assistant to general manager of the Company and Chief Risk Officer of the Company.

IV. Changes of Directors, Supervisors and senior management during the Reporting Period

(1) Changes of Directors

The term of Mr. Li Xindan expired on 15 November 2018, and he retired from his office as director.

Mr. Wang Yuetang was appointed as an independent non-executive Director on 15 November 2018, and he was appointed as a member of the remuneration committee, a member of the nomination committee and the chairman of risk management committee of the Board.

(2) Changes of Supervisors

Nil.

(3) Changes of senior management

Nil.

V. Remuneration Management of Directors, Supervisors and senior management

(1) Remuneration system and decision-making procedures of Directors, Supervisors and senior management

The remunerations and evaluations of the Directors shall be proposed by the Remuneration Committee of the Board and considered and approved by the general meeting; the remunerations of Supervisors shall be considered and determined by the general meeting; and the remunerations and evaluations of the senior management shall be proposed by the Remuneration Committee of the Board and determined by the Board.

(2) Basis of remunerations of Directors, Supervisors and senior management

The remunerations of internal Directors and Supervisors shall be determined according to the general meeting resolutions on the remunerations of Directors and Supervisors and factors such as the operating results of the Company, job responsibilities, performance and market environment. The remunerations of independent non-executive Directors shall be proposed by the Remuneration Committee of the Board according to the industry and market conditions, and be implemented upon approval by the general meeting. The remunerations, rewards and punishments of the senior management of the Company shall be determined according to Board resolutions and taking into account the evaluation, incentive and restriction mechanism of the Company.

(3) Non-cash remuneration

The Company has not yet set up any equity incentive scheme, hence there is no non-cash remuneration.

(4) Payment of remuneration to Directors, Supervisors and senior management

In 2018, the total remunerations of Directors, Supervisors and senior management of the Company amounted to RMB5,210.74 thousands. For details of payment of remuneration to Directors, Supervisors, please see "I. Basic Information about Current and Resigned Directors, Supervisors and Senior Management during the Reporting Period" in this section.

For the year ended 31 December 2018, the remuneration of the Directors and Supervisors fell within the following bands:

Bands (RMB)	Number of Directors, Supervisors
0-500,000	5
500,001-1,000,000	2

For the year ended 31 December 2018, the remuneration of senior management of the Company fell within the following bands:

Bands (RMB)	Number of senior management
0-500,000	2
500,001-1,000,000	5
Above 1,000,000	0

VI. Employees and remuneration

(1) Headcount and composition

As at the end of the Reporting Period, the Company has a total of 632 full-time and part-time employees while its subsidiaries have a total of 38 full-time and part-time employees, the composition of which is as follows:

Workforce statistics of Holly Futures Co., Ltd. and its subsidiaries			
Headcount (staff member)	**670**		
Type of employment	**Full-time and part-time**		
Category	**Sub-category**	**Number**	**Percentage**
Academic background	Ph.D.	2	0.30%
	Master	101	15.07%
	Undergraduate	431	64.33%
	Diploma and below	136	20.30%
Position	Futures brokerage	424	1.19%
	Asset management	20	63.28%
	Commodity trading and risk management	16	2.99%
	Stock option business	8	2.39%
	Overseas business	13	1.19%
	Research	21	1.94%
	Audit and legal department and risk management	16	3.13%
	IT	32	2.39%
	Accounting and Finance	52	4.78%
	Administration	68	7.76%
Age	35 and below	479	71.49%
	36 to 40	102	15.22%
	41 to 50	74	11.04%
	51 and above	15	2.25%

(2) Remuneration of employees

The remuneration of the Company's employees is composed of basic salaries, allowances, performance bonuses and welfare. Basic salaries are a relatively fixed part of the remuneration and are the basic income of employees. As a supplement to basic salaries, allowances include those for special posts and professionals. Performance bonuses are distributed according to the results of performance evaluation in favor of the front-line employees with outstanding performance. For the year ended 31 December 2018, the total remuneration of employees, including remuneration of Directors, amounted to approximately RMB129 million. Details of which are set out in Note 7 to the financial statement of this Report.

The Company provided employees with statutory welfare such as social insurance and housing provident fund according to relevant national provisions. Moreover, it offered employees enterprise annuity, supplementary medical insurance and other benefits to enhance their welfare.

(3) Retirement benefits

The Group has provided a pension plan for full-time employees in Mainland China as required by the government. Namely, the Group pays endowment insurance premiums to the social insurance institution designated by the government on a monthly basis, which account for a certain percentage of the total salaries of the staff. After the retirement of the employees, the government is obliged to pay the pensions to them. According to the aforesaid Defined Contribution Plan (DCP), the Group shall not be liable for the post-retirement benefits beyond the above contributions. Contributions to the Plan will be included in the cost at the time of occurrence.

(4) Training schemes

The Company made various training plans for employees at all levels in order to constantly improve the professional ability and quality of its executives.

The Company provided operation and management personnel with training programs centered on enhancing their understanding of the development of the securities and futures industry, management theories and skills, strategic thinking ability, operation management ability, etc.; and offered training programs focused on improving business knowledge, product development and marketing skills and service abilities to employees of various business lines and departments. Moreover, it encouraged employees to study by themselves, take professional qualification exams, etc. in order to educate themselves and update their professional knowledge. Especially, it rewarded employees who have obtained qualifications for futures investment analysis, fund practitioner and futures practitioner in Hong Kong.

(5) The five highest paid individuals

Of the five individuals with the highest emoluments, none of them is a director whose emoluments is disclosed in Note 10 to the financial statement of this Report. The aggregate of the emoluments are as follows:

(Unit: RMB'000)

	2018	2017
Salaries, allowances and benefits	**914**	908
Discretionary bonuses	**6,412**	6,344
Pension scheme contributions	**217**	199
Total	**7,543**	7,451

The number of these individuals whose remuneration fell within the following bands is set out below:

	2018 Number of Individuals	2017 Number of individuals
HKD0 to HKD1,000,000	**–**	–
HKD1,000,001 to HKD1,500,000	**2**	2
HKD1,500,001 to HKD2,000,000	**1**	1
HKD2,000,001 to HKD2,500,000	**2**	2
Total	**5**	5

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the Reporting Period.

Corporate Governance Report

I. Overview of corporate governance

Listed in Hong Kong and registered in Mainland China, the Company operated in strict compliance with laws, regulations and normative documents at the listing place and in Mainland China, and kept committed to maintaining and improving its good social image. According to the Company Law, Securities Law and other laws, regulations and regulatory provisions, the Company has formed a corporate governance structure under which the general meeting, the Board, Supervisory Committee, and the management have their powers separated for checks and balances and perform their respective duties, so as to ensure regulated operation of the Company. The convening and voting procedures for general meetings and meetings of the Board and Supervisory Committee are legal and valid; the information disclosed by the Company is true, accurate and complete and is disclosed in time; management of investor relations is efficient and practical; and corporate governance is based on scientific, rigorous and normative procedures. The Company has adopted code provisions in the Corporate Governance Code. During the Reporting Period, the Company strictly complied with all code provisions of the Corporate Governance Code and met requirements for most recommended best practices specified in the Corporate Governance Code.

II. Shareholders and general meetings

(1) Rights of general meetings

The general meeting is the supreme authority of the Company and exercises its power according to laws, Articles of Association and Rules of Procedure for General Meetings. The Company convened general meetings in strict accordance with relevant provisions and ensured all shareholders could enjoy equal status and fully exercise their rights as Shareholders. In 2018, the Company convened 2 general meetings (extraordinary general meeting, domestic shareholders' class meeting and H shareholders' class meeting were convened on 15 November 2018 concerning different shareholders, which counted as one meeting), answered in detail the questions of Shareholders, and carefully listened to the opinions and suggestions of the Shareholders on the Company's development.

(2) General meetings

In the Reporting Period, the Company convened 2 general meetings in total, information and resolutions of which are set out as follows:

On 30 May 2018, the Company convened the 2017 annual general meeting, at which were the following resolutions considered and approved: the resolution on considering and approving the 2017 annual report, including (i) the H Shares annual report of the Company for the year ended 31 December 2017, and (ii) the annual report of the Company for the year ended 31 December 2017 prepared in accordance with the relevant regulations and requirements of the China Securities Regulatory Commission; the resolution on considering and approving the report of the board of directors of the Company for the year ended 31 December 2017; the resolution on considering and approving the report of the board of supervisors of the Company for the year ended 31 December 2017; the resolution on considering and approving the final financial report of the Company for the year ended 31 December 2017; the resolution on considering and approving the profit distribution plan of the Company for the year ended 31 December 2017; the resolution on considering and approving the re-appointment of KPMG Huazhen LLP as the PRC auditor and KPMG as the Hong Kong auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company, and authorising the general manager's office of the Company to fix their remuneration at its meetings; and the resolution on authorising the Board to fix the remuneration package of the Directors and Supervisors for the year ended 31 December 2017.

On 15 November 2018, the Company convened the 2018 first extraordinary general meeting, at which were the following resolutions considered and approved: the resolution on the extension of the validity period of the resolutions relating to application for initial public offering and listing of A shares of the Company; the resolution on the proposed extension of the validity period of the authorisation granted to the board of the directors of the Company to apply for public offering and listing of A shares at its sole discretion; the resolution on election of the directors of the third session of the board of directors of the Company; and the resolution on election of the shareholder representative supervisors of the third session of the supervisory committee of the Company.

On 15 November 2018, the Company convened the 2018 first domestic shareholders' class meeting, at which were the following resolutions considered and approved: the resolution on the extension of the validity period of the resolutions relating to application for initial public offering and listing of A shares of the Company; the resolution on the proposed extension of the validity period of the authorisation granted to the board of the directors of the Company to apply for public offering and listing of A shares at its sole discretion.

On 15 November 2018, the Company convened the 2018 first H shareholders' class meeting, at which were the following resolutions considered and approved: the resolution on the extension of the validity period of the resolutions relating to application for initial public offering and listing of A shares of the Company; the resolution on the proposed extension of the validity period of the authorisation granted to the board of the directors of the Company to apply for public offering and listing of A shares at its sole discretion.

III. Performance of duties of Board

(1) Respective duties of the Board and the management

Powers and duties of the Board and the management have been specified in the Articles of Association to ensure adequate check and balance for sound corporate governance and internal control. The Board is responsible for: convening the general meeting and presenting the work report at the meeting; implementing the resolutions of the general meeting; resolving on the Company's business plans and investment plans; formulating the proposed annual financial budgets and final accounts of the Company; formulating the Company's profit distribution proposal and loss recovery proposal; formulating proposals for the increase or reduction of the Company's registered capital and for the issuance of the Company's debentures or other securities and listing proposals; drawing up plans for any substantial acquisition, purchase of the Company's shares or the merger, division, dissolution and transformation of the Company; deciding upon external investment, purchase and sale of assets, assets mortgage, entrustment of financing, connected transaction and other matters within the scope set forth by the general meeting; deciding on the setup of Company's internal management bodies and branches; appointing or removing the general manager, Chief Risk Officer and the Board secretary; appointing or removing the deputy general manager, chief financial officer and other senior management personnel of the Company according to the nomination by the Chairman or the general manager and determining their remunerations and disciplinary matters; drafting the basic management system of the Company; formulating the proposals for any amendment to the Articles of Association; managing the disclosure of the Company's information; proposing the appointment or replacement of an accounting firm that performs audits for the Company at the general meeting; listening to the work report of the Chief Risk Officer and the general manager of the Company and examining on their work; approving the setting up of branches that is subject to the approval of the Board in accordance with the requirements of the regulatory authorities; checking and approving the Company's any major transactions, very substantial disposals, very substantial acquisitions and reverse takeovers under the Listing Rules and submitting it to shareholders' approval; checking and approving any transactions that shall be disclosed except the Company's any major transactions, very substantial disposals, very substantial acquisitions or reverse takeovers under the Listing Rules; approving the connected transactions that are not required to be approved by the general meeting or announced under the Listing Rules; checking the connected transactions that shall be approved by the general meeting under the Listing Rules; developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The management shall perform the following major duties: communicating the key instructions, decisions and work plans of supervisory bodies including the regulatory authorities (the CSRC, Jiangsu Securities Bureau, China Futures Association and Jiangsu Futures Association); implementing the decisions, resolutions and work plans of the Board of the Company; preparing draft of the strategic planning of the Company and making recommendation to the Board on strategic planning; preparing annual operational plan of the Company and submitting it to the Board for approval, and formulating the work plan for its implementation; preparing the annual investment plan of the Company and reviewing the annual investment plans of the subsidiaries, and submitting the plans to the Board for approval; formulating implementation plans in accordance with the investment plans approved by the Board. The management shall also formulate annual final account, financial budget plan and plan for recovering losses and submit them for the Board's approval; formulate proposals for the restructuring, bankruptcy, merger and reorganization, assets adjustment, property transfer, pledge, disposal, write-off and auction of assets of the Company, which will be submitted to the Board for approval and the controlling group. The management will study and review the proposals of the restructuring, bankruptcy, merger and reorganization, assets adjustment, property transfer, pledge, disposal, write-off and auction of assets of the subsidiaries to the extent as authorized, and shall submit the plans to the Board for approval and to the supervisory bodies according to the relevant regulations. The management shall be responsible for the preparation of plans in relation to external borrowings, financing and guarantees, which will be submitted to the Board for approval. It is also responsible for reviewing and approving the borrowings, financing and guarantees plans of the subsidiaries and approving those matters not stipulated in the plans. The management team will formulate the organizational structure adjustment and setup of the management functions and staff of the Company and the basic management system for approval of the Board, and explore and formulate detailed operational and management rules. With reference to the respective management authority of the Company, subsidiaries and branches, the management will serve as the management headquarter of the Company and supervise the subsidiaries and branches of the Company in accordance with laws.

(2) Composition of the Board

The Board kept improving its Rules of Procedure for Meeting of the Board, gave full play to the strengths of its special committees and further improved its efficiency and quality of decision-making. Independent non-executive Directors fulfilled their duties honestly and focused on protecting the interests of the Company as a whole, especially the interests of minority Shareholders, which ensured the independent and scientific decision-making of the Board.

At present, the Board comprised of eight Directors, of which two are executive Directors (Mr. Zhou Yong (Chairman) and Ms. Zhou Jianqiu), three are non-executive Directors (Mr. Xue Binghai, Mr. Zhang Ke and Mr. Shan Bing) and three are independent non-executive Directors (Mr. Zhang Hongfa, Mr. Lam Kai Yeung and Mr. Wang Yuetang). Currently, the number of independent non-executive Directors meets the relevant requirements under the Listing Rules and the Articles of Association. Mr. Li Xindan, a former independent non-executive Director of the Company, retired from the positions of independent non-executive Director, member of the remuneration committee, member of the nomination committee and chairman of the risk management committee on 15 November 2018. On the same day, Mr. Wang Yuetang was elected as an independent non-executive Director at the 2018 first extraordinary general meeting of the Company.

Directors shall be elected at general meetings. A Director shall serve a term of three years, and may seek re-election upon expiry of the said term. The Company confirmed that it had received annual confirmations issued by each independent non-executive Director in respect of their independence according to Rule 3.13 of the Listing Rules for the year ended 31 December 2018. The Company further confirmed the independent non-executive Directors' respective independence from the Company.

The biographical details of each Director are set out in Section X Subsection III "Biography of Directors, Supervisors and Senior Management".

(3) Insurance arrangements for Directors

To further facilitate Directors, Supervisors and senior management to fully and diligently fulfil their duties, the Company purchased liability insurance for Directors, Supervisors and senior management to control potential legal and regulatory risks in their performance of duties.

(4) Board meeting

During the Reporting Period, the Board convened a total of 10 meetings as follows:

On 27 March 2018, the Company convened the 20th meeting of the 2018 second session of the Board, at which considered and approved the following resolutions: the resolution on the announcement of annual results for the year ended 31 December 2017 and 2017 Annual Report (Draft) of the Company; the resolution on 2017 Directors' Report of Holly Futures Co., Ltd.; the resolution on 2017 final financial report of Holly Futures Co., Ltd.; the resolution on 2017 profit distribution plan of the Company; the resolution on net capital and other risk regulatory indicators report of the Company for 2017; the resolution on renewal appointment of certified public accountants of Holly Futures Co., Ltd. for 2018; the resolution on remuneration of directors, supervisors and senior management of Holly Futures Co., Ltd. for 2017; the resolution on the Company's Draft A-Share IPO Reporting Accountant's Report under the PRC Accounting Standards as of 31 December 2015, 2016 and 2017; the resolution on the report on the use of funds previous raised by Holly Futures Co., Ltd.; the resolution on the trial method on the accountability of the Company's non-compliance operating investment; the resolution on the authorization to the general manager's office meeting to consider the use of Company's own funds for investment; the resolution on the termination of the Tianjin business branch; and the resolution on convening the 2017 annual general meeting of the Company.

On 30 May 2018, the Company convened the 21st meeting of the 2018 second session of the Board, at which considered and approved the following resolutions: the resolution on considering and confirming connected transactions of the Company during the reporting period (2014 to 2017); the resolution on the review of the revision of the Company's internal control compilation.

On 26 June 2018, the Company convened the 22nd meeting of the 2018 second session of the Board, at which considered and approved the following resolution: the resolution on the 2017 environmental, social and governance report of Holly Futures Co., Ltd..

On 13 July 2018, the Company convened the 23rd meeting of the 2018 second session of the Board, at which considered and approved the following resolution: the resolution on the determining the annual salary distribution plan of the deputy general manager (and the members enjoying same treatment as deputy general manager) of Holly Futures in 2017.

On 23 July 2018, the Company convened the 24th meeting of the 2018 second session of the Board, at which considered and approved the following resolution: the resolution on considering the change of the Company's principal place of business in Hong Kong.

On 29 August 2018, the Company convened the 25th meeting of the 2018 second session of the Board, at which considered and approved the following resolutions: the resolution on considering and approving the announcement of unaudited interim results (draft) and the interim report (draft) of the Company for the six months ended 30 June 2018 prepared under the Hong Kong Accounting Standards; the resolution on considering and paying the interim dividend for the six month ended 30 June 2018.

On 7 September 2018, the Company convened the 26th meeting of the 2018 second session of the Board, at which considered and approved the following resolutions: the resolution on considering and approving the resolution on the extension of the validity period of the resolutions relating to application for initial public offering and listing of A shares of the Company; the resolution on the proposed extension of the validity period of the authorisation granted to the board of the directors of the Company to apply for public offering and listing of A shares at its sole discretion; the resolution on the Company's Draft A-Share IPO Reporting Accountant's Report under the PRC Accounting Standards as of 31 December 2015, 2016 and 2017 and 30 June 2018; the resolution on considering and confirming connected transactions of the Company during the reporting period; the resolution on the report on the use of funds previous raised by the Company; the resolution on convening the 2018 first extraordinary general meeting, the 2018 first domestic shareholders' class meeting and the 2018 first H shareholders' class meeting of the Company.

On 26 September 2018, the Company convened the 27th meeting of the 2018 second session of the Board, at which considered and approved the following resolutions: the resolution on election of the directors of the third session of the board of directors of the Company; the resolution on applying for the distribution of 2017 Annual Salary Reward of Holly Futures' management team.

