



鲁证期货
LUZHENG FUTURES

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

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

(Stock Code : 01461)



2019
Annual Report

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Definition

“Articles of Association”	the Articles of Association of LUZHENG FUTURES Company Limited
“Audit Committee”	the Audit Committee of the Board of Directors
“Board” or “Board of Directors”	the board of director(s) of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“China”, “PRC” or “Country” or “Mainland China”	the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “LUZHENG FUTURES”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a company incorporated in the PRC on 10 December 2012 with limited liability, and its H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 01461)
“Controlling Shareholder(s)”	Zhongtai Securities, Laiwu Steel and Shandong Steel
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, subscribed for or credited as fully paid in Renminbi (the shares issued by the Company to domestic investors for subscription in Renminbi)
“Group”, or “we” or “us”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which were listed on the Main Board of the Stock Exchange in Hong Kong (the shares listed in Hong Kong issued to foreign investors for subscription in foreign currencies)
“HK\$” or “HK dollars”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a company established in the PRC on 6 May 1999 with limited liability, 80.52% of which is owned by Shandong Steel and being one of the Controlling Shareholders of the Company

“Listing Date”	7 July 2015, being the date of listing of H Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), a company established in the PRC on 15 February 2015 with limited liability, which is a wholly-owned subsidiary of the Company
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company established in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the Nomination Committee of the Board of Directors
“OTC Option”	over-the-counter option
“PRC Futures Exchanges”	China Financial Futures Exchange (中國金融期貨交易所), Dalian Commodity Exchange (大連商品交易所), Zhengzhou Commodity Exchange (鄭州商品交易所) and Shanghai Futures Exchange (上海期貨交易所)
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board of Directors
“Reporting Period”	the year ended 31 December 2019
“Risk Control Committee”	the Risk Control Committee of the Board of Directors
“RMB” or “Renminbi”	the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

Definition

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

Risk Warnings

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

The Company may be mainly exposed to the following risks:

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

With respect to the above potential risks, the Company has managed to prevent such risks by optimizing organization structure, establishing perfect systems and taking effective measures, etc.. Please refer to pages 52 to 56 of this report for the possible risks, uncertainties that the Company may face, and the countering measures taken.

Company Profile

I. PROFILE

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

Registered English Name: LUZHENG FUTURES Company Limited

2. Registered office

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

3. Head office in the PRC

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

4. Principal place of business in Hong Kong

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

5. Board of Directors

Executive Directors:

Mr. Zhong Jinlong (*Chairman*)
Mr. Liang Zhongwei

Non-executive Directors:

Mr. Liu Hongsong
Mr. Hu Kainan
Mr. Ming Gang
Mr. Liu Feng

Independent Non-executive Directors:

Mr. Gao Zhu
Mr. Wang Chuanshun
Mr. Li Dapeng
Mr. Zheng Jianping

6. Authorized representatives

Mr. Zhong Jinlong
Room 602, Unit 1, Building 13, 2nd East Area of Ming Hu Village, Li Xia District, Jinan, Shandong Province, the PRC

Mr. Liang Zhongwei
Room 301, Unit 1, Building 14, West Area of Yanzishan Village, Lixia District, Jinan, Shandong Province, the PRC

7. Joint company secretaries

Mr. Liu Yunzhi (resigned on 21 June 2019)
Mr. Liang Zhongwei (appointed on 21 June 2019)
Ms. Ng Wing Shan

8. Auditors

PRC Auditor

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

International Auditor

PricewaterhouseCoopers
Certified Public Accountant
22/F, Prince's Building, Central, Hong Kong

9. Legal advisers

As to Hong Kong law: Clifford Chance
27/F, Jardine House, One Connaught Place, Central, Hong Kong
As to PRC law: Jia Yuan Law Office
F408, Ocean Plaza, 158 Fuxing Men Nei Ave, Xicheng District, Beijing, the PRC

Company Profile

10. Principal banks

China Construction Bank (Jinan Shizhong Sub-branch)

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

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

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

Bank of China (Jinan Branch)