On 15 November 2018, the Company convened the 1st meeting of the 2018 third session of the Board, at which considered and approved the following resolutions: the resolution on election of the Chairman of the third session of the board of directors of the Company; the resolution on composition of members of each special committee of the Company; the resolution on election of the management of the third session of the Company; the resolution on the establishment of the new business branch in Zhangjiagang Free Trade Zone; the resolution on the considering revised drafts of the "Measures for the Administration of Risk Supervision Indicators" and "Administrative Measures on accountability management".

On 28 December 2018, the Company convened the 2nd meeting of the 2018 third session of the Board, at which considered and approved the following resolutions: the resolution on considering the participation in investment fund subscription by Holly Futures and Jiangsu Jinkong and related matters; the resolution on participating the long-term "hand-in-hand" targeted poverty alleviation; the resolution on denoting the Company's idle computers.

(5) Objections from Independent Non-executive Directors to Relevant Issues of the Company

Nil.

(6) Attendances of Directors at Board meetings and general meetings

1. Attendances and voting of Directors at Board meetings

During the Reporting Period, the attendances and voting of Directors at Board meetings are as follows:

Name	Number of Board meeting to be attended	Number of Board meeting attended in person	Number of Board meeting attended by proxy	Number of absences	*Number of proposals to be voted on	Number of proposals voted on	Remarks
Zhou Yong	10	9	1	0	33	33	
Zhou Jianqiu	10	10	0	0	36	36	
Xue Binghai	10	10	0	0	33	33	
Zhang Ke	10	10	0	0	33	33	
Shan Bing	10	10	0	0	36	36	
Zhang Hongfa	10	9	1	0	36	36	
Lam Kai Yeung	10	10	0	0	36	36	
Wang Yuetang	2	2	0	0	8	8	Appointed on 15 November 2018
Lin Xindan	8	6	2	0	28	28	Retired on 15 November 2018

* Number of proposals to be voted on may be less than the actual number of proposals voted on as some of the directors abstained from voting because of the connected transactions.

2. Attendances of Directors at general meetings

During the Reporting Period, the attendances of Directors at general meetings are as follows:

Name	Number of general meeting to be attended	Number of general meeting attended in person	Number of absences	Remarks
Zhou Yong	2	2	0	
Zhou Jianqiu	2	2	0	
Xue Binghai	2	2	0	
Zhang Ke	2	2	0	
Shan Bing	2	2	0	
Zhang Hongfa	2	2	0	
Lam Kai Yeung	2	2	0	
Wang Yuetang	1	1	0	Appointed on 15 November 2018
Lin Xindan	2	1	1	Retired on 15 November 2018

(7) Training for Directors

All Directors have provided training attendance records. The Company has arranged or provided the relevant trainings in accordance with the requirements of Code Provision A.6.5 of the Corporate Governance Code.

According to information provided by the Directors, for the year ended 31 December 2018, all Directors have received training provided by Chungs Lawyers regarding the main responsibilities of listed companies on Main Board of the Hong Kong Stock Exchange and read the training plan for directors, supervisors and management regarding the Listing Rules and other materials on 15 November 2018.

IV. Special committees of the Board and duty performance

The Company has established under the Board four special committees, namely the audit committee, nomination committee, remuneration committee and risk management committee of the Board.

As of the end of the Reporting Period and as at the date of this Report, the composition of such committees is as follows:

Name of Committee	Members (as of the end of the Reporting Period)	Members (as at the date of this Report)
Audit Committee	Lam Kai Yeung (chairman)	Lam Kai Yeung (chairman)
	Xue Binghai	Xue Binghai
	Zhang Hongfa	Zhang Hongfa
Remuneration Committee	Zhang Hongfa (chairman)	Zhang Hongfa (chairman)
	Wang Yuetang (Lin Xindan retired on 15 November 2018)	Wang Yuetang (appointed on 15 November 2018)
	Shan Bing	Shan Bing
Nomination Committee	Zhou Yong (chairman)	Zhou Yong (chairman)
	Wang Yuetang (Lin Xindan retired on 15 November 2018)	Wang Yuetang (appointed on 15 November 2018)
	Zhang Hongfa	Zhang Hongfa
Risk Management Committee	Wang Yuetang (chairman) (Lin Xindan retired on 15 November 2018)	Wang Yuetang (chairman) (appointed on 15 November 2018)
	Zhou Jianqiu	Zhou Jianqiu
	Xue Binghai	Xue Binghai
	Zhang Ke	Zhang Ke

(1) Audit Committee

Pursuant to the Board resolution passed on 19 May 2015, the Company has established the Audit Committee (the "Audit Committee") in accordance with Rules 3.21 and 3.22 of the Listing Rules, with written terms of reference. The written terms of reference of the Audit Committee were adopted in compliance with code provision C.3.3 and C.3.7 of the Corporate Governance Code and are available on the websites of the Company and the Hong Kong Stock Exchange.

The main duties of the Audit Committee are: proposing to the Board the appointment and replacement of external audit firms, supervising the implementation of the internal audit system, liaising between the internal audit department and external auditors, reviewing financial information and related disclosures, and other duties conferred by the Board. As at 31 December 2018, the Audit Committee comprises three members, including two independent non-executive Directors, namely Mr. Lam Kai Yeung (chairman) and Mr. Zhang Hongfa, as well as an non-executive Director Mr. Xue Binghai.

The Audit Committee held two meetings during the Reporting Period. For the year ended 31 December 2018, the Board has no disagreement with the Audit Committee on the selection, appointment, designation or removal of the external auditor.

(2) Remuneration Committee

Pursuant to the Board resolution passed on 19 May 2015, the Company has established the Remuneration Committee (the "Remuneration Committee") in accordance with Rules 3.25 and 3.26 of the Listing Rules, and adopted the written terms of reference. The written terms of reference of the Remuneration Committee were adopted in compliance with code provision B.1.2 of the Corporate Governance Code and are available on the websites of the Company and the Hong Kong Stock Exchange.

The main duties of the Remuneration Committee are: establishing, reviewing and making recommendations to the Board on the policy and structure concerning remuneration of the Directors and senior management, determining the terms of the specific remuneration package of each Director and member of senior management, reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board, and other duties conferred by the Board. The remuneration of executive Directors is determined based on their skills, knowledge, individual performance and contribution, duties and responsibilities, with reference to the performance of the Company and the prevailing market conditions. The remuneration policy of independent non-executive Directors aims to providing sufficient compensation to the independent non-executive Directors for their efforts and time for participating the Company's affairs, including attending the meetings of Board committees. The remuneration of independent non-executive Directors is based on their skills, experience, knowledge, responsibility and market conditions. As of 31 December 2018, the Remuneration Committee comprises three members, including two independent non-executive Directors, namely Mr. Zhang Hongfa (chairman) and Mr. Wang Yuetang (appointed as a member on 15 November 2018), as well as one non-executive Director, Mr. Shan Bing.

Details of the Directors' remuneration are set out in Note 9 of the consolidated financial statements of this Annual Report.

The Remuneration Committee held three meetings during the Reporting Period.

The Remuneration Committee has adopted the model where it reviewed the proposals made by the management on the remuneration of executive Directors and senior management, and made recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

(3) Nomination Committee

The Company has established the Nomination Committee (the "Nomination Committee") on 19 May 2015 with written terms of reference in accordance with code provision A.5.2. of the Corporate Governance Code. The written terms of reference are available on the websites of the Company and the Hong Kong Stock Exchange.

The main duties of the Nomination Committee are: reviewing the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes, identifying, selecting or making recommendations to the Board on the selection of individuals to be nominated for directorships, assessing the independence of the independent non-executive Directors, making recommendations to the Board on relevant matters relating to the appointment, re-appointment and removal of the Directors, and other duties conferred by the Board. As of 31 December 2018, the Nomination Committee comprises three members, including one executive Director Mr. Zhou Yong (chairman) and two independent non-executive Directors, namely Mr. Zhang Hongfa and Mr. Wang Yuetang (appointed as a member on 15 November 2018).

The Nomination Committee held one meeting during the Reporting Period.

In identifying suitable candidates to become Board members, the Nomination Committee will take into account the skills, experience, education background, professional knowledge, integrity and time commitment of the candidates, as well as the Company's needs and other requirements under laws and regulations in relation to the position. All candidates must fulfil the criteria set under Rules 3.08 and 3.09 of the Listing Rules. Candidates to be appointed as independent non-executive Directors must also fulfil the independence requirements under Rule 3.13 of the Listing Rules. The Nomination Committee will recommend the qualified candidates to the Board for approval, and be proposed for consideration and approval by the general meeting.

According to articles 101 and 102 of Articles of Association, Director of the Company shall meet the following conditions:

1) have engaged in futures, securities and other financial business, or in legal, accounting operations for more than 3 years, or in economic management field for more than 5 years;

2) have the educational background of graduate of junior college or above.

Director shall be elected at general meetings. A Director shall serve a term of three years, and may seek re-election upon expiry of the said term.

For written notice of intention to nominate a candidate for the Director and the candidate's acceptance to be nominated as Director, the notice of nomination from the Nomination Committee and acceptance of the nomination from the candidate to the Company shall be no less than seven (7) days. Such seven (7)-day period shall commence no earlier than the second day after the issue of the notice of the meeting at which such election shall be conducted and no later than seven (7) days prior to the shareholders' general meeting.

The chairman and vice chairman shall be elected and removed by more than one-half of all the Directors. The term of office of the chairman and vice-chairman, who shall be entitled to re-election and re-appointment, shall be three (3) years. Subject to the relevant laws and administrative regulations, a Director may be removed from office prior to the expiration of his term of office by means of an ordinary resolution at a shareholders' general meeting. (However, any claims which may be lodged according to any contracts shall remain unaffected thereby).

According to the terms of reference of Nomination Committee, the Nomination Committee studies the selection criteria, procedures and methods of proposed directors and senior management of the Company and makes recommendations to the Board. The Nomination Committee also searches for qualified candidates to be nominated as directors and senior management and examines candidates of directors and senior management and make recommendations to the Board. In 2018, the Company proposed Mr. Wang Yuetang as independent non-executive Director of the Company, whom has been nominated by the Nomination Committee in accordance with the above standard procedures and methods, also Nominating Committee meeting was held for consideration and approval, as well as has been proposed to the Board for consideration and approval.

(4) Risk Management Committee

Pursuant to the Board resolution passed on 19 May 2015, the Company has established the Risk Management Committee (the "Risk Management Committee") with written terms of reference.

The main duties of the Risk Management Committee are: regularly identifying current and potential risks in the business operations of the Company, reviewing and assessing the risk management strategies and making recommendations, establishing precautionary risk management and internal control systems and providing mitigating solutions, and other duties as conferred by the Board.

As at 31 December 2018, the Risk Management Committee comprises four Directors, including an executive Director Ms. Zhou Jianqiu, two non-executive Directors Mr. Xue Binghai and Mr. Zhang Ke and one independent non-executive Director Mr. Wang Yuetang (appointed as a member on 15 November 2018).

The Risk Management Committee held one meeting during the Reporting Period.

(5) Meetings of the special committees

On 26 March 2018, the Remuneration Committee considered and approved the resolution on 2017 Remuneration Package for Directors, Supervisors and Senior Management of Holly Futures Co., Ltd., and on that day, relevant members and chairman of the committee all participated in the meeting.

On 12 July 2018, the Remuneration Committee considered and approved the resolution on the determining the annual salary distribution plan of the deputy general manager (and the members enjoying same treatment as deputy general manager) of Holly Futures in 2017, and on that day, relevant members and chairman of the committee all participated in the meeting.

On 25 September 2018, the Remuneration Committee considered and approved the resolution on application and release of 2017 Annual Reward Awards for Leadership Team of Holly Futures, and on that day, relevant members and chairman of the committee all participated in the meeting.

On 28 September 2018, the Nomination Committee considered and approved the resolution on change of independent non-executive director, and on that day, relevant members and chairman of the committee all participated in the meeting.

On 26 March 2018, the Audit Committee considered and approved the resolution on the announcement of annual results for the year ended 31 December 2017 and 2017 Annual Report (Draft) of the Company, the "Resolution on 2017 final financial report of Holly Futures Co., Ltd. and the resolution on Re-appointment of accounting firm of the Company and its Remuneration for 2018; the resolution on the Company's Draft A-share IPO reporting accountant's report under the PRC Accounting Standards as of 31 December 2015, 2016 and 2017; the resolution on the report on the use of funds previous raised by Holly Futures Co., Ltd, and on that day, relevant members and chairman of the committee all participated in the meeting.

On 23 August 2018, the Audit Committee considered and approved the resolution on considering and approving the announcement of unaudited interim results (draft) and the interim report (draft) of the Company for the six months ended 30 June 2018 prepared under the Hong Kong Accounting Standards, and on that day, relevant members and chairman of the committee all participated in the meeting.

On 27 March 2018, the Risk Management Committee considered and approved the resolution on risk management and internal control system of Holly Futures Co., Ltd.; the resolution on the trial method on the accountability of the Company's non-compliance operating investment, and on that day, relevant members and chairman of the committee all participated in the meeting.

V. Chairman and general manager

The positions of the Chairman and general manager of the Company are taken by different persons, so as to guarantee the independence of their duties and balance of authorization. Mr. Zhou Yong served as the Chairman of the Board and Ms. Zhou Jianqiu served as the general manager. Their duties and authorities are clearly divided and specified in the Articles of Association. The Chairman Mr. Zhou Yong leads the Board in determining the Company's development strategy to guarantee the effective operation and duties fulfilment of the Board, and fully discusses the issues within the scope of the Board's duties, so as to ensure that the Directors can acquire true, accurate and complete information for making decisions in time, the Company can comply with well-established corporate governance procedures and the decisions of the Board are in the best interest of the Company and its Shareholders as a whole. Ms. Zhou Jianqiu, the general manager, acts as the legal representative and manages the business operations of the Company, organizes execution of the Board's resolutions, and reports relevant work to the Board.

VI. Non-executive Directors and independent non-executive Directors

As at the end of the Reporting Period, the Company had three non-executive Directors and three independent non-executive Directors. During the Reporting Period, the Company has been in compliance with the requirement of the Listing Rules in relation to appointment of at least three independent non-executive directors, including one who has appropriate professional qualifications or majors in accounting or related financial management. The Company has signed a letter of appointment with each non-executive Director, specifying a term of three years. Their positions are specified in Section X "I. Basic Information about Current and Resigned Directors, Supervisors and Senior Management during the Reporting Period" of this Report. Mr. Li Xindan, an independent non-executive Director, has retired on 15 November 2018.

VII. Supervisory Committee and duty performance

(1) Duties of the Supervisory Committee

The Supervisory Committee shall be accountable to the general meetings. Its main duties and authorities are: to monitor the financial activities of the Company; to supervise the performance of duties of Directors, general manager and other members of senior management of the Company; to propose the removal of Directors and senior management who have acted in breach of the laws, administrative regulations, the Articles of Association or the resolutions passed at the general meeting; to request the Directors, general manager and other members of senior management to conduct rectification for their actions that caused damage to the interests of the Company; to review financial information including the financial reports, business reports and profit distribution proposals to be submitted by the Board to the general meeting, and to engage, in the name of the Company, certified public accountants and practicing auditors to assist in the review of such information should any doubts arise; to propose extraordinary general meetings be convened, and to convene and preside over a general meeting in the event that the Board fails to perform the duties of convening and presiding over a general meeting; to negotiate with Directors and senior management and file lawsuit against Directors and senior management on behalf of the Board to make proposals at the general meeting; and to propose extraordinary meetings of the Board be convened.

(2) Meetings of the Supervisory Committee and attendance of Supervisors

The Supervisory Committee performs its relevant duties according to relevant laws and regulations and the Articles of Association. The Supervisory Committee convened five meetings during the Reporting Period, which are summarized as follows:

On 27 March 2018, the Company convened the 7th meeting of the 2018 second session of the Supervisory Committee, at which considered and approved the following resolutions: the resolution on the 2017 Annual Working Report of the Supervisory Committee of Holly Futures Co., Ltd.; the resolution on the announcement of annual results for the year ended 31 December 2017 and 2017 annual report (Draft) of the Company; the resolution on 2017 profit distribution plan of the Company; the resolution on 2017 final financial report of Holly Futures Co., Ltd.; the resolution on the report on the use of funds previous raised by the Company; the resolution on the Company's Draft A-share IPO reporting accountant's report under the PRC accounting standards as of 31 December 2015, 2016 and 2017.

On 29 August 2018, the Company convened the 8th meeting of the 2018 second session of the Supervisory Committee, at which considered and approved the following resolutions: the resolution on considering and approving the announcement of unaudited interim results (draft) and the interim report (draft) of the Company for the six months ended 30 June 2018 prepared under the Hong Kong Accounting Standards; the resolution on considering and paying the interim dividend for the six month ended 30 June 2018.

On 7 September 2018, the Company convened the 9th meeting of the 2018 second session of the Supervisory Committee, at which considered and approved the following resolutions: the resolution on the Company's Draft A-Share IPO reporting accountant's report under the PRC Accounting Standards as of 31 December 2015, 2016 and 2017 and 30 June 2018; the resolution on the extension of the validity period of the resolutions relating to application for initial public offering and listing of A shares of the Company; the resolution on the proposed extension of the validity period of the authorisation granted to the board of the directors of the Company to apply for public offering and listing of A shares at its sole discretion; the resolution on the report on the use of funds previous raised by the Company.

On 26 September 2018, the Company convened the 10th meeting of the 2018 second session of the Supervisory Committee, at which considered and approved the following resolution: the resolution on election of the members of the third session of the supervisory committee of the Company.

On 15 November 2018, the Company convened the 1st meeting of the 2018 third session of the Supervisory Committee, at which considered and approved the following resolution: the resolution on election of the chairman of the third session of the supervisory committee of the Company.

Name	Number of meeting to be attended	Number of meeting attended	Remarks
Xu Yingying	5	5	
Wang Jianying	5	5	
Yu Hong	5	5	

VIII. Other related matters

(1) Shareholders' right

The Company convened and held general meetings according to the Articles of Association and Rules of Procedure for General Meetings to guarantee the equal status and full exercise of rights for all Shareholders, especially the small and medium Shareholders. All of the Company's Directors, Supervisors and senior management attended the general meetings and answered the Shareholders' questions in accordance with Articles of Association.

(2) Compliance with Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules concerning the securities transactions by Directors and Supervisors. The Company has made specific inquiries to all the Directors and Supervisors for the compliance with Model Code. All Directors and Supervisors confirmed that they completely observed the Model Code during the Reporting Period.

The Company has adopted the Model Code for supervising the unpublished price-sensitive information of the Company or its securities that is likely possessed by its employees. During the Reporting Period, the Company did not find any employee's violation of the Model Code.

The Board will check the Company's corporate governance and its implementation from time to time to meet the requirements of the Listing Rules and protect the interest of the Shareholders.

(3) Responsibilities of Directors concerning financial statements

The declarations of the responsibilities of Directors concerning financial statements set out hereinafter and the responsibilities of Certified Public Accountants in the Independent Auditor's Report of this Report shall be read jointly but understood independently.

All the Directors of the Company confirmed their responsibility of preparing the financial statements that can truly reflect the Company's operating results for each financial year. During the Reporting Period, to the knowledge of the Directors, no event or circumstance that may cause material adverse impact on the Company's continuous operations needs to be reported.

(4) Appointment and remuneration of auditors

In 2018, the Company appointed KPMG Huazhen LLP and KPMG as its external audit firms for 2018 to respectively provide related audit and review services based on the China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards. The expenses related to the audit service are set out in Section VIII "VIII. Engagement of accounting firm" of this Report.

(5) Review of the Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and the consolidated financial statement of the Company for the year ended 31 December 2018.

(6) Company Secretary

Mr. Jia Guorong, the Board secretary and one of the joint company secretaries, is responsible for making proposals to the Board on corporate governance and ensuring the policies and procedures of the Board, applicable laws, rules and regulations are observed. In order to maintain sound corporate governance and comply with the Listing Rules and applicable Hong Kong laws, the Company appointed Ms. Leung Wing Han Sharon, vice president of SWCS Corporate Services Group (Hong Kong) Limited, as the other joint company secretary of the Company to assist Mr. Jia Guorong in fulfilling his duties as the Board secretary and a joint company secretary of the Company. The Company's main contact person is Mr. Jia Guorong, the Board secretary and the joint company secretary of the Company. For the year ended 31 December 2018, Mr. Jia Guorong and Ms. Leung Wing Han Sharon accepted no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Listing Rules.

(7) Communications with Shareholders

The general meeting shall be the supreme authority of the Company. All Shareholders exercise their power through the general meeting. The Company formulated corresponding systems to ensure the compliance of the convening and holding of the general meetings. The Company explicitly specified Shareholders' rights in the Articles of Association, to ensure the Shareholders' right to know, especially the minority Shareholders. The Company treated all Shareholders impartially.

Where the Company convenes a general meeting, a written notice shall be given 45 days prior to the date of the meeting to notify all the Shareholders in the Shareholders' register of the issues to be considered at the meeting, and the date and venue of the meeting. Any Shareholder who intends to attend the general meeting shall deliver to the Company a written reply stating his or her intention to attend 20 days prior to the general meeting.

Where the Company convenes a general meeting, the Board, the Supervisory Committee and Shareholder(s) severally or jointly holding 3% or more Shares are entitled to submit written new proposals to the Company. Matters mentioned in proposals which are within the scope of the powers of the general meeting shall be included in the meeting agenda.

Shareholder(s) severally or jointly holding more than 3% Shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting to other Shareholders within two days after receipt of a proposal, and announce the contents of provisional proposals.

The Company shall calculate the number of Shares with voting rights represented by the Shareholders planning to attend the general meeting in accordance with the written replies received 20 days before the meeting is convened. Where the number of voting Shares represented by Shareholders intending to attend the meeting amounts to more than one half of the Company's total voting Shares, the Company may convene the general meeting; if not, the Company shall, within five days, notify Shareholders again of the issues to be considered, date and venue of the meeting in the form of public announcements. The Company may then convene the general meeting after such announcements.

Any Shareholder entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (who need not be the Shareholder(s) as his proxies to attend and vote on his behalf. The said proxy may exercise the following rights as granted by the said Shareholder:

1. to exercise the said Shareholder's right to speak at the general meeting;

2. to severally or jointly request to vote by ballot; and

3. to exercise the right to vote by a show of hand or ballot; where there are more than one proxy, the said proxies shall only vote by ballot, unless otherwise prescribed by applicable securities listing rules or other securities laws and regulations.

The power of attorney shall be in writing under the hand of the principal or his proxy duly authorised in writing or, if the principal is a legal person, it shall be under seal or under the hand of a Director or a proxy duly authorised.

The procedures for convening an extraordinary general meeting or a class meeting upon requisition of the Shareholders shall be as follows:

1. two or more than two Shareholders who separately or jointly hold 10.0% or more of the Shares carrying voting rights may request the Board to convene an extraordinary general meeting or class meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board shall convene an extraordinary general meeting or class meeting as soon as practicable upon receipt of the aforesaid written requirement. The aforesaid number of shareholding is calculated as at the date of the submission of the written requirement by the Shareholders; and

2. if the Board fails to issue the notice to convene the meeting within 30 days after it received the aforesaid request, the Shareholders proposing the request may convene the meeting at its own discretion within four months after the Board has received the request. The meeting shall be convened in a manner which is as similar as possible to that of general meeting convened by the Board.

If the Shareholders call and convene a meeting by themselves as a result of the Board's failure to convene a meeting in accordance with the aforesaid requirement, the expenses reasonably incurred therefrom shall be borne by the Company and be deducted from the amounts due to the directors of the Company who neglect his duties.

At the same time, Shareholders may, in accordance with the Articles of Association, nominate candidates to participate in the election of directors of the Company at the general meeting (including the annual general meeting and the extraordinary general meeting) held at the time of the election of the directors of the Company, and shall be handled in accordance with the following procedures:

(1) Shareholder(s) severally or jointly holding more than 3% Shares of the Company may submit proposals on nomination of director candidate(s) to the convener 10 days before a general meeting is convened.

Pursuant to article 66 of Articles of Association, where the Company convenes a general meeting, the Board, the Supervisory Committee and Shareholder(s) severally or jointly holding 3% or more Shares are entitled to submit written new proposals to the Company. Matters mentioned in proposals which are within the scope of the powers of the general meeting shall be included in the meeting agenda. Shareholder(s) severally or jointly holding more than 3% Shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting to other Shareholders within two days after receipt of a proposal, and announce the contents of provisional proposals.

(2) General meeting is convened to considerate proposals on nomination of director candidate(s), and to elect director(s).

Pursuant to article 61 of Articles of Association, the shareholders' general meeting shall exercise the following functions and powers:

1) to decide the Company's operational guidelines and investment schemes;
2) to elect and remove directors not being staff representatives and to determine matters relating to the directors' remunerations;
3) to elect and remove Shareholders' representative Supervisors and to determine matters relating to the supervisors' remunerations;

……

13) to consider proposals put forward by any shareholder representing 3% or more of the Company's shares with voting rights;

……

19) to consider any other matters to be resolved by shareholders' general meeting as required by the laws, administrative regulations, departmental rules and the Articles of Association.

(3) Directors shall be elected at general meetings, and a Director shall serve a term of three years.

Pursuant to article 102 of Articles of Association, Director shall be elected at general meetings. A director shall serve a term of three years, and may seek re-election upon expiry of the said term.

For written notice of intention to nominate a candidate for the director and the candidate's acceptance to be nominated as director, the notice of nomination and acceptance of the nomination to the Company shall be no less than seven (7) days. Such seven (7)-day period shall commence no earlier than the second day after the issue of the notice of the meeting at which such election shall be conducted and no later than seven (7) days prior to the shareholders' general meeting.

The chairman shall preside over and act as chairman of the general meeting. If the chairman cannot attend the general meeting, a Director shall be elected by the Board to preside over and act as chairman of the meeting. If no chairman is elected by the Board, the Shareholders attending the meeting shall elect the chairman. If for any reason the Shareholders cannot elect a person to act as chairman, the Shareholder (including agent thereof) holding the most Shares among the attending Shareholders shall act as chairman of the meeting. Where the general meeting is convened by the Supervisory Committee itself, the chairman of the Supervisory Committee shall preside over and act as chairman of the meeting. If the chairman of the Supervisory Committee cannot or does not fulfill the duty thereof, more than half of the Supervisors may jointly elect a Supervisor to preside over and act as chairman of the meeting. Where the general meeting is convened by the Shareholders themselves, the convener shall elect a representative to preside over the meeting. Where a general meeting is held and the chairman of the meeting violates the rules of procedure for meeting which makes the general meeting unable to continue, a person may be elected at the general meeting to act as chairman, subject to the approval of more than half of the attending Shareholders having the voting rights.

There are persons specially designated for contacting with Shareholders. The Company attaches great importance to opinions and suggestions of shareholders and tries to meet their reasonable requests in time.

The Company set "Investor Relations" column on its website www.ftol.com for publishing such information as announcements and financial data of the Company. Shareholders can also directly call the Company to inquire about relevant informant, and the Company will deal with such inquiry in a timely and proper manner. For contact details, please refer to Section IV "I. Basic Information about the Company" of this Report.

The Company welcomed all Shareholders attending general meetings and facilitated their attendance in a permitted range. The Company's Directors, Supervisors and senior management will attend general meetings and the Board shall answer questions at the meeting. The management of the Company shall ensure that the external auditors can attend the annual general meeting and answer relevant questions put forward by Shareholders.

(8) Investor relation activities

The Company has always given priority to continuous enhancement of Shareholder value, paid high attention to investor relations management, gradually established clear two-way communication channels with investors and kept improving the corporate governance structure. During the Reporting Period, the Company communicated with investors through ways like, making phone calls, sending emails and receiving visitors, and treated all investors equally to ensure that all Shareholders can fully exercise their rights. During the Reporting Period, the Company disclosed information in a truthful, accurate, complete and timely manner in strict accordance with laws, regulations and regulatory provisions, to ensure that investors are informed of the Company's material matters in time and thereby protecting their interests to the greatest extent.

(9) Board diversity policy

The Company has adopted the board diversity policy according to Code Provision A.5.6 of the Corporate Governance Code.

The Company's board diversity policy can be summed up as follows: the Company understands and believes that board diversity is beneficial to the Company, and views it as an important element in maintaining its competitive edge. In designing the Board's composition, the Company takes into account multiple aspects of board diversity, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service, etc. All Board appointments will be based on meritocracy, and candidates will be considered with due regard of the capacity, skill and experience required for the overall operation of the Board, so as to ensure the proper balance of the members of the Board.

The Nomination Committee under the Board of the Company will review and assess the composition of the Board, and provide suggestions to the Board on the appointment of new Directors. The Nomination Committee under the Board of the Company will discuss annually all the measurable objectives for implementing the board diversity, and provide relevant suggestions on the objectives to the Board.

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. at least one-third of the members of the Board are independent non–executive Directors;

2. all Directors have college degree or above, many of whom have master's and doctoral degrees;

3. at least one members of the Board have obtained accounting or other professional qualifications;

4. at least one member is female.

As at the date of this Annual Report, the Board comprises eight Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The Nomination Committee is satisfied with the current composition of the Board of Directors and considers it is in line with the board diversity policy of the Company.

(10) Articles of Association

During the Reporting Period, the Articles of Association has not been revised by the Company. The Articles of Association currently applicable is the version dated 20 November 2017.

(11) Internal control

1. Building of internal control system

Since its establishment, the Company has always focused on the building of internal rules and regulations and management system. The continuous formation, effective implementation and improvement of various internal systems have laid a solid foundation for the regulated development of the Company.

The Company has always attached great importance to compliance and risk management and has set up a sound internal control system in strict accordance with the requirements of the regulatory authorities and the relevant laws and regulations, including the Rules for Administration of Futures Trading and the Measures for Administration of the Supervision of Futures Companies. By reinforcing the daily check and supervision of chief risk officer and compliance department, the Company has improved the implementation of the internal control system so as to ensure the compliant and steady development of the Company and has supported the building of internal control as central to its business development.

As at the end of the Reporting Period, the Company has built an internal control system suitable for its business nature, scale and complexity, guaranteed the legitimacy and compliance of operation management, the safety of assets and authenticity and integrity of financial reporting and relevant information, and improved operating efficiency and performance.

During the Reporting Period, the Company has built an internal control system for material information, procedures for handling and publishing price-sensitive information and internal control measures.

The Company has, according to the regulatory requirements, established and improved systems concerning Chinese Wall and insider registration management, which prevented the misuse and spread of sensitive information. Meanwhile, the Company has disclosed information in a truthful, accurate, complete and timely manner according to laws, regulations, the Listing Rules, the Articles of Association and administrative measures for the disclosure of information, so that all shareholders have equal and timely access to relevant information of the Company.

Based on the principles of comprehensiveness, sustainability, independency and effectiveness, the organization structure of risk management and internal control developed by the Company has included four management levels, namely, the Board, the Risk Management Committee, the Chief Risk Officer and the officers responsible for risk management of each business department. For details of construction of the risk management system, please refer to Section VI "IX. Constructing the Risk Management System of the Company" of this Report.

The Board is responsible for maintaining a stable and effective risk management and internal control system for the Group, identifying and managing the major risks which may affect the performance of the Group as appropriate, and reviewing and updating the system on a regular basis.

Meanwhile, the Company has established the discipline inspection and audit department internally to conduct independent supervision on the sufficiency and efficiency of the internal control and risk management system of the Company. It formulates the annual internal review plan every year based on the major risks identified in the latest risk review by measuring the effectiveness of internal review of the Company in all aspects including financial revenue and expenditure, process of implementation of the management system and business, performance assessment management as well as special audit, and it is responsible for the concrete implementation of the internal review plan. The internal review plan may be modified according to the results of the continuous review process and any proposed changes regarding the internal review plan will be reported according to the requirements of relevant systems of the Company.

The Company handles and releases inside information in strict compliance with the relevant regulations of the Listing Rules. Firstly, the management of the Company conducts special discussions on the relevant information, at the same time, relevant departments would evaluate the point-in-time and the information to be disclosed and conduct timely communications and discussions on the disclosure with the lawyers of the Company. Lastly, the Company would send the relevant inside information to all Directors for review and confirmation during the process of preparing the same. By adopting these procedures, sensitive information about share prices can be protected effectively while the information required to be disclosed can be released in a timely, accurate fashion.

As at the date of this Report, the Risk Management Committee under the Board has conducted a review on the management and internal control of the Company and its subsidiaries during the Reporting Period, which covered a review on the risk management and internal control systems as of 31 December 2018 and considered the risk management and internal control systems of the same are sufficient and effective. The Board was of the view that the said systems were designed to manage, instead of eliminating, the risk of failing to meet the business goals, and therefore can only offer a reasonable, but not absolute, guarantee on the absence of significant false statements or significant loss.

2. *Report of other matters*

(1) Building of compliance system

During the Reporting Period, the Company strictly adhered to the relevant laws, regulations and standards and earnestly organized and implemented various regulatory and disciplinary requirements under the continuous regulation and proper direction of the regulatory authorities. It has implemented various compliance work thoroughly and continued to optimize the compliance management system with an emphasis on enhancing the level of compliance risk control of the Company.

A sound organization structure of compliance management has been developed. The Company has constructed a multi-level compliance management and organization system consisting of the Board, Risk Management Committee under the Board, Chief Risk Officer, compliance and risk control department, legal department and various subsidiaries. Audit work was implemented under the direction of the Chief Risk Officer. The Company has timely allocated compliance management personnel when establishing new departments and subsidiaries. Compliance management work was conducted under the direction of compliance and risk control department and the work process was reported to it. Duties of each level were clear with open communication.

To achieve compliance management objectives, the Company has formulated comprehensive, standard and practicable system, regulations and procedures for compliance management including the Administrative Measures for Compliance, to build a more scientific compliance management system. Compliance management covers all businesses, departments and staff members of the Company throughout various segments such as decision-making, execution, supervision and provision of feedback. In the process of carrying out business, standardizing implementation system and achieving the effective identification, evaluation and management of compliance risks has provided effective support and supervision to the compliance business operations of the Company, which allowed the business operations of the Company to be complied with laws, regulations and standards and fostered and formed a corporate culture based on the culture of compliance.

(2) Continues to optimize compliance management system of the Company

The Company attaches great importance to supervision and inspection of establishment and implementation of internal control. Through continuous supervision and inspection of internal audit, the Company conducted regular evaluation of internal control to achieve the supervision and evaluation of the continuous and effective operation of internal control and continuously improve the defects of internal control.

(I) Continuously strengthening the role of internal audit supervision

1. Establishing a sound and efficient internal audit system. The Company established an internal audit department, equipped with internal auditors, and formulated a set of sound system of rules and regulations on internal auditing. The Company set up an audit committee to employ reasonable and stable personnel who meet the needs of audit tasks, such as the professionals in auditing, legal, economic, managerial and financial aspects to work independently and exercise their internal supervisory power. Under the leadership of the audit committee of the Company, the internal audit department conducts independent work and exercises the internal supervisory power in accordance with the laws and regulations of the PRC and local governments, other oversea regions and countries, and the rules and regulations of the Company. The audit committee directs the internal audit department to complete the specific audit work through the senior management in charge of the internal audit department and reports directly to the management at governance level. After The internal audit work plan is reviewed in accordance with the requirements of relevant systems of the company, it will carry out internal audit work and strengthen audit supervision.

   The Company's internal audit department is set up independently. The internal audit department facilitates the Company to strengthen its internal control through standardized audit and supervision, instruct the units of Company to strengthen their financial management and internal control work, summarize the experience in corporate management with the Company, put forward the opinions and suggestions for improving operation and management in order to achieve the management optimization and improve the Company's economic benefits. The internal audit work is made by the reporting system which is mainly based on the "Internal Audit Report" and other written documents, and submits the audit work to the Board in accordance with the system requirements.

2. Continuously strengthening the supervision and inspection of internal audit. The internal audit department of the Company is responsible for the specific implementation of the internal audit of the Company and formed the internal audit work mechanism that meets the construction of its own internal control system. It actively conducted regular audits and special audits, and strictly conducted the audit work in accordance with the Company's internal audit management methods and procedures. The scope of audit covered the Company's business, branches, internal control of positions and risk management process. It timely put forward the audit opinions and suggestions on the issues and defects found during the audit, and ensure the effective implementation of the audit results by establishing rectification of current accounts and conducting follow-up audits.

   In 2018, the internal audit department of the Company continued to deepen the construction of the internal audit management system and fully performed and implemented its audit supervision function. It adhered to the supervision and evaluation of risk management and the enhancement of internal control as its main tasks, strengthened the effort, frequency and depth of audit in actual audit work, depth, expanded the coverage and fineness of internal audit, innovated audit ideas, improved audit methods and intensified the implementation efforts in the follow-up rectification and continued to enhance the quality and effectiveness of audit work, which provided a safeguard for healthy and sound operation of the Company.

(II) Continuously improving the internal control evaluation system

1. Continuously strengthening the evaluation of internal control. The Company established a more effective internal control evaluation system in accordance with the relevant rules and regulations, and determined the evaluation method and operation flow of internal control. In the meantime, the Company continued to carry out internal control self-evaluation and implemented rectification on it. The Company formulated the evaluation criteria for internal control defects and carried out the internal control evaluation annually within the Company. The scope of evaluation covered the Company's headquarters, its branches and business segments of the Company with its business scope and key business management activities. In 2018, according to the requirements of the basic rules, evaluation guidelines and other relevant laws and regulations, the Company conducted a self-evaluation on the effectiveness of the Company's internal control design and operation as of 31 December 2018. It engaged KPMG Huazhen LLP to review the Company's internal control related to the financial statements and rectify the existing issues, so that the effectiveness of internal control was further enhanced.

2. Further improving the internal control evaluation mechanism and broadening the evaluation coverage. In 2018, the Company continuously improved internal control evaluation mechanism, improved evaluation method, enhanced technical means and fully leveraged on internationally advanced methods to carry out evaluation. The Company also continued to improve its internal control management and continuously raised its management standard on various risks.

Report of Supervisory Committee

In 2018, the Supervisory Committee comprehensively fulfilled its supervision duties over members of the Board, managers and other senior management of the Company as authorized at the general meetings in accordance with the Company Law and the Articles of Association.

I. Performance of Supervisory Committee

The second session of the Supervisory Committee convened a total of five meetings for 2018, specifically:

Date	Session	Attendance	Agenda		Results
27March 2018	the 7th meeting of second session of the Supervisory Committee	Xu Yingying, Wang Jianying, Yu Hong	1.	The resolution on the 2017 annual working report of the supervisory committee of Holly Futures Co., Ltd.	Approved
			2.	the resolution on the announcement of annual results for the year ended 31 December 2017 and 2017 annual report (draft) of the Company	
			3.	the resolution on 2017 profit distribution plan of the Company	
			4.	the resolution on 2017 final financial report of Holly Futures Co., Ltd.	
			5.	the resolution on the report on the use of funds previous raised by the Company	
			6.	the resolution on the Company's draft a-share IPO reporting accountant's report under the PRC Accounting Standards as of 31 December 2015, 2016 and 2017	
29 August 2018	the 8th meeting of second session of the Supervisory Committee	Xu Yingying, Wang Jianying, Yu Hong	1.	the resolution on considering and approving the announcement of unaudited interim results (draft) and the interim report (draft) of the Company for the six months ended 30 June 2018 prepared under the Hong Kong Accounting Standards	Approved
			2.	the resolution on considering and paying the interim dividend for the six month ended 30 June 2018	

Date	Session	Attendance	Agenda		Results
7 September 2018	the 9th meeting of second session of the Supervisory Committee	Xu Yingying, Wang Jianying, Yu Hong	1.	the resolution on the Company's draft A-share IPO reporting accountant's report under the PRC Accounting Standards as of 31 December 2015, 2016 and 2017 and 30 June 2018	Approved
			2.	the resolution on the extension of the validity period of the resolutions relating to application for initial public offering and listing of A shares of the Company	
			3.	the resolution on the proposed extension of the validity period of the authorisation granted to the board of the directors of the Company to apply for public offering and listing of A shares at its sole discretion	
			4.	the resolution on the report on the use of funds previous raised by the Company	
26 September 2018	the 10th meeting of second session of the Supervisory Committee	Xu Yingying, Wang Jianying, Yu Hong	1.	the resolution on election of the members of the third session of the supervisory committee of the Company	Approved
15 November 2018	the 1st meeting of third session of the Supervisory Committee	Xu Yingying, Wang Jianying, Yu Hong	1.	the resolution on election of the chairman of the third session of the supervisory committee of the Company	Approved

II. Independent opinion of Supervisory Committee on legality of Company's operation

In the opinion of the Supervisory Committee:

1. in 2018, with solicitude and support from all its Shareholders and the diligent work of all the staff, the Company operated in compliance with the Company Law and the Articles of Association, and its procedures for making decisions on operation are lawful and up to standard, thus making satisfactory results.

2. the Board was able to operate in accordance with the Company Law, the Regulations for the Administration of Futures Trading (《期貨交易管理條例》), the Listing Rules and other relevant laws and regulations and the Articles of Association and the Company had in place lawful decision-making procedures, where the Directors, managers and other senior management were able to perform their duties in accordance with laws and regulations and the Articles of Association and exercise their powers in a proper and diligent manner without any act in violation of laws, regulations or the Articles of Association or contrary to the interest of the Company or the Shareholders.

III. Independent opinion of Supervisory Committee on Company's financial position

In 2018, the Company prudently and conscientiously observed the accounting principles based on their importance. During the Reporting Period, the Company's financial structure was reasonable and assets were in good condition, and the annual financial report was able to give a true and accurate reflection of the Company's financial position and operating results. A domestic and an international audit reports with standard unqualified opinion were issued by each of KPMG Huazhen LLP and KPMG respectively.

IV. Independent opinion of Supervisory Committee on actual application of funds raised by the Company

During the Reporting Period, the Supervisory Committee supervised the actual application of funds raised. The Supervisory Committee was of opinion that the Company strictly complied with the use disclosed in the Prospectus in the management of funds raised. The use of funds raised conformed to the Company's project plan and approval decision procedure without any appropriation of funds raised in breach of stipulation.

V. Review of Supervisory Committee on self-assessment report of internal control

The Supervisory Committee has conducted a review on the Company, and considered that the Company has established an appropriate internal control system in all material aspects and the internal control management system has operated effectively, thus ensuring its consistent implementation and normal production and operation.

VI. Implementation of resolutions adopted at General Meetings

The members of the Supervisory Committee had no objection to the contents of resolutions submitted to the general meetings. The Supervisory Committee supervised the implementation of resolutions adopted at the general meetings, and considered that the Board was able to implement the relevant resolutions earnestly.

On behalf of the Supervisory Committee
Xu Yingying
Chairlady

Nanjing, China, 22 March 2019

Independent Auditor's Report

(Expressed in thousands of Renminbi, unless otherwise stated)

Independent auditor's report to the shareholders of Holly Futures Co., Ltd.

(Incorporated in the People's Republic of China with joint stock limited liability)

Opinion

We have audited the consolidated financial statements of Holly Futures Co., Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 148 to 242, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Assessing potential impairment of goodwill	
Refer to note 14 to the consolidated financial statements and the accounting policies on pages 163 and 176.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group acquired the futures brokerage business together with the relevant assets and liabilities of Huazheng Futures Co., Ltd. ("Huazheng Futures") in 2013 which resulted in the recognition of goodwill. Management assesses goodwill for potential impairment on an annual basis. The impairment assessment of goodwill is carried out by management with reference to a valuation report prepared by an external appraiser appointed by management. The impairment assessment is performed by estimating the value in use of goodwill by preparing a discounted cash flow forecast. The preparation of a discounted cash flow forecast involves the exercise of significant judgement and estimation, in particular in determining the revenue growth rate, the perpetual growth rate, cost inflation and in determining the risk-adjusted discount rate applied, all of which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of goodwill included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls over preparation of the discounted cash flow forecast on which the estimation of the recoverable amount of goodwill is based; • assessing the competency, objectivity, experience and capabilities of the external appraiser appointed by management; • involving our valuation specialists to evaluate the methodology used in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards; • challenging the key assumptions and critical judgements made in the preparation of the discounted cash flow forecast by comparing key inputs, which included the revenue growth rate, the perpetual growth rate and cost inflation, with historical performance, management's budgets and forecasts and industry reports;

Key audit matters (continued)

Assessing potential impairment of goodwill (continued)	
Refer to note 14 to the consolidated financial statements and the accounting policies on pages 163 and 176.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified assessing potential impairment of goodwill as a key audit matter because of the inherent uncertainty involved in forecasting and discounting future cash flows and because of the risk of management bias in the selection of assumptions and estimates.	• evaluating the risk-adjusted discount rate applied in the discounted cash flow forecast by benchmarking the discount rate against the discount rates of similar companies in the same industry; • obtaining management's sensitivity analyses for the key assumptions, including the revenue growth rate, the perpetual growth rate, cost inflation and the risk-adjusted discount rate, adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; • performing a retrospective review by comparing the prior year's forecast with the current year's results to assess the historical accuracy of management's forecasting process and if any management bias. • assessing the disclosures in the consolidated financial statements in relation to goodwill with reference to the requirements of the prevailing accounting standards.

Key audit matters (continued)

Assessing the fair value of financial instruments	
Refer to note 35(g) to the consolidated financial statements and the accounting policies on page 173.	
The Key Audit Matter	**How the matter was addressed in our audit**
At 31 December 2018, the fair value of the Group's financial assets and liabilities totaled RMB560 million and RMB2 million respectively. Financial assets amounted to RMB472 million, RMB28 million and RMB60 million and financial liabilities amounted to RMB0 million, RMB0 million and RMB2 million were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively. The valuation of the Group's financial instrument is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant judgement. In addition, the fair values of certain level 2 financial instruments are determined using valuation methods which also involves significant judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation methods.	Our audit procedures to assess the fair value of financial instruments included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office/back office reconciliations and model approval; • assessing the fair value of all financial instruments traded in active markets by comparing the fair value applied by the Group with publicly available market data; • reading investment agreements, on a sample basis, to understand the relevant investment terms and identifying any conditions that were relevant to the valuation of financial instruments; • engaging our valuation specialists to evaluate the valuation methods used by the Group to value certain level 2 and level 3 financial instruments and to perform, on sample basis, independent valuations for level 2 and 3 financial instruments and compare these valuations with the Group's valuations. This included comparing the Group's valuation methods with our knowledge of current market practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations; • assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

Key audit matters (continued)

Consolidation of structured entities	
Refer to note 40 to the consolidated financial statements and the accounting policies on page 186.	
The Key Audit Matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing or purchasing an asset management plan, a trust product or a wealth management product. In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity, the exposure to variable returns and ability to influence its own returns from the entity. The factors which management needs to consider when determining whether a structured entity should be consolidated or not are not purely quantitative and need to be considered collectively. As at 31 December 2018, the carrying amount of the Group's interests in structured entities sponsored by third party institutions was RMB468 million whilst the amounts of assets held by structured entities sponsored by the Group which the Group did and did not consolidate were RMB12 million and RMB13,542 million, respectively.	Our audit procedures to assess the consolidation of structured entities included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls over consolidation of structured entities; • performing the following procedures for all new structured entities: – inspecting the related contracts, internal documents and information disclosed to the investors to understand the purpose of the establishment of the structured entities and the involvement the Group has with the structured entities and to assess management's judgement over whether the Group has the ability to exercise power over the structured entities; – reviewing the risk and reward structure of the structured entities to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such entities; – reviewing management's analyses of the structured entities including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entities to assess management's judgement over the Group's ability to influence its own returns from the structured entities;

Key audit matters (continued)

Consolidation of structured entities (continued)	
Refer to note 40 to the consolidated financial statements and the accounting policies on page 186.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement in determining whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position could be significant.	– assessing management's judgement over whether the structured entities should be consolidated or not; • making enquiries of management if there have been any changes to related contracts and internal documents for structured entities brought forward from previous years and obtaining and reviewing these contracts and internal documents on a sample basis to determine if the existing accounting treatment of those structured entities brought forward is still relevant; • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Information other than the financial statements and auditor's report thereon

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

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

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

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

Responsibilities of directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 HKSAs 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.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

Auditor's responsibility for the audit of the consolidated financial statements (continued)

- 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, 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 PANG, Shing Chor, Eric.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2019

Consolidated statement of profit or loss

(Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2018

	Note	2018	2017 Note (i)
Revenue	3	**310,966**	336,267
Net investment (losses)/gains	4	**(35,517)**	10,020
Other operating income	5	**22,868**	6,467
Operating income		**298,317**	352,754
Other net gains/(losses)	6	**8,016**	(738)
Operating expenses		**(198,442)**	(220,803)
Profit from operations		**107,891**	131,213
Share of gains/(losses) of associates		**5,630**	(1,665)
Profit before taxation	7	**113,521**	129,548
Income tax expense	8	**(25,093)**	(27,784)
Profit for the year		**88,428**	101,764
Earnings per share	11		
Basic (RMB/per share)		**0.0975**	0.1122
Diluted (RMB/per share)		**0.0975**	0.1122

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. The comparative information is not restated under HKFRS 9. See note 1(c).

The notes on pages 154 to 242 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)
For the year ended 31 December 2018

	Note	2018	2017 Note (i)
Profit for the year		**88,428**	101,764
Other comprehensive income for the year (after tax)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Net change in fair value reserve		**–**	(8,920)
Reclassified to profit or loss		**–**	4,450
Share of other comprehensive income of associates		**(9,705)**	9,854
Exchange differences on translation of financial statements of overseas subsidiaries		**7,071**	(9,989)
Other comprehensive income for the year, net of tax	12	**(2,634)**	(4,605)
Total comprehensive income for the year		**85,794**	97,159

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. The comparative information is not restated under HKFRS 9. See note 1(c).

The notes on pages 154 to 242 form part of these financial statements.

Consolidated statement of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)
For the year ended 31 December 2018

	Note	31 December 2018	31 December 2017 Note (i)
Non-current assets			
Property, plant and equipment	13	**11,889**	7,959
Goodwill	14	**43,322**	43,322
Intangible assets	15	**22,534**	22,692
Interests in associates	17	**16,024**	19,932
Available-for-sale financial assets	24	**-**	28,283
Deferred tax assets	33(b)	**9,553**	7,887
Other non-current assets	18	**1,710**	1,632
Total non-current assets		**105,032**	131,707
Current assets			
Refundable deposits	19	**1,112,959**	1,415,746
Trade receivables	20	**-**	3,077
Inventories	21	**-**	37,606
Other receivables	22	**24,886**	55,348
Other current assets	23	**10,052**	17,695
Available-for-sale financial assets	24	**-**	102,752
Financial assets at fair value through profit or loss	25	**559,871**	862,143
Derivative financial assets	26	**54**	49
Cash held on behalf of brokerage clients	27	**1,543,210**	2,290,147
Cash and bank balances	28	**940,690**	912,772
Total current assets		**4,191,722**	5,697,335

The notes on pages 154 to 242 form part of these financial statements.

	Note	31 December 2018	31 December 2017 Note (i)
Current liabilities			
Accounts payable to brokerage clients	30	**2,465,323**	3,566,121
Other payables	31	**55,067**	70,045
Financial liabilities at fair value through profit or loss	32	**1,890**	424,857
Derivative financial liabilities	26	**142**	26
Current taxation	33(a)	**2,673**	9,568
Total current liabilities		**2,525,095**	4,070,617
Net current assets		**1,666,627**	1,626,718
Total assets less current liabilities		**1,771,659**	1,758,425
NET ASSETS		**1,771,659**	1,758,425
CAPITAL AND RESERVES			
Share capital	34(c)	**907,000**	907,000
Reserves	34(d)	**864,659**	851,425
TOTAL EQUITY		**1,771,659**	1,758,425

Approved and authorised for issue by the board of directors on 22 March 2019.

Zhou Yong *Directors*
Zhou Jianqiu

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. The comparative information is not restated under HKFRS 9. See note 1(c).

The notes on pages 154 to 242 form part of these financial statements.

Consolidated statement of changes in equity

(Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2018

	Note	Share capital (Note 34)	Reserves: Capital reserve (Note 34)	Surplus reserve (Note 34)	General reserve (Note 34)	Fair value reserve (Note 34)	Translation reserve (Note 34)	Distributable profits (Note 34)	Total
Balance at 1 January 2018		**907,000**	**533,125**	**40,377**	**182,509**	**9,754**	**(4,129)**	**89,789**	**1,758,425**
Impact on initial application of HKFRS 9	1(c)	**-**	**-**	**-**	**-**	**100**	**-**	**(100)**	**-**
Adjusted balance at 1 January 2018		**907,000**	**533,125**	**40,377**	**182,509**	**9,854**	**(4,129)**	**89,689**	**1,758,425**
Changes in equity for 2018									
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**88,428**	**88,428**
Other comprehensive income	12	**-**	**-**	**-**	**-**	**(9,705)**	**7,071**	**-**	**(2,634)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(9,705)**	**7,071**	**88,428**	**85,794**
Appropriation of profits									
Appropriation to surplus reserve		**-**	**-**	**9,028**	**-**	**-**	**-**	**(9,028)**	**-**
Appropriation to general reserve		**-**	**-**	**-**	**16,941**	**-**	**-**	**(16,941)**	**-**
Dividends approved in respect of the previous year	34(b)(ii)	**-**	**-**	**-**	**-**	**-**	**-**	**(72,560)**	**(72,560)**
Balance at 31 December 2018		**907,000**	**533,125**	**49,405**	**199,450**	**149**	**2,942**	**79,588**	**1,771,659**

	Note	Share capital (Note 34)	Reserves: Capital reserve (Note 34)	Surplus reserve (Note 34)	General reserve (Note 34)	Fair value reserve (Note 34)	Translation reserve (Note 34)	Distributable profits (Note 34)	Total
Balance at 1 January 2017		907,000	533,125	31,415	164,115	4,370	5,860	69,801	1,715,686
Changes in equity for 2017									
Profit for the year		–	–	–	–	–	–	101,764	101,764
Other comprehensive income	12	–	–	–	–	5,384	(9,989)	–	(4,605)
Total comprehensive income		–	–	–	–	5,384	(9,989)	101,764	97,159
Appropriation of profits									
Appropriation to surplus reserve		–	–	8,962	–	–	–	(8,962)	–
Appropriation to general reserve		–	–	–	18,394	–	–	(18,394)	–
Dividends approved in respect of the previous year	34(b)(ii)	–	–	–	–	–	–	(54,420)	(54,420)
Balance at 31 December 2017	(i)	907,000	533,125	40,377	182,509	9,754	(4,129)	89,789	1,758,425

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. The comparative information is not restated under HKFRS 9. See note 1(c).

The notes on pages 154 to 242 form part of these financial statements.

Consolidated cash flow statement

(Expressed in thousands of Renminbi, unless otherwise stated)
For the year ended 31 December 2018

	Note	2018	2017 Note (i)
Operating activities			
Cash generated from operations	29(b)	**684,349**	105,892
Income tax paid	33(a)	**(33,654)**	(24,737)
Net cash generated from operating activities		**650,695**	81,155
Investing activities			
Proceeds from sales of available-for-sale financial assets		**–**	251,278
Payment for purchases of available-for-sale financial assets		**–**	(119,169)
Proceeds from sales of financial assets held under resale agreements		**727,126**	517,443
Payment for purchases of financial assets held under resale agreements		**(727,036)**	(517,344)
Proceeds from sales of financial assets held for trading		**590,597**	945,175
Payment for purchases of financial assets held for trading		**(830,283)**	(1,145,643)
Proceeds from disposal of property, plant and equipment		**18**	38
Payment for purchases of property, plant and equipment		**(7,291)**	(3,883)
Payment for purchases of intangible assets		**–**	(383)
Payment for purchases of associates		**(3,000)**	–
Dividends received from associates		**2,833**	–
Dividends received from investments in securities	4	**14,975**	9,677
Net cash used in investing activities		**(232,061)**	(62,811)
Financing activities			
Interest paid		**(948)**	–
Payment of expenses related to initial public offering		**(4,670)**	(1,549)
Dividends paid to equity shareholders of the Company	34(b)	**(72,560)**	(54,420)
Net cash used in financing activities		**(78,178)**	(55,969)
Net increase/(decrease) in cash and cash equivalents		**340,456**	(37,625)
Effect of foreign exchange rate changes		**10,454**	(16,530)
Cash and cash equivalents at 1 January	29(a)	**476,817**	530,972
Cash and cash equivalents at 31 December	29(a)	**827,727**	476,817

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. The comparative information is not restated under HKFRS 9. See note 1(c).

The notes on pages 154 to 242 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). Significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interest in associates.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial assets and financial liabilities at fair value through profit or loss (Note 1(i));

– available-for-sale financial assets (Note 1(i)); and

– derivative financial instruments (Note 1(i)).

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 2.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, Financial instruments

(ii) HKFRS 15, Revenue from contracts with customers

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments including the amendments to HKFRS 9, Prepayment features with negative compensation.

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets and financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves at 1 January 2018.

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments including the amendments to HKFRS 9, Prepayment features with negative compensation. (continued)

Retained earnings

	RMB'000
Transferred from fair value reserve (recycling) relating to financial assets now measured at fair value through profit or loss (FVPL)	100
Net decrease in retained earnings at 1 January 2018	100

Fair value reserve (recycling)

Transferred to retained earnings relating to financial assets now measured at FVPL	(100)
Net increase in fair value reserve (recycling) at 1 January 2018	(100)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories:

Measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

a. Classification of financial assets and financial liabilities (continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	HKFRS 9 carrying amount at 1 January 2018
Financial assets carried at amortised cost			
Cash and bank balances	912,772	–	912,772
Trade receivables	3,077	–	3,077
Other receivables	38,706	–	38,706
Bonds (i)	–	10,209	10,209
Total	954,555	10,209	964,764
Financial assets carried at FVPL			
Asset backed securities	614,000	–	614,000
Unlisted funds	210,899	–	210,899
Trading securities	37,244	–	37,244
Asset management plans(ii)	–	62,359	62,359
Trust schemes(ii)	–	28,000	28,000
Unlisted funds(ii)	–	18,102	18,102
Wealth management products(ii)	–	10,181	10,181
Listed equity securities(ii)	–	2,184	2,184
Total	862,143	120,826	982,969
Financial assets classified as available-for-sale under HKAS 39			
Asset management plans	62,359	(62,359)	–
Trust schemes	28,000	(28,000)	–
Unlisted funds	18,102	(18,102)	–
Bonds	10,209	(10,209)	–
Wealth management products	10,181	(10,181)	–
Listed equity securities	2,184	(2,184)	–
Total	131,035	(131,035)	–

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

a. Classification of financial assets and financial liabilities (continued)

(i) Under HKAS 39, bonds were classified as available-for-sale financial assets. They are classified as financial assets carried at amortised cost under HKFRS 9. The above bonds matured in May 2018.

(ii) Under HKAS 39, asset management plans, trust schemes, unlisted funds, wealth management products and listed equity securities were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in Note 1(i) a.

The measurement categories for derivative financial assets and all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following item:

– financial assets measured at amortised cost (including bonds, cash and cash equivalents, trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see Note 1(i) b.

Financial assets measured at fair value, including asset backed securities, trading securities, asset management plans, trust schemes, unlisted funds, wealth management products, listed equity securities measured at FVPL, and derivative financial assets, are not subject to the ECL assessment.

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, Financial instruments (continued)

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

– the determination of the business model within which a financial asset is held.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to adopt the full retrospective transition method and take advantage of the practical expedient which will not make any restatement adjustments for contracts that began and ended within the previous year.

After assessment on adoption of HKFRS 15, it does not have a significant impact on the Group's financial position.

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(iv) Presentation of other operating revenue/cost

The Group commenced the business of commodities trading in the second half year of 2017 and accounted for sales of commodities on a net basis during 2017. From 1 January 2018, the Group changed its accounting policy to present the sales of commodities on a gross up basis considering the common practices of other futures companies in China and accordingly, the comparative information has been restated.

(d) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the Company and its subsidiary established in the People's Republic of China ("PRC"). The functional currency of the Company's subsidiary in Hong Kong is Hong Kong Dollar ("HKD"). The Group translates the financial statements of the Company's subsidiary in Hong Kong from HKD into RMB.

1 Significant accounting policies (continued)

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(i)a(ii)) or, when appropriate, the cost on initial recognition of an interest in an associate (see Note 1(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(o)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies (continued)

(f) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term investments that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained investment is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(i)(i)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see Note 1(o)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies (continued)

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 1(o)).

On disposal of a cash-generating unit ("CGU") during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Foreign currency

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China (the "PBOC"), the State Administrative of Foreign Exchange (the "SAFE") or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of the reporting period. The equity items, excluding "distributable profits", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operations are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

1 Significant accounting policies (continued)

(i) Financial instruments

a. Recognition and measurement of financial assets and financial liabilities

(i) Policy applicable prior to 1 January 2018

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, trade and other receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

Financial assets and financial liabilities at fair value through profit or loss (including financial assets held for trading)

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition in either of the following circumstances:

– the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

– the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivatives from the financial instruments is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

a. Recognition and measurement of financial assets and financial liabilities (continued)

(i) Policy applicable prior to 1 January 2018 (continued)

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 1(i)b(i)).

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments mainly comprise equity securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend (see Note 1(t)(iii)). Impairment losses are recognised in profit or loss (see Note 1(i)b(i)).

Other fair value changes, other than impairment losses (see Note 1(i)b(i)), are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Policy applicable from 1 January 2018

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs. For an explanation of how the Group determines fair value of financial instruments, see Note 35(g). The financial instruments are subsequently accounted for as follows, depending on their classification.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

a. Recognition and measurement of financial assets and financial liabilities (continued)

(ii) Policy applicable from 1 January 2018 (continued)

Financial instruments held by the Group are classified into one of the following measurement categories:

– amortized cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest ("SPPI"). Interest income from the investment is calculated using the effective interest method (see Note 1(t)(ii)).

– fair value through other comprehensive income ("FVOCI") - recycling, if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the financial instrument does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognized in profit or loss.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

– the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income ("OCI"); and

– the Group may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortized cost, its contractual terms should give rise to cash flows that are SPPI. For an asset to be classified and measured at fair value through other comprehensive income, its contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. For an asset to be classified and measured at fair value at profit or loss the financial instrument does not meet the criteria for being measured at amortized cost or FVOCI.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

a. Recognition and measurement of financial assets and financial liabilities (continued)

(ii) Policy applicable from 1 January 2018 (continued)

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group's business models for managing its financial instruments reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. The Group takes into account all relevant evidence available such as:

– how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

– how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

a. Recognition and measurement of financial assets and financial liabilities (continued)

(ii) Policy applicable from 1 January 2018 (continued)

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

Financial assets carried at amortized cost and fair value through other comprehensive income are subject to impairment.

b. Impairment of financial assets

(i) Policy applicable prior to 1 January 2018

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

– significant financial difficulty of the borrower or issuer;

– a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– disappearance of an active market for financial assets because of financial difficulties of the issuer;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

b. Impairment of financial assets (continued)

(i) Policy applicable prior to 1 January 2018 (continued)

Receivables

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity investment is an indicator of impairment in such investments where a decline in the fair value of equity investment below its initial cost by 20% or more, or fair value below cost for nine months or longer, upon which impairment loss is recognised.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

b. Impairment of financial assets (continued)

(ii) Policy applicable from 1 January 2018

The Group applies the new ECL model to the following item:

– financial assets measured at amortised cost (including bonds, cash and cash equivalents, trade and other receivables).

Financial assets measured at fair value, including units in bond funds, asset management plans, trust schemes, listed bonds, wealth management products, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for other non-current assets, refundable deposits, trade receivables and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

b. Impairment of financial assets (continued)

(ii) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates ;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

b. Impairment of financial assets (continued)

(ii) Policy applicable from 1 January 2018 (continued)

Basis of calculation of interest income on credit-impaired financial assets

Interest income recognised in accordance with Note 1(t)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, trade receivable or other receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

c. Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

d. Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

– the contractual rights to the cash flows from the financial asset expire; or

– the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

1 Significant accounting policies (continued)

(i) Financial instruments (continued)

e. Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(j) Inventories

The Group's inventories comprised of physical commodities. These inventories are in 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, inventories 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 inventories in the consolidated statement of financial position and impairment charge within gains/(losses) on physical commodities trading.

If, in a subsequent period, the net realizable value of the impaired inventories 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.

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 1(t)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

1 Significant accounting policies (continued)

(l) Property, plant and equipment

The items of property, plant and equipment are stated at cost less accumulated depreciation and impairment loss (see Note 1(o)).

The cost of the purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to distributable profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives	Estimated residual rates	Depreciation rates
Motor vehicles	10 years	5%	9.50%
Office equipment	4-5 years	0%-5%	19%-25%
Electronic equipment	3-5 years	0%-5%	19%-33%

Where parts of items of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(m) Intangible assets (other than goodwill)

The intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment loss (see Note 1(o)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful lives
Computer software	2-4 years
Customer relationship	3.5 years

Both the period and method of amortisation are reviewed annually.

1 Significant accounting policies (continued)

(m) Intangible assets (other than goodwill) (continued)

Futures exchanges membership comprise the trading rights in futures and commodity exchanges in the PRC and Hong Kong. These rights allow the Group to trade financial and commodity futures contracts through these exchanges.

Futures exchanges membership are not amortised as their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(n) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(o) Impairment of non-financial assets

Internal and external sources of statements are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- goodwill;
- intangible assets;
- investments in subsidiaries in the Company's statement of financial position;
- interest in associates; and
- other current assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 Significant accounting policies (continued)

(o) Impairment of non-financial assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment loss

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment loss

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(p) Cash and bank balances

Cash and bank balances comprise cash and cash equivalents and bank deposits with original maturity over three months. Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 Significant accounting policies (continued)

(q) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax loss and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax loss and credit, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 Significant accounting policies (continued)

(r) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Control of the services may be transferred over time or at a point in time. Control of the services is transferred over time if:

– the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

– the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the services transfers over time, revenue is recognized over the period of the contract by reference to the progress toward complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the services.

Further details of the Group's revenue recognition policies are as follows:

1 Significant accounting policies (continued)

(t) Revenue recognition (continued)

(i) Commission and fee income

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

Exchange refund is recognised when the Group receives the refunds from futures exchanges.

Asset management fees are recognised when the Group is entitled to receive the income under the asset management agreement.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Investment gain

Trading gains from financial assets at fair value through profit or loss is recognised on a trade date basis whilst the unrealized profits or losses are recognised from valuation at the end of reporting period.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity investments.

(iv) Sales of commodities

Revenue is recognised when commodities are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the commodities and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(u) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the reporting period, are not recognised as a liability at the end of the reporting period but disclosed in the notes to the financial statements separately.

1 Significant accounting policies (continued)

(v) Government grants

Government grants are recognised in the financial statements initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of the Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (continued)

(x) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial statements regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and services, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

2 Accounting judgment and estimates

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgments:

– Measurement of ECL

The following significant judgements are required in applying the accounting requirements for measuring the ECL.

Significant increase of credit risk

As explained in Note 1(i)b(ii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

2 Accounting judgment and estimates (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

– Measurement of ECL (continued)

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Forward-looking information

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss given default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Loss ratio (LR)

LR represents the Group's expectation of the likelihood and extent of loss on exposure based on the relevant financial assets to collateral ratio. The Group uses historical loss rates based on publicly available information and assesses their appropriateness.

2 Accounting judgment and estimates (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

– Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided. Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

– Fair value of financial instruments

There are no quoted prices from an active market for certain financial instruments. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

– Depreciation and amortisation

Property, plant and equipment and intangible assets with definite useful life are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value, if any. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation or amortisation expenses to be recorded in each of the reporting period. The useful lives and residual values are determined based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation or amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

2 Accounting judgment and estimates (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

– 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: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) 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.

For asset management plans where the Group involves as the manager, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management plans that is of such significance indicating that the Group is a principal. The asset management plans shall be consolidated if the Group acts in the role of principal.

– Income tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and sets up tax provisions accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(b) Sources of estimation uncertainty

Notes 14 contain information about the assumptions and their risk factors relating to impairment of goodwill. Notes 1(l) and 1(m) contain information about the assumptions and their risk factors relating to depreciation and amortisation. Note 35(g) contains information about the assumptions and their risk factors relating to fair value of financial instruments.

3 Revenue

The Group is principally engaged in futures brokerage business and asset management business. The amount of each significant category of revenue is as follows:

	Note	2018	2017
Commission and fee income	(a)	**182,527**	197,910
Interest income	(b)	**128,439**	138,357
Total		**310,966**	336,267

(a) Commission and fee income

	2018	2017
Commission and fee income		
– Futures and options brokerage business	**77,708**	98,298
– Refund from futures exchanges	**98,366**	97,388
– Asset management business	**5,969**	2,224
– Investment consultancy business	**484**	–
Total	**182,527**	197,910

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's commission and fee income during the reporting period. The Group's single largest customer accounted for 1% of the Group's commission and fee income for the year ended 31 December 2018 (31 December 2017: 1%); while the Group's top 5 customers accounted for 3% of the Group's commission and fee income for the year ended 31 December 2018 (31 December 2017: 2%).

(b) Interest income

	2018	2017
Interest income		
– Bank deposits	**121,197**	126,752
– Futures exchanges	**6,990**	5,743
– Interest-bearing financial instruments	**252**	99
– Asset management plans and trust schemes	**–**	5,763
Total	**128,439**	138,357

4 Net investment (losses)/gains

	2018	2017
Net realized (losses)/gains from:		
Disposal of financial assets at fair value through profit or loss		
– Trading securities	**(12,451)**	2,371
– Funds	**–**	(6,073)
– Asset management plans	**(870)**	–
– Bonds	**(501)**	–
– Wealth management products	**399**	–
– Trust schemes	**748**	–
Disposal of financial assets designated at fair value through profit or loss		
– Physical commodities	**–**	1,861
Disposal of financial liabilities at fair value through profit or loss		
– Payables	**–**	249
Disposal of derivative financial instruments	**(8,547)**	(4,209)
Disposal of available-for-sale financial assets		
– Listed securities	**–**	6,220
– Wealth management products issued by banks	**–**	235
– Asset management plans	**–**	262
– Bonds	**–**	12
Subtotal	**(21,222)**	928

	2018	2017
Net unrealized fair value changes of:		
Financial assets at fair value through profit or loss:		
– Trading securities	**(14,484)**	(2,795)
– Funds	**(8,924)**	1,078
– Wealth management products	**(4,615)**	–
– Asset management plans and trust scheme	**(480)**	–
– Trading bonds	**(49)**	–
Financial liabilities designated at fair value through profit or loss	**(32)**	268
Derivative financial assets	**1,511**	(646)
Derivative financial liabilities	**(2,197)**	1,510
Subtotal	**(29,270)**	(585)
Dividend income from:		
Financial assets at fair value through profit or loss	**14,975**	9,365
Available-for-sale financial assets	**–**	312
Subtotal	**14,975**	9,677
Total	**(35,517)**	10,020

5 Other operating income

	2018	2017
Sales of commodities	**322,120**	183,872
Others	**6,952**	153
Subtotal	**329,072**	184,025
Cost of commodities	**(306,204)**	(177,558)
Total	**22,868**	6,467

6 Other net gains/(losses)

	2018	2017
Net foreign exchange gains/(losses)	**3,436**	(6,622)
Government grants	**2,628**	2,215
Exchange sponsorship	**1,252**	1,749
Others	**700**	1,920
Total	**8,016**	(738)

The government grants were received unconditionally by the Company and its subsidiaries from the local government of those cities where they reside.

7 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Staff costs

	2018	2017
Salaries, bonuses and allowances	**86,121**	97,910
Contributions to pension schemes	**13,694**	12,860
Other social welfare	**29,614**	26,527
Total	**129,429**	137,297

The domestic employees of the Group in the PRC participate in social plans, including pension, medical, housing, and other welfare benefits, organized and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labor and social welfare authorities. These social security plans are defined contribution plans and contributions to the plans are expensed as incurred.

7 Profit before taxation (continued)

(b) Commission expenses

	2018	2017
Commissions paid to brokers	**5,277**	10,582

Brokers are responsible to attract and refer customers to the Group. The Group pays commission expenses to the brokers based on a certain percentage of the commission income from these customers on a monthly basis.

(c) Other items

	2018	2017
Office expenses	**24,014**	28,964
Operating lease charges	**20,437**	21,070
Depreciation and amortisation	**3,507**	3,863
Consulting fee	**2,208**	3,600
Auditors' remuneration		
– audit services	**1,976**	1,939
– other services	**75**	94
Renovation cost	**1,971**	406
Property management expenses	**1,786**	1,930
Business tax and surcharges	**1,199**	974
Investors protection funds	**170**	170
Other expenses	**6,393**	9,914
Total	**63,736**	72,924

8 Income tax expense

(a) Taxation in the consolidated statement of profit or loss represents:

	Note	2018	2017
Current tax – PRC corporate income tax			
Provision for the year		**27,223**	30,545
Over-provision in respect of prior years		**(464)**	(959)
Subtotal		**26,759**	29,586
Current tax – Hong Kong profits tax			
Provision for the year		**–**	–
Subtotal	33(a)	**26,759**	29,586
Deferred tax			
Origination and reversal of temporary differences		**(1,666)**	(1,802)
Subtotal	33(b)	**(1,666)**	(1,802)
Total		**25,093**	27,784

(i) Pursuant to the income tax rules and regulations of Hong Kong, the Group's Hong Kong subsidiary is subject to the Hong Kong profits tax at the rate of 16.5%.

(b) Reconciliations between income tax expenses and accounting profit at applicable tax rates:

	2018	2017
Profit before taxation	**113,521**	129,548
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	**29,081**	32,283
Tax effect of non-deductible expenses	**1,844**	654
Tax effect of non-taxable income	**(5,837)**	(4,471)
Unrecognised deductible temporary differences	**469**	416
Tax effect of unused tax losses not recognised	**–**	(139)
Over-provision in respect of prior years	**(464)**	(959)
Actual income tax expense	**25,093**	27,784

9 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018				
Name	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total
Chairman					
Zhou Yong	–	–	–	–	–
Executive directors					
Zhou Jianqiu	–	330	420	43	793
Non-executive directors					
Xue Binghai	–	–	–	–	–
Zhang Ke	–	–	–	–	–
Shan Bing	–	–	–	–	–
Independent non-executive directors					
Li Xindan[1]	104	–	–	–	104
Wang Yuetang[2]	15	–	–	–	15
Zhang Hongfa	119	–	–	–	119
Lam Kai Yeung	121	–	–	–	121
Total	359	330	420	43	1,152

9 Directors' emoluments (continued)

	2017				
Name	**Director's fees**	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Pension scheme contributions**	**Total**
Chairman					
Zhou Yong	–	–	–	–	–
Executive directors					
Zhou Jianqiu	–	309	387	40	736
Non-executive directors					
Xue Binghai	–	–	–	–	–
Zhang Ke	–	–	–	–	–
Shan Bing	–	–	–	–	–
Sun Changyu[3]	–	–	–	–	–
Independent non-executive directors					
Li Xindan[1]	119	–	–	–	119
Zhang Hongfa	119	–	–	–	119
Lam Kai Yeung	124	–	–	–	124
Total	362	309	387	40	1,098

(1) Resigned on 15 November 2018.

(2) Appointed as independent director on 15 November 2018.

(3) Resigned on 23 March 2017.

None of the non-independent directors (except Zhou Jianqiu) received any fees or emoluments in respect of their services to the Group during the reporting period as they were paid by the Group's ultimate holding company Jiangsu SOHO Holding Group Co., Ltd. ("SOHO Holding").

There were no amounts paid during the reporting period to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the reporting period.

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, none of them (2017: none) are directors whose emoluments is disclosed in Note 9. The aggregate of the emoluments in respect of the other five (2017: five) individuals are as follows:

	2018	2017
Salaries, allowances and benefits	**914**	908
Discretionary bonuses	**6,412**	6,344
Retirement scheme contributions	**217**	199
Total	**7,543**	7,451

The emoluments of the five (2017: five) individuals with the highest emoluments are within the following bands:

	2018 Number of Individuals	2017 Number of Individuals
HKDNil to HKD1,000,000	**–**	–
HKD1,000,001 to HKD1,500,000	**2**	2
HKD1,500,001 to HKD2,000,000	**1**	1
HKD2,000,001 to HKD2,500,000	**2**	2
Total	**5**	5

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the reporting period.

11 Earnings per share

(a) Calculations of basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB 88,428 thousand (2017: RMB 101,764 thousand) and the weighted average of RMB 907,000 thousand ordinary shares (2017: RMB 907,000 thousand shares after adjusting for the bonus issue in 2018) in issue during the year.

	2018	2017
Profit attributable to shareholders of the Company	**88,428**	101,764
Weighted average number of ordinary shares issued (thousand)	**907,000**	907,000
Basic and diluted earnings per share attributable to equity shareholders (in RMB per share)	**0.0975**	0.1122

During the reporting period, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

12 Other comprehensive income for the year, net of tax

	2018		
	Before tax	Tax benefit/ (expense)	Net of tax
Share of other comprehensive income of associates	**(9,705)**	**–**	**(9,705)**
Exchange differences on translation of financial statements of overseas subsidiaries	**7,071**	**–**	**7,071**
Total	**(2,634)**	**–**	**(2,634)**

	2017		
	Before tax	Tax benefit/ (expense)	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	(11,893)	2,973	(8,920)
– Reclassified to profit or loss	5,933	(1,483)	4,450
Share of other comprehensive income of associates	9,854	–	9,854
Exchange differences on translation of financial statements of overseas subsidiaries	(9,989)	–	(9,989)
Total	(6,095)	1,490	(4,605)

13 Property, plant and equipment

	Motor vehicles	Office equipment	Electronic equipment	Total
Cost:				
As at 1 January 2017	5,405	3,668	29,374	38,447
Additions	–	55	3,828	3,883
Disposal	–	(236)	(1,497)	(1,733)
Translation reserve	–	(3)	(55)	(58)
As at 31 December 2017	5,405	3,484	31,650	40,539
As at 1 January 2018	**5,405**	**3,484**	**31,650**	**40,539**
Additions	**–**	**57**	**7,234**	**7,291**
Disposal	**–**	**(614)**	**(507)**	**(1,121)**
Translation reserve	**–**	**2**	**42**	**44**
As at 31 December 2018	**5,405**	**2,929**	**38,419**	**46,753**
Accumulated depreciation:				
As at 1 January 2017	(3,425)	(3,116)	(24,008)	(30,549)
Charge for the year	(487)	(181)	(3,034)	(3,702)
Written back on disposal	–	226	1,402	1,628
Translation reserve	–	2	41	43
As at 31 December 2017	(3,912)	(3,069)	(25,599)	(32,580)
As at 1 January 2018	**(3,912)**	**(3,069)**	**(25,599)**	**(32,580)**
Charge for the year	**(444)**	**(81)**	**(2,779)**	**(3,304)**
Written back on disposal	**–**	**583**	**473**	**1,056**
Translation reserve	**–**	**(1)**	**(35)**	**(36)**
As at 31 December 2018	**(4,356)**	**(2,568)**	**(27,940)**	**(34,864)**
Net book value:				
As at 31 December 2017	1,493	415	6,051	7,959
As at 31 December 2018	**1,049**	**361**	**10,479**	**11,889**

14 Goodwill

	31 December 2018	31 December 2017
Cost:	**53,167**	53,167
Accumulated impairment losses:		
As at 1 January	**(9,845)**	(9,845)
Impairment loss for the year	**–**	–
As at 31 December	**(9,845)**	(9,845)
Carrying amount:	**43,322**	43,322

Impairment testing for CGU containing goodwill.

Goodwill is allocated to the Group's CGU as follows:

	31 December 2018	31 December 2017
Futures brokerage	**43,322**	43,322

The Group acquired the futures brokerage business together with the relevant assets and liabilities of Huazheng Futures Co., Ltd. (華證期貨有限公司) ("Huazheng Futures") in 2013. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

The recoverable amount of the futures brokerage CGU is determined based on value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using an estimated annual growth rate of 3% (2017: 3%) which is consistent with the forecasts based on industry growth. Management determined the budgeted gross margin based on past performance and its expectation for market development. The cashflows are discounted using a discount rate of 16% (2017: 16%). The discount rates used are pre-tax and reflect the CGU's specific weighted average cost of capital, adjusted for the risks of the specific CGU.

As at 31 December, the Group performed its annual goodwill impairment test. No impairment was recognised for the goodwill related to futures brokerage CGU since the value-in-use was greater than its carrying amount.

15 Intangible assets

	Computer software	Futures exchanges membership	Customer relationship	Total
Cost:				
As at 1 January 2017	5,501	21,847	6,100	33,448
Additions	383	–	–	383
Translation reserve	(43)	(30)	–	(73)
As at 31 December 2017	5,841	21,817	6,100	33,758
As at 1 January 2018	**5,841**	**21,817**	**6,100**	**33,758**
Additions	**–**	**–**	**–**	**–**
Translation reserve	**30**	**20**	**–**	**50**
As at 31 December 2018	**5,871**	**21,837**	**6,100**	**33,808**
Accumulated amortisation:				
As at 1 January 2017	(4,812)	–	(6,100)	(10,912)
Charge for the year	(161)	–	–	(161)
Translation reserve	7	–	–	7
As at 31 December 2017	(4,966)	–	(6,100)	(11,066)
As at 1 January 2018	**(4,966)**	**–**	**(6,100)**	**(11,066)**
Charge for the year	**(203)**	**–**	**–**	**(203)**
Translation reserve	**(5)**	**–**	**–**	**(5)**
As at 31 December 2018	**(5,174)**	**–**	**(6,100)**	**(11,274)**
Net book value:				
As at 31 December 2017	875	21,817	–	22,692
As at 31 December 2018	**697**	**21,837**	**–**	**22,534**

Futures exchanges membership comprise the trading rights in Shanghai Futures Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange, China Financial Futures Exchange and Hong Kong Futures Exchange (the "HKFE"). These rights allow the Group to trade financial and commodity futures contracts through these exchanges. Futures exchanges membership are not amortised as their useful lives are assessed to be indefinite.

16 Investments in subsidiaries

The following list contains all the subsidiaries of the Group. The class of shares hold is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Issued and fully paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Holly Capital Management Co., Ltd.* 弘業資本管理有限公司	PRC	RMB240 million	100%	100%	–	Commodity trading and risk management business
Holly Su Futures (Hongkong) Co., Ltd. 弘蘇期貨(香港)有限公司	Hong Kong	HKD190 million(i)	100%	100%	–	Futures brokerage business
Holly Capital (Hongkong) Co., Ltd. 弘業資本(香港)有限公司(ii)	Hong Kong	–	100%	–	100%	Commodity trading and risk management business
Holly Su Asset Management Co., Ltd. 弘蘇資產管理有限公司	Hong Kong	HKD20 million	100%	–	100%	Asset management business
Holly International Fund Series SPC 弘業國際基金系列SPC (iii)	Cayman/ Hong Kong	USD1	100%	–	100%	Fund investment business

* The English translation of the name of the company is for reference only. The official name of the company is in Chinese.

(i) In March 2017, the Company increased its capital injection to Holly Su Futures (Hongkong) Co., Ltd. ("Holly Su Futures") by HKD90 million.

(ii) Holly Capital (Hongkong) Co., Ltd. was established by Holly Capital in May 2016. The registered capital is HKD5 million. As at 31 December 2018, the capital has not been paid.

(iii) Holly International Fund Series SPC was established by Holly Su Asset Management Co., Ltd in October 2018. The fully paid-up capital is USD 1.

17 Interests in associates

	31 December 2018	31 December 2017
Share of net assets	**16,024**	19,932

The following list contains all the associates, all of which are unlisted corporate entities whose quoted market prices are not available.

Name of associate	Form of business structure	Place of incorporation and business	Registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Principal activities
Jiangsu Hong Rui New Era Venture Investment Co., Ltd.* 江蘇弘瑞新時代創業投資有限公司	Limited liability company	PRC	RMB100 million	22%	22%	Venture investment, etc.
Jiangsu Hong Rui Growth Venture Investment Co., Ltd.* 江蘇弘瑞成長創業投資有限公司	Limited liability company	PRC	RMB121.2 million	9.901%	9.901%	Venture investment, etc.
Jiangsu Holly Zijin Investment Management Co., Ltd.* (i) 江蘇弘業紫金投資管理有限公司	Limited liability company	PRC	RMB30 million	39.22%	39.22%	Venture investment, etc.

* The English translations of the names of the associates are for reference only. The official names of the associates are in Chinese.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

During the reporting period, the Group and the Company hold 9.901% interest in Jiangsu Hong Rui Growth Venture Investment Co., Ltd. ("Hong Rui Growth"). According to the articles of association of Hong Rui Growth, the Group and the Company have appointed a representative in the Board of Directors. As the Group and the Company have a representative in the Board of Directors and participate in all the decision-making processes, the Group and the Company have significant influence over Hong Rui Growth, even though the effective interest is less than 20%. Accordingly, Hong Rui Growth has been accounted for as an associate.

(i) In March 2018, the Group set up new investment in Jiangsu Holly Zijin Investment Management Co., Ltd. ("Holly Zijin"). According to Holly Zijin's articles of association, the registered capital is RMB30 million. As of 31 December 2018, Holly Zijin has received a total paid up capital of RMB7.65 million of which the Group had paid up RMB3 million.

17 Interests in associates (continued)

Summarised financial statements of the Group's material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	Jiangsu Hong Rui New Era Venture Investment Co., Ltd.	
	31 December 2018	**31 December 2017**
Gross amounts of the associate:		
Current assets	**24,714**	12,306
Non-current assets	**8,578**	34,568
Current liabilities	**(3,259)**	–
Non-current liabilities	**–**	(6,561)
Equity	**30,033**	40,313
Gain/(loss) for the year	**9,208**	(3,635)
Total comprehensive income	**9,208**	(3,635)
Reconciled to the Group's interests in the associate:		
Gross amounts of net assets of the associate	**30,033**	40,313
Group's effective interest	**22%**	22%
Group's share of net assets of the associate	**6,607**	8,869
Carrying amount in the consolidated financial statements	**6,607**	8,869

	Jiangsu Hong Rui Growth Venture Investment Co., Ltd.	
	31 December 2018	**31 December 2017**
Gross amounts of the associate:		
Current assets	**32,540**	8,432
Non-current assets	**53,244**	136,051
Current liabilities	**(18,401)**	(13,861)
Non-current liabilities	**(642)**	(18,882)
Equity	**66,741**	111,740
Gain/(Loss) for the year	**38,329**	(8,738)
Total comprehensive income	**38,329**	(8,738)
Reconciled to the Group's interests in the associate:		
Gross amounts of net assets of the associate	**66,741**	111,740
Group's effective interest	**9.901%**	9.901%
Group's share of net assets of the associate	**6,608**	11,063
Carrying amount in the consolidated financial statements	**6,608**	11,063

17 Interests in associates (continued)

	Jiangsu Holly Zijin Investment Management Co., Ltd.	
	31 December 2018	31 December 2017
Gross amounts of the associate:		
Current assets	**7,169**	–
Non-current assets	**–**	–
Current liabilities	**(7)**	–
Non-current liabilities	**–**	–
Equity	**7,162**	–
Loss for the year	**(488)**	–
Total comprehensive income	**(488)**	–
Reconciled to the Group's interests in the associate:		
Gross amounts of net assets of the associate	**7,162**	–
Group's effective interest	**39.22%**	–
Group's share of net assets of the associate	**2,809**	–
Carrying amount in the consolidated financial statements	**2,809**	–

18 Other non-current assets

	31 December 2018	31 December 2017
Deposits with Hong Kong Futures Exchange Limited	**1,710**	1,632

19 Refundable deposits

Refundable deposits arising from futures brokerage business:

	31 December 2018	31 December 2017
Deposits with futures and commodity exchanges		
– Shanghai Futures Exchange	**309,031**	594,738
– Dalian Commodity Exchange	**256,558**	302,178
– Zhengzhou Commodity Exchange	**293,220**	235,484
– China Securities Depository and Clearing	**95,881**	114,201
– China Financial Futures Exchange	**77,656**	106,916
– Shanghai International Energy Exchange	**50,560**	–
Other futures brokers	**30,053**	62,229
Total	**1,112,959**	1,415,746

20 Trade receivables

Trade receivables arising from physical commodities trading business:

	31 December 2018	31 December 2017
Physical commodities trading	–	3,077

The aging analysis of trade receivables are as follows:

	31 December 2018	31 December 2017
Within 1 year	–	3,077

21 Inventories

Inventories held due to physical commodities trading business:

	31 December 2018	31 December 2017
Trading commodities	–	37,606
Less: impairment	–	–
	–	37,606

22 Other receivables

	31 December 2018	31 December 2017
Receivable from asset management plan	**9,500**	–
Receivable from futures exchanges	**5,424**	–
Rental deposits	**4,395**	2,128
Interest receivables	–	32,766
Prepayments	–	16,642
Others	**5,567**	3,812
Total	**24,886**	55,348

23 Other current assets

	31 December 2018	31 December 2017
Prepaid rentals	**3,778**	1,654
Others	**6,274**	16,041
Total	**10,052**	17,695

24 Available-for-sale financial assets

	31 December 2018	31 December 2017
Non-current		
At fair value:		
Unlisted funds	–	18,102
Wealth management products	–	10,181
Total	–	28,283
Current		
At fair value:		
– Listed equity securities	–	2,522
– Less: Impairment losses for listed equity securities	–	(338)
Subtotal	–	2,184
– Asset management plans	–	62,359
– Trust schemes	–	28,000
– Bonds	–	10,209
Total	–	102,752
Analysed as:		
Listed outside Hong Kong	–	2,184
Unlisted	–	128,851
Total	–	131,035

Available-for-sale financial assets were reclassified to financial assets measured at FVPL and financial assets carried at amortised cost upon the initial application of HKFRS 9 at 1 January 2018 (See Note 1(c)(i)).

25 Financial assets at fair value through profit or loss

(a) Analysed by type

	31 December 2018	31 December 2017
Held for trading		
– Equity securities	**59,080**	37,244
– Funds	**433,153**	210,899
– Asset management plans	**35,748**	–
– Trust schemes	**19,065**	–
– Listed bonds	**7,259**	–
– Wealth management products	**5,566**	–
	559,871	248,143
Financial assets designated at fair value through profit or loss		
– Asset backed securities	**–**	614,000
Total	**559,871**	862,143

Asset backed securities held by the Group have been designated at fair value through profit or loss because they are managed, evaluated and reported internally on a fair value basis in accordance with its documented investment strategy.

(b) Analysed as

	31 December 2018	31 December 2017
Listed outside Hong Kong	**85,569**	37,244
Unlisted	**474,302**	824,899
Total	**559,871**	862,143

26 Derivative financial assets/liabilities

	31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Commodity derivatives			
– Futures	**61,206**	**1,511**	**(1,873)**
– Options	**20,224**	**54**	**(142)**
Total	**81,430**	**1,565**	**(2,015)**
Less: settlement		**(1,511)**	**1,873**
Net position		**54**	**(142)**

	31 December 2017		
		Fair value	
	Notional amount	Assets	Liabilities
Commodity derivatives			
– Futures	24,252	277	(231)
– Options	5,802	49	(26)
Total	30,054	326	(257)
Less: settlement		(277)	231
Net position		49	(26)

27 Cash held on behalf of brokerage clients

	31 December 2018	31 December 2017
Cash held on behalf of brokerage clients	**1,543,210**	2,290,147

The Group maintains segregated deposit accounts with banks to hold clients' monies arising from its normal course of brokerage business. The Group has classified their brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statement of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that they are liable for any loss or misappropriation of their brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the China Securities Regulatory Commission (the "CSRC"). In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

28 Cash and bank balances

	Note	31 December 2018	31 December 2017
Bank deposits with original maturity over 3 months		**100,000**	398,949
Restricted bank deposits		**–**	37,006
Cash and cash equivalents	29(a)	**827,727**	476,817
Interest receivable of bank deposits		**12,963**	–
		940,690	912,772

As at 31 December 2018, there was no restricted bank deposits (31 December 2017: restricted bank deposits amount is RMB37,006 thousand). The restricted bank deposits as of 31 December 2017 were collected during the fund raising period of the collective asset management plans or collected from the consolidation of management plans, which are required to place at designated bank accounts.

29 Cash and cash equivalents

(a) Cash and cash equivalents comprise

	31 December 2018	31 December 2017
Deposits with banks and other financial institutions	**827,727**	476,816
Cash on hand	**–**	1
	827,727	476,817

Cash and cash equivalents exclude bank deposits with original maturity of more than three months, restricted bank deposits and interest receivable of bank deposits.

29 Cash and cash equivalents

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018	2017
Profit before taxation		**113,521**	129,548
Adjustments for:			
Depreciation and amortisation	7(c)	**3,507**	3,863
Net unrealised fair value changes		**28,584**	1,449
Share of (gains)/losses of associates		**(5,630)**	1,665
Dividend income from investments	4	**(14,975)**	(9,677)
Net realised losses/(gains) from financial instruments		**12,675**	(3,026)
Interest income from asset management plans and trust schemes	3(b)	**–**	(5,763)
Interest income from interest-bearing financial instruments	3(b)	**(252)**	(99)
Loss on disposal of property, plant and equipment		**47**	67
Net foreign exchange (gains)/losses	6	**(3,436)**	6,622
Finance cost		**948**	–
Operating cash flows before movements in working capital		**134,989**	124,649
Decrease/(increase) in refundable deposits		**302,787**	(368,996)
Decrease/(increase) in trade receivables		**3,077**	(3,077)
Decrease/(increase) in other receivables		**30,462**	(10,088)
Decrease/(increase) in inventories		**37,606**	(37,606)
Decrease/(increase) in other current assets and non-current assets		**10,735**	(8,353)
Decrease/(increase) in financial assets at fair value through profit or loss		**631,647**	(631,345)
Increase in derivative financial assets		**(5)**	(24)
Decrease/(increase) in cash held on behalf of brokerage clients		**746,937**	(111,211)
Decrease in term deposits with original maturity over three months		**298,949**	233,244
Decrease/(increase) in restricted bank deposits		**37,006**	(27,684)
Increase in interest receivable of bank deposits		**(12,963)**	–
(Decrease)/increase in accounts payable to brokerage clients		**(1,100,798)**	525,330
(Decrease)/increase in other payables		**(13,229)**	23,951
Increase/(decrease) in derivative financial liabilities		**116**	(1,404)
(Decrease)/increase in financial liabilities at fair value through profit or loss		**(422,967)**	398,506
Cash generated from operations		**684,349**	105,892

30 Accounts payable to brokerage clients

	31 December 2018	31 December 2017
Clients' deposits for brokerage business	**2,465,323**	3,566,121

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are held at banks and at futures and commodity exchanges by the Group.

The majority of the accounts payable balance 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.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of these businesses.

31 Other payables

	31 December 2018	31 December 2017
Deposits from clients	**35,946**	–
Employee benefits payables	**8,658**	24,953
Commission payable to brokers	**2,020**	2,621
Tax and surcharges payables	**739**	5,282
IPO service fees payable	**730**	2,558
Payable to investors protection funds	**180**	180
Payable to investors of collective asset management plans	**–**	26,210
Others	**6,794**	8,241
Total	**55,067**	70,045

32 Financial liabilities at fair value through profit or loss

	31 December 2018	31 December 2017
Financial liabilities designated at fair value through profit or loss		
– Payables	**1,890**	424,857

Payables held by the Group have been designated at fair value through profit or loss because these payables are managed, evaluated and reported internally on a fair value basis in accordance with its documented investment strategy.

33 Income tax

(a) Current taxation

	Note	31 December 2018	31 December 2017
At the beginning of the year		**9,568**	4,719
Provision for the year	8(a)		
– PRC corporate income tax		**26,759**	29,586
– Hong Kong profits tax		**–**	–
Tax paid			
– PRC corporate income tax		**(33,654)**	(24,737)
– Hong Kong profits tax		**–**	–
At the end of the year		**2,673**	9,568

(b) Deferred tax assets recognised

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the year are as follows:

Deferred tax arising from:	Employee benefits payable	Accrued expenses	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of derivative financial instruments	Impairment of available-for-sale financial assets	Changes in fair value of available-for-sale financial assets	Total
As at 1 January 2017	5,750	26	(8)	199	85	(1,457)	4,595
Credited/(charged) to profit or loss	352	966	699	(215)	–	–	1,802
Credited to reserves	–	–	–	–	–	1,490	1,490
As at 31 December 2017	6,102	992	691	(16)	85	33	7,887
Impact on initial application of HKFRS 9	**-**	**-**	**118**	**-**	**(85)**	**(33)**	**-**
As at 1 January 2018	**6,102**	**992**	**809**	**(16)**	**-**	**-**	**7,887**
(Charged)/credited to profit or loss	**(4,032)**	**(250)**	**5,820**	**128**	**-**	**-**	**1,666**
As at 31 December 2018	**2,070**	**742**	**6,629**	**112**	**-**	**-**	**9,553**

(c) Reconciliation to the consolidated statements of financial position

	31 December 2018	31 December 2017
Net deferred tax assets recognised in the consolidated statement of financial position	**9,553**	7,887

33 Income tax (continued)

(d) Recognised in other comprehensive income

	2018		
	Before tax	Tax benefit/(expense)	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	–	–	–
– Reclassified to profit or loss	–	–	–
Total	–	–	–

	2017		
	Before tax	Tax benefit/(expense)	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	(11,893)	2,973	(8,920)
– Reclassified to profit or loss	5,933	(1,483)	4,450
Total	(5,960)	1,490	(4,470)

(e) Deferred tax assets not recognised

As at 31 December, temporary difference relating to the goodwill impairment of RMB9,845 thousand (31 December 2017: RMB9,845 thousand) is not recognised. According to Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China, the expenditure incurred in externally purchased goodwill shall be deductible at the time of whole transfer or liquidation of the acquired assets and liabilities. As the Group is operating on the going concern basis and there is no plan of transfer or liquidation of the acquired assets and liabilities, the deferred tax assets arising from the goodwill impairment is not recognised.

As at 31 December 2018, in accordance with the accounting policy set out in Note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB7,881 thousand (31 December 2017: RMB5,041 thousand), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

34 Share capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

		Reserves					
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Distributable profits	Total
As at 1 January 2018	**907,000**	**526,722**	**40,377**	**182,509**	**9,618**	**87,277**	**1,753,503**
Impact on initial application of HKFRS 9	**–**	**–**	**–**	**–**	**236**	**(236)**	**–**
Adjusted balance at 1 January 2018	**907,000**	**526,722**	**40,377**	**182,509**	**9,854**	**87,041**	**1,753,503**
Changes in equity for 2018							
Profit for the year	**–**	**–**	**–**	**–**	**–**	**98,192**	**98,192**
Other comprehensive income	**–**	**–**	**–**	**–**	**(9,705)**	**–**	**(9,705)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(9,705)**	**98,192**	**88,487**
Appropriation of profits							
Appropriation to surplus reserve	**–**	**–**	**9,028**	**–**	**–**	**(9,028)**	**–**
Appropriation to general reserve	**–**	**–**	**–**	**16,941**	**–**	**(16,941)**	**–**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**(72,560)**	**(72,560)**
As at 31 December 2018	**907,000**	**526,722**	**49,405**	**199,450**	**149**	**86,704**	**1,769,430**
As at 1 January 2017	907,000	526,722	31,415	164,115	4,384	70,000	1,703,636
Changes in equity for 2017							
Profit for the year	–	–	–	–	–	99,053	99,053
Other comprehensive income	–	–	–	–	5,234	–	5,234
Total comprehensive income	–	–	–	–	5,234	99,053	104,287
Appropriation of profits							
Appropriation to surplus reserve	–	–	8,962	–	–	(8,962)	–
Appropriation to general reserve	–	–	–	18,394	–	(18,394)	–
Dividends approved in respect of the previous year	–	–	–	–	–	(54,420)	(54,420)
As at 31 December 2017	907,000	526,722	40,377	182,509	9,618	87,277	1,753,503

34 Share capital and reserves (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	31 December 2018	31 December 2017
Final dividend proposed after the end of the reporting period	**72,560**	72,560

Pursuant to the Board meeting held on 22 March 2019, the Company proposed to pay a total cash dividend of RMB72,560 thousand to all shareholders based on 907,000,000 shares issued as at 31 December 2018, which is RMB0.08 per share (inclusive of applicable tax). The actual total cash dividend shall be determined based on total shares issued at the equity registration date on 18 June 2019. The proposed final dividend is subject to shareholders' approval at the 2018 annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	31 December 2018	31 December 2017
Final dividend in respect of the previous financial year, approved and paid during the year	**72,560**	54,420

(c) Share capital

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	2018	2017
Number of shares registered, issued and fully paid (at RMB1 per share)		
At 1 January	**907,000**	907,000
At 31 December	**907,000**	907,000

34 Share capital and reserves (continued)

(d) Reserves

(i) Capital reserve

Capital reserve mainly includes share premium arising from investors' capital injection and the issuance of shares at prices in excess of par value.

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. The entities established in the PRC are required to appropriate 10% of its net profit as determined under the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP") issued by the MOF, to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Subject to the approval of equity holders of the entities established in the PRC, statutory surplus reserve may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

(iii) General reserve

General reserve includes general risk reserve and futures risk reserve.

In accordance with the requirements of the MOF Circular regarding the Implementation Guidance of Rules on the Accounting by Financial Enterprises (Caijin [2007] No. 23) issued on 30 March 2007, the Company appropriates 10% of its annual net profit as determined under PRC GAAP 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 Company appropriates the futures risk reserve based on 5% of the commission and fee income from futures brokerage services 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 distributable 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.

(iv) Fair value reserve

The fair value reserve comprises the cumulative net changes in share of other comprehensive income from associates. Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to retained earnings upon the initial adoption of HKFRS 9 at 1 January 2018 (see Note 1(c)(i)).

(v) Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

(vi) Distributable profits

The Company's distributable profits for equity shareholders are based on the distributable profits of the Company as determined under the PRC GAAP and HKFRS, whichever is lower.

35 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to price risk arising from equity securities and commodities. The Group also needs to comply with some risk control indicators under the PRC regulatory requirements in relation to capital management.

The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described as below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group's credit risk is primarily attributable to other non-current assets, refundable deposits, trade receivables, other receivables, financial assets at fair value through profit or loss, financial assets held under resale agreements, derivative financial assets, cash held on behalf of brokerage clients and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Without taking into account of collaterals or other credit enhancements, the maximum credit exposure of the Group is the carrying amount net of impairment allowance.

Substantially all of the Group's cash held on behalf of brokerage clients and bank balances are deposited in PRC and HK banks with good reputation which management assessed the credit risk to be insignificant.

The Group do not provide any guarantees which would expose the Group to any credit risk.

(i) Other non-current assets, refundable deposits, trade receivables and other receivables

Before the application of HKFRS 9 on 1 January 2018

Other non-current assets are deposits with HKFE required as the condition to provide brokerage service in Hong Kong.

Refundable deposits are mainly deposits with futures and commodity exchanges in the PRC for the purpose of settlement on behalf of customers. The futures and commodity exchanges are supervised by relevant regulators and considered to have minimal credit risk.

Trade receivables are receivables of proceeds from selling commodities to enterprise which management considered to have minimal credit risk.

Other receivables are mainly receivable of interest receivables, which management assessed the credit risk to be low.

35 Financial risk management and fair values of financial instruments (continued)

(i) Other non-current assets, refundable deposits, trade receivables and other receivables (continued)

After the application of HKFRS 9 on 1 January 2018 (continued)

The Group measures loss allowances for other non-current assets, refundable deposits, trade receivables and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix based on Overdue Days and LGD. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

(ii) Debt instrument investments

Before the application of HKFRS 9 on 1 January 2018

Available-for-sale financial assets are mainly investments into trust schemes and bonds. As the Group mainly invested in trust schemes and bonds issued by financial institutions with good reputation, the credit risk is considered to be low.

After the application of HKFRS 9 on 1 January 2018

The Group generally invests only in securities with active markets to limit its credit risk exposure.

The book value of the Group's debt instrument investments is shown as follows:

	31 December 2018	31 December2017
Financial assets at fair value through profit or loss		
– Listed bonds	**7,259**	–
Available-for-sale financial assets		
– Bonds	**–**	10,209
– Trust schemes	**–**	28,000
Total	**7,259**	38,209

35 Financial risk management and fair values of financial instruments (continued)

(ii) Debt instrument investments (continued)

Credit risk exposure

On 31 December, 2018, the credit quality analysis of the Group's debt investments is listed as follows according to the measurement category. This table reflects whether the Group's financial assets measured at amortized cost has been impaired in terms of the lifetime ECL.

	31 December 2018					31 December 2017
			Measured at amortized cost			
	fair value through profit or loss	fair value through OCI – 12-month ECL	12-month ECL	Lifetime ECL for not credit-impaired	Lifetime ECL for credit-impaired	Available-for-sale financial assets
Book value		–	–	–	–	38,209
Loss allowances		–	–	–	–	–
Net value		–	–	–	–	38,209
Carrying value	7,259	–	–	–	–	38,209

(iii) Derivative financial assets

Derivative financial assets are futures and options mainly signed with clients traded through over-the-counter market. The counterparties should be banks and financial institutions with good credit ratings and had signed netting agreements. As the counterparties have no recent history of default, the credit risk is considered to be low.

35 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Board when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor its liquidity requirement and its compliance with lending covenants if any, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long-term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group, as applicable, can be required to pay:

	2018 Contractual undiscounted cash flow			
	On demand	**Within 1 year**	**Total**	**Carrying amount at 31 December**
Accounts payable to brokerage clients	**2,465,323**	**–**	**2,465,323**	**2,465,323**
Other payables	**–**	**55,067**	**55,067**	**55,067**
Financial liabilities at fair value through profit or loss	**–**	**1,890**	**1,890**	**1,890**
Derivative financial liabilities	**–**	**142**	**142**	**142**
Total	**2,465,323**	**57,099**	**2,522,422**	**2,522,422**

	2017 Contractual undiscounted cash flow			
	On demand	**Within 1 year**	**Total**	**Carrying amount at 31 December**
Accounts payable to brokerage clients	3,566,121	–	3,566,121	3,566,121
Other payables	–	64,740	64,740	64,740
Financial liabilities at fair value through profit or loss	–	424,857	424,857	424,857
Derivative financial liabilities	–	26	26	26
Total	3,566,121	489,623	4,055,744	4,055,744

35 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

Interest rate risk refers to the likelihood of loss that may arise from adverse movements in the market interest rate. The Group's interest rate risk mainly arises from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities.

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the end of the reporting period:

	31 December 2018		31 December 2017	
	Effective interest rate	Amount	Effective interest rate	Amount
Fixed rate instruments				
Refundable deposits	**1.95%**	**374,923**	1.95%	231,471
Cash held on behalf of brokerage clients	**2.24%-5.70%**	**1,493,398**	0.85%-7.00%	2,236,420
Bank balances	**2.17%-4.20%**	**613,883**	1.62%-5.70%	698,949
Financial assets held for trading	**0.30%-7.80%**	**7,260**	N/A	N/A
Variable rate instruments				
Available-for-sale financial assets	**N/A**	**N/A**	5.02%-5.30%	38,209
Cash held on behalf of brokerage clients	**0.001%~3.20%**	**49,812**	0.001%-3.50%	53,727
Bank balances	**0.001%~2.70%**	**313,844**	0.001%-1.98%	213,822

(ii) Sensitivity analysis

– Fair value sensitivity analysis for fixed rate financial instruments

Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit and equity	
	31 December 2018	31 December 2017
Changes in basis points		
Increase 100 basis points	**(1,226)**	–
Decrease 100 basis points	**1,485**	–

35 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis (continued)

– Cash flow sensitivity analysis for variable rate financial instruments

Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit and equity	
	31 December 2018	31 December 2017
Changes in basis points		
Increase 100 basis points	**2,727**	2,293
Decrease 100 basis points	**(1,706)**	(1,205)

In respect of the exposure to cash flow interest rate risk arising from variable rate instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualized impact on interest income of such a change in interest rates. The analysis is performed on the same basis at the end of the reporting period.

(d) Currency risk

As the main business of the Group is concentrated in mainland China and settled in RMB, therefore, except for Hong Kong dollars bank deposits arising from issuance of shares, there is no material currency risk for the Group as the majority of the business activities are within mainland China and settle in RMB. The currency giving rise to this risk is primarily Hong Kong Dollars. As most of the proceeds from issuance of shares upon public offering are converted into RMB by the Company during the reporting period, the currency risk is assessed to be low.

(i) Exposure to currency risk

	Exposure to foreign currencies (expressed in RMB thousands)		Exposure to foreign currencies (expressed in RMB thousands)	
	31 December 2018 Foreign currency	31 December 2018 Reporting currency	31 December 2017 Foreign currency	31 December 2017 Reporting currency
Cash and bank balances				
– Hong Kong Dollars	**97,334**	**85,284**	105,641	88,307
– US Dollars	**19**	**124**	N/A	N/A

35 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following tables indicates the instantaneous change in the Group's net profit and equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	Sensitivity of net profit and equity	
	31 December 2018	**31 December 2017**
Changes in the Hong Kong dollars exchange rate		
Increase by 10%	**6,396**	6,623
Decrease by 10%	**(6,396)**	(6,623)
Changes in the U S dollars exchange rate		
Increase by 10%	**9**	–
Decrease by 10%	**(9)**	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Group's net profit and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2017.

(e) Price risk

The Group is exposed to equity price changes and commodity price changes arising from the investments concluded in available-for-sale financial assets (see Note 24), financial assets/liabilities at fair value through profit or loss (see Notes 25 and 32) and derivative financial assets/liabilities (see Note 26). Price risk the Group facing is mainly the proportionate fluctuation in the Group's net profit and equity due to the price fluctuation of the available-for-sale financial assets, financial assets/liabilities at fair value through profit or loss and derivative financial assets/liabilities.

35 Financial risk management and fair values of financial instruments (continued)

(e) Price risk (continued)

Sensitivity analysis

The analysis below is performed to show the impact on the Group's net profit and equity due to change in the prices of equity securities by 10% and the commodity prices by 10% with all other variables held constant.

	Sensitivity of net profit	
	31 December 2018	**31 December 2017**
Changes in the equity price risk variable		
Increase by 10%	**4,431**	2,793
Decrease by 10%	**(4,431)**	(2,817)
Changes in the commodity price risk variable		
Increase by 10%	**(494)**	(464)
Decrease by 10%	**494**	464

	Sensitivity of equity	
	31 December 2018	**31 December 2017**
Changes in the equity price risk variable		
Increase by 10%	**4,431**	2,982
Decrease by 10%	**(4,431)**	(2,982)
Changes in the commodity price risk variable		
Increase by 10%	**(494)**	(464)
Decrease by 10%	**494**	464

The sensitivity analysis indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the changes in the stock market index and commodity futures market had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity and commodity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments and hedging investments would change in accordance with the historical correlation with the relevant stock market index and commodity futures price with all other variables remain constant. The analysis is performed on the same basis for 2017.

35 Financial risk management and fair values of financial instruments (continued)

(f) Capital management

The Group's objectives of capital management are:

(i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;

(ii) To support the Group's stability and growth;

(iii) To maintain a strong capital base to support the development of their business; and

(iv) To comply with the capital requirements under the PRC regulations.

According to the Notice of "Decision on Revising <Futures company's regulatory risk management index pilot scheme>" 《期貨公司風險監管指標管理辦法》 ("Administrative Measures") issued by the CSRC on 7 February 2017, the Company is required to meet the following standards for risk control indicators on a continual basis:

(i) The Net Capital shall not be less than RMB30 million;

(ii) The ratio between Net Capital and the Company's risk capital provision shall not be less than 100%;

(iii) The ratio between Net Capital and net assets shall not be less than 20%;

(iv) The ratio between current assets and current liabilities shall not be less than 100%;

(v) The ratio between liabilities and net assets shall not be higher than 150%; and

(vi) The requirements of minimum settlement provision

Net Capital refers to net assets minus risk adjustments on certain types of assets and liabilities as defined in the Administrative Measures.

During the reporting period, the Company has taken sufficient measures to maintain the above ratios in compliance with the relevant capital requirements.

The subsidiaries of the Group are not subject to capital requirements under the PRC and Hong Kong regulatory requirements. The subsidiaries do not need to comply with the relevant capital requirements during the reporting period.

35 Financial risk management and fair values of financial instruments (continued)

(g) Fair value measurement

Financial assets and liabilities measured at fair value-Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyses financial instruments, measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

35 Financial risk management and fair values of financial instruments (continued)

(g) Fair value measurement (continued)

	Fair value as at 31 December 2018	Fair value measurements 31 December 2018 categorized into			Fair value as at 31 December 2017	Fair value measurements 31 December 2017 categorized into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Available-for-sale financial assets:								
Equity instruments								
– Listed equity securities	-	-	-	-	2,184	2,184	–	–
Asset management plans	-	-	-	-	62,359	–	–	62,359
Trust schemes	-	-	-	-	28,000	–	–	28,000
Funds	-	-	-	-	18,102	–	18,102	–
Bonds	-	-	-	-	10,209	–	10,209	–
Wealth management products	-	-	-	-	10,181	–	–	10,181
Financial assets at fair value through profit or loss:								
Equity securities	59,080	57,755	1,325	-	37,244	35,919	1,325	–
Funds	433,153	406,349	26,804	-	210,899	194,701	16,198	–
Asset backed securities	-	-	-	-	614,000	–	–	614,000
Asset management plans	35,747	-	-	35,747	–	–	–	–
Bonds	7,260	7,260	-	-	–	–	–	–
Wealth management products	5,566	-	-	5,566	–	–	–	–
Trust schemes	19,065	-	-	19,065	–	–	–	–
Derivative financial assets	54	54	-	-	49	17	–	32
Liabilities:								
Financial liabilities at fair value through profit or loss:								
Payables	(1,889)	-	-	(1,889)	(424,857)	–	–	(424,857)
Derivative financial liabilities	(142)	-	-	(142)	(26)	(26)	–	–
Total	557,894	471,418	28,129	58,347	568,344	232,795	45,834	289,715

There were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 during the reporting period. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

35 Financial risk management and fair values of financial instruments (continued)

(g) Fair value measurement (continued)

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the 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 mainly included in Level 1 comprise securities traded on exchanges and funds investments traded through exchanges.

(ii) 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 maximise 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.

(iii) Valuation methods

As at 31 December, the Group's valuation methods for specific investments are as follows:

(1) For listed equity securities, fair value is determined based on the closing price of the equity securities as at the end of the reporting period, within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.

(2) For exchange-listed open-ended investment funds, fair value is determined based on the closing price within bid-ask spread as at the end of the reporting period or the most recent trading date. For unlisted open-end funds, fair value is determined by quoted price which is based on the net asset value as at the end of the reporting period.

(3) For futures and options traded through exchanges, fair value is determined based on the closing price of the commodity futures and options as at the end of the reporting period.

(4) For options traded through over-the-counter market, fair values are determined using valuation techniques based on observable commodity futures market data with similar characteristics.

(5) For debt securities traded through the inter-bank bond market and OTC market, fair values are determined using valuation techniques.

(6) For asset management plans, trust schemes, asset backed securities, unlisted funds and wealth management products, fair value is determined based on the net asset value as at the reporting date.

35 Financial risk management and fair values of financial instruments (continued)

(g) Fair value measurement (continued)

(iv) Financial instruments in Level 3

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2018	714,540	32	(424,857)	-	289,715
Purchases	342,990	-	(2,000)	-	340,990
Gains or losses for the year	(4,818)	(32)	(32)	(142)	(5,024)
Sales and settlements	(992,334)	-	425,000	-	(567,334)
As at 31 December 2018	60,378	-	(1,889)	(142)	58,347
Total gains or losses for the year included in profit or loss for assets held at the end of reporting period	(5,095)	-	111	(142)	(5,126)

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2017	250,333	–	–	(26,351)	(1,358)	222,624
Purchases	100,300	614,000	–	(425,000)	–	289,300
Changes in fair value recognised in other comprehensive income	(952)	–	–	–	–	(952)
Gains or losses for the year	497	–	32	(19)	1,358	1,868
Sales and settlements	(249,638)	–	–	26,513	–	(223,125)
As at 31 December 2017	100,540	614,000	32	(424,857)	–	289,715
Total gains or losses for the year reclassified from other comprehensive income on disposal	497	–	–	–	–	497
Total gains or losses for the year included in profit or loss for assets held at the end of reporting period	–	–	32	143	–	175

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

35 Financial risk management and fair values of financial instruments (continued)

(g) Fair value measurement (continued)

(iv) Financial instruments in Level 3 (continued)

Financial instruments	Valuation technique(s) a nd key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Asset management plans, trust schemes, funds, wealth management products and asset backed securities	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
Over-the-counter options	Bloomberg OVML function, with Black-Scholes PDE solved using Crank-Nicholson finite-difference scheme	Implied volatility	The higher the implied volatility, the higher the fair value
Payables	Underlying financial instruments valuation and contract distribution method	Contract distribution method	The higher the distribution rate, the higher the fair value

Fair value of financial assets and liabilities carried at other than fair value

For those financial assets and liabilities that are due within one year, their carrying amounts are close to their fair values. The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values during the reporting period.

36 Commitments

(a) Capital commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	As at 31 December 2018	As at 31 December 2017
Contracted for	**42,000**	42,000
Authorised but not contracted for	**36,000**	30,000
Total	**78,000**	72,000

36 Commitments (continued)

(b) Operating lease commitments

At 31 December, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	31 December 2018	31 December 2017
Within 1 year	**14,005**	16,043
After 1 year but not more than 2 years	**11,112**	4,722
After 2 years but not more than 3 years	**8,883**	3,631
After 3 years	**1,819**	3,726
Total	**35,819**	28,122

37 Contingencies

(a) On 17 July 2016, one of the Company's former employee and his wife, entered into personal lending agreements with three individual customers, whereby the three customers agreed to lend them money with the Company being appointed as the guarantor without its approval. The Company became aware of such personal lending agreements on 18 July 2016 and reported it to the public security authority on 21 July 2016.

On 25 July 2016, two of the customers filed lawsuits against the former employee and his wife as well as the Company with the People's Court of Jing Hai District of Tianjin City (the "Jing Hai Court"). One customer claimed for: (1) the repayment of RMB3 million loan together with interests at a monthly interest rate of 2% for the period starting from 17 July 2016 to the date of actual settlement of loan; and (2) the cost of proceedings (the "first lawsuit"). Another customer claimed for: (1) the repayment of RMB1.7 million loan; and (2) the cost of proceedings (the "second lawsuit").

On 26 July 2017, the Jing Hai Court delivered its first trial judgement of the first lawsuit and held that the former employee and his wife should repay the RMB3 million loan together with interests at a monthly interest rate of 2% for the period starting from 17 July 2016 to the date of actual settlement of loan and the Company should undertake to repay 50% of any unsettled amount. On 16 October 2017, the Tianjin Municipal First Intermediate People's Court delivered its second trial judgement of the first lawsuit and dismissed the appeal.

On 4 August 2017, the Jing Hai Court delivered its first trial judgement of the second lawsuit and held that the former employee and his wife should repay the RMB1.42 million loan and the Company should undertake to repay 50% of any unsettled amount. On 15 November 2017, the Tianjin Municipal First Intermediate People's Court delivered its second trial judgement of the second lawsuit and dismissed the appeal.

Based on facts, pledged assets available for compensation and legal advices at this juncture, the directors consider no provision in the consolidated financial statements is required.

37 Contingencies (continued)

On 19 August 2016, a third customer filed lawsuit against the former employee and his wife as well as the Company and another company controlled by the former employee with the Jing Hai Court. The claims are: (1) the repayment of RMB3.71 million loan together with interests at a monthly interest rate of 2% for the period starting from 18 July 2016 to the date of actual settlement of loan; and (2) the cost of proceedings. On 1 December 2016, the Jing Hai Court rejected the lawsuit. On 4 June 2018, the customer resumed to file lawsuit against the former employee and his wife as well as the Company and another company controlled by the former employee with the Jing Hai Court. The claims are: (1) the repayment of RMB4.83 million loan together with interests at a monthly interest rate of 2% for the period starting from 27 October 2016 to the date of actual settlement of loan of RMB 1.79 million; and (2) the cost of proceedings.

On 15 January 2019, the Jing Hai Court decided to freeze the deposit of RMB 6.7 million in the bank account of the Company following the application by the customer. As at the date of this report, the legal proceedings are still ongoing.

Based on facts, circumstances and legal advices at this juncture, the directors consider no provision in the consolidated financial statements is required.

(b) On 3 November 2017, two individual customers filed lawsuits against the Company with the People's Court of Dongcheng District of Beijing City (the "Dongcheng Court"), alleging that one of the Company's former employees had used their funds for investment in wealth management product to carry out unauthorised futures trading which resulted in losses.

One customer claimed for: (1) the repayment of RMB1.5 million investment together with interest and (2) the cost of proceedings. Another customer claimed for: (1) the repayment of RMB8.35 million investment together with interest; and (2) the cost of proceedings.

On 6 November 2018, the "Dongcheng Court" delivered its first trial judgement of the two lawsuits and dismissed the two customers' litigation request. Following which, the two customers proceeded to appeal against the trial judgement. As at the date of this report, the legal proceedings are still ongoing.

Based on facts, circumstances and legal advices at this juncture, the directors consider no provision in the consolidated financial statements is required.

Except for the above, as at 31 December 2018, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expect would have significant adverse impact on the financial position and financial performance.

38 Material related party transactions

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership.

Share percentage in the Company

	31 December 2018	31 December 2017
Jiangsu SOHO Holding Group Co., Ltd.	**30.37%**	30.37%
Jiangsu Holly Corporation * (江蘇弘業股份有限公司)	**16.31%**	16.31%
Jiangsu Holly Su Industrial Co., Ltd. * (江蘇弘蘇實業有限公司)	**15.83%**	15.83%
Jiangsu High Hope International Group Co., Ltd. * (江蘇匯鴻國際集團股份有限公司)	**7.05%**	7.05%

* The English translation of the name of the company is for reference only. The official name of the company is in Chinese.

SOHO Holding is the parent of the Group during the reporting period.

(ii) Subsidiaries of the Company

Details of the Company's subsidiaries are disclosed in Note 16.

(iii) Associates

Details of the Group's associates are disclosed in Note 17.

(iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.

(b) Related party transactions and balances

(i) Transactions between the Group and shareholders

	31 December 2018	31 December 2017
Accounts payable to brokerage clients	**259**	259

	2018	2017
Transactions during the year		
Operating lease charges	**6,635**	5,041

38 Material related party transactions (continued)

(b) Related party transactions and balances (continued)

(ii) Transactions between the Group and associates

	31 December 2018	31 December 2017
Balances at the end of the year		
Other payables	**–**	227

(iii) Transactions between the Group and other related parties

	31 December 2018	31 December 2017
Balances at the end of the year		
Accounts payable to brokerage clients	**6**	2,920
Financial assets at fair value through profit or loss	**19,452**	–
Available-for-sale financial assets	**–**	28,283

	2018	2017
Transactions during the year		
Commission and fee income	**20**	270
Repair and maintenance expenses	**670**	30
Property management expenses	**–**	579
Service fee	**1,212**	–
Others	**131**	76

(iv) Transactions between the Company and subsidiaries

	31 December 2018	31 December 2017
Balances at the end of the year		
Accounts payable to brokerage clients	**190,775**	136,035

	2018	2017
Transactions during the year		
Commission and fee income	**76**	59

38 Material related party transactions (continued)

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 9 and certain of the five highest paid individuals as disclosed in Note 10, are as follows:

	2018	2017
Short-term employee benefits		
– Fees, salaries, allowances and bonuses	**5,127**	4,396
Post-employment benefits		
– Contributions to pension scheme	**384**	372
Total	**5,511**	4,768

Total remuneration is included in "staff costs" (see Note 7(a)).

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of Note 38(b)(i) and Note 38(b)(iii) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in Section VIII "Other Material Matters".

39 Segment reporting

The Group manages and conducts its business activities by business segments. In a manner consistent with the way in which statements is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following segments:

– The futures brokerage and asset management business segment engages in the trading of commodity futures and financial futures on behalf of clients, and also developing and selling asset management products and services based on the asset scale and clients' needs. In addition, the activities of investing in asset management plans, wealth management products issued by banks, listed and securities, trust schemes, funds, derivative financial instruments are included in this segment.

– The commodity trading and risk management business segment engages in providing the services of purchase and resale of commodities, futures arbitrage and hedging.

39 Segment reporting (continued)

(a) Business segments

For the year ended 31 December 2018

	Futures brokerage and asset management business	Commodity trading and risk management business	Total
Revenue			
– External	300,622	33,212	333,834
– Inter-segment	76	–	76
Other income and gains/(loss)			
– External	259	(27,760)	(27,501)
– Inter-segment	–	(76)	(76)
Segment revenue and other income	300,957	5,376	306,333
Segment expenses	(190,592)	(7,850)	(198,442)
Segment operating profit/(loss)	110,365	(2,474)	107,891
Share of gains of associates	5,630	–	5,630
Profit before taxation	115,995	(2,474)	113,521
Interest income	128,353	86	128,439
Depreciation and amortisation	(3,483)	(24)	(3,507)
Segment assets	4,203,763	283,766	4,487,529
Additions to non-current segment assets during the year	7,266	25	7,291
Segment liabilities	(2,678,706)	(37,164)	(2,715,870)

39 Segment reporting (continued)

(a) Business segments (continued)

For the year ended 31 December 2017

	Futures brokerage and asset management business	Commodity trading and risk management business	Total
Revenue			
– External	335,540	7,194	342,734
– Inter-segment	59	–	59
Other income and gains			
– External	9,265	17	9,282
– Inter-segment	–	(59)	(59)
Segment revenue and other income	344,864	7,152	352,016
Segment expenses	(214,948)	(5,855)	(220,803)
Segment operating profit	129,916	1,297	131,213
Share of losses of associates	(1,665)	–	(1,665)
Profit before taxation	128,251	1,297	129,548
Interest income	137,478	879	138,357
Depreciation and amortisation	(3,837)	(26)	(3,863)
Segment assets	5,710,952	254,125	5,965,077
Additions to non-current segment assets during the year	4,262	4	4,266
Segment liabilities	(4,200,164)	(6,488)	(4,206,652)

39 Segment reporting (continued)

(a) Business segments (continued)

Reconciliations of segment revenues, profit or loss, assets and liabilities:

	2018	2017
Revenue and other income		
Total revenue and other income for segments	**306,333**	352,016
Elimination of inter-segment revenue	**(76)**	(59)
Elimination of inter-segment other income and gains	**76**	59
Consolidated revenue and other income	**306,333**	352,016
Profit		
Total profit before tax for segments	**113,521**	129,548
Elimination of inter-segment profit	**–**	–
Consolidated profit before income tax	**113,521**	129,548

	31 December 2018	31 December 2017
Assets		
Total assets for segments	**4,487,529**	5,965,077
Elimination of inter-segment assets	**(190,775)**	(136,035)
Consolidated total assets	**4,296,754**	5,829,042
Liabilities		
Total liabilities for segments	**(2,715,870)**	(4,206,652)
Elimination of inter-segment liabilities	**190,775**	136,035
Consolidated total liabilities	**(2,525,095)**	(4,070,617)

39 Segment reporting (continued)

(b) Geographical segments

The following table sets out statements about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, goodwill and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interest in associates.

	2018			2017		
	Mainland China	Hong Kong	Total	Mainland China	Hong Kong	Total
Segment revenue						
Revenue from external customers	**324,816**	**9,018**	**333,834**	332,727	10,007	342,734
Other (loss)/income	**(22,753)**	**(4,748)**	**(27,501)**	8,928	354	9,282
Total	**302,063**	**4,270**	**306,333**	341,655	10,361	352,016

	31 December 2018			31 December 2017		
	Mainland China	Hong Kong	Total	Mainland China	Hong Kong	Total
Specified non-current assets	**92,650**	**1,119**	**93,769**	93,128	777	93,905

40 Interest in structured entities

(a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group are the asset management plans where the Group involves as manager and also as investor. The Group assesses whether the investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management product to a level of such significance that it indicates the Group is a principal.

As at 31 December 2018, the total assets of the consolidated asset management plans are RMB11,591 thousand (31 December 2017: RMB639,774 thousand), and the carrying amount of interests held by the Group in the consolidated asset management plans are RMB9,702 thousand (31 December 2017: RMB214,917 thousand), which are accounted for financial assets at fair value through profit or loss, cash and bank balances and other payables.

40 Interest in structured entities (continued)

(b) Structured entities sponsored by third party institutions in which the Group holds an interest

The types of structured entities that the Group does not consolidate but in which it holds an interest include asset management plans, trust schemes, funds, bonds and wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at 31 December, which are listed as below:

	31 December 2018
	Financial assets at fair value through profit or loss
Asset management plans	9,823
Trust schemes	19,065
Funds	433,153
Wealth management products	5,565
Total	467,606

	31 December 2017		
	Available for-sale financial assets	Financial assets at fair value through profit or loss	Total
Asset management plans	38,800	–	38,800
Trust schemes	28,000	–	28,000
Funds	18,102	194,701	212,803
Wealth management products	10,181	–	10,181
Total	95,083	194,701	289,784

40 Interest in structured entities (continued)

(b) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)

During the reporting periods, the comprehensive income from the unconsolidated structured entities held by the Group was as follows:

	2018	2017
Revenue	**–**	2,803
Net investment gains		
– Net realized gains/(losses)	**2,514**	(5,826)
– Net unrealized fair value changes	**(13,713)**	1,078
– Dividend income	**12,228**	9,199
Other comprehensive income	**–**	(1,717)
Total	**1,029**	5,537

The maximum exposure to loss for asset management plans, trust schemes, funds and wealth management products are the fair value as at 31 December.

(c) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest

The types of unconsolidated structured entities sponsored by the Group include asset management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. Interest held by the Group includes fees charged by providing asset management services, interest income and investment income generated by investing into asset management plans.

As at 31 December 2018, the amount of assets held by the unconsolidated asset management products, which are sponsored by the Group is RMB13,542,476 thousand (31 December 2017: RMB864,372 thousand).

During the reporting period, the comprehensive income from the above mentioned structured entities was as follows:

	2018	2017
Revenue		
– Commission and fee income	**5,969**	2,224
– Interest income	**–**	2,960
Net investment (losses)/gains	**(1,199)**	262
Total	**4,770**	5,446

41 Company-level statement of financial position

		31 December 2018	31 December 2017 Note (i)
Non-current assets			
Property, plant and equipment		**11,265**	7,653
Goodwill		**43,322**	43,322
Intangible assets		**21,570**	21,773
Investments in subsidiaries		**396,242**	396,242
Interest in associates		**16,024**	19,932
Available-for-sale financial assets		**–**	18,102
Deferred tax assets		**7,101**	7,135
Total non-current assets		**495,524**	514,159
Current assets			
Refundable deposits		**1,082,906**	1,353,518
Other receivables		**18,220**	36,843
Other current assets		**9,711**	6,908
Available-for-sale financial assets		**–**	315,652
Financial assets at fair value through profit or loss		**418,387**	157,127
Cash held on behalf of brokerage clients		**1,500,628**	2,173,142
Cash and bank balances		**847,624**	796,337
Total current assets		**3,877,476**	4,839,527
Current liabilities			
Accounts payable to brokerage clients		**2,583,533**	3,526,660
Other payables		**17,675**	63,496
Current taxation		**2,362**	10,027
Total current liabilities		**2,603,570**	3,600,183
Net current assets		**1,273,906**	1,239,344
Total assets less current Liabilities		**1,769,430**	1,753,503
NET ASSETS		**1,769,430**	1,753,503
CAPITAL AND RESERVES			
Share capital	34(a)	**907,000**	907,000
Reserves	34(a)	**862,430**	846,503
TOTAL EQUITY		**1,769,430**	1,753,503

Approved and authorised for issue by the board of directors on 22 March 2019.

Zhou Yong *Directors*
Zhou Jianqiu

(i) The Company has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. The comparative information is not restated under HKFRS 9. See note 1(c).

42 Non-adjusting events after the reporting period

On 22 March 2019, the Board of Directors approved the resolution of HKD50 million capital injection into Holly Su Futures to develop its Hong Kong and global futures business.

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 34(b).

Except for the above, the Group has no other significant non-adjusted events subsequent to the end of the reporting period as at the date of approval to the financial statements.

43 Immediate and ultimate controlling party

At 31 December 2018, the directors consider the immediate parent and ultimate controlling party of the Group to be SOHO Holding, which is incorporated in PRC. This entity does not produce financial statements available for public use.

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, Long-term interest in associates and joint ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for year ended 31 December 2018 (continued)

HKFRS 16, Leases

As disclosed in Note 1(n), currently the Group classifies all leases into operating leases and accounts for the lease arrangement depending on the classification of the lease. The Group enters into all leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 36(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB 35,819 thousand for properties, some of which is payable either between 1 and 3 years after the reporting date or in more than 3 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB 14,030 thousand and RMB 13,844 thousand respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.