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

Bank of Communications (Jinan Shizhong Sub-branch)

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

Agricultural Bank of China (Wanda Plaza Branch)

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

11. H Share registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

12. Stock code

01461

13. Investor enquiries

Investors' Service Line: +86-531-81678648
Fax: +86-531-81678628
Website: <http://www.luzhengqh.com>
E-mail: investor@luzhengqh.com

II. HISTORY

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

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

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

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

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

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

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

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

Company Profile

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

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

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

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

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

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

III. STAFF PROFILE

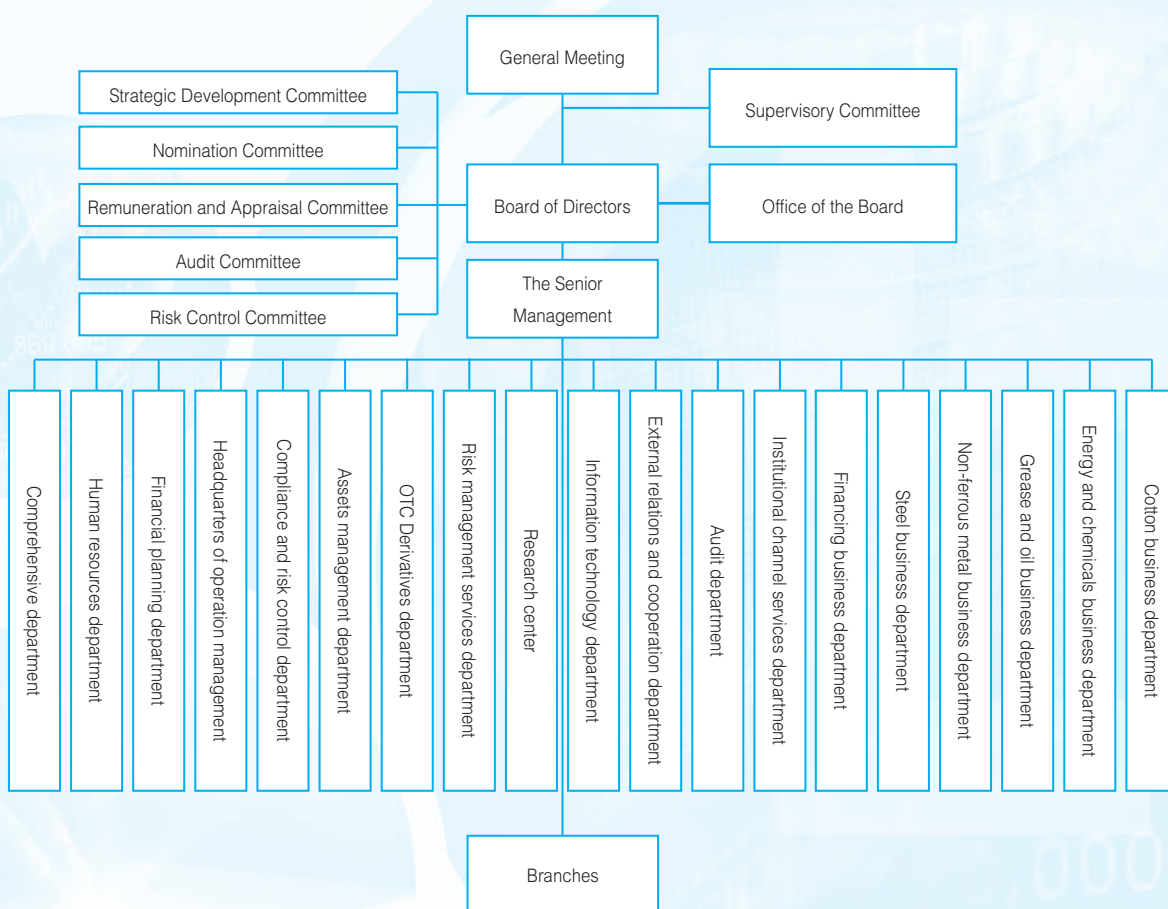
As of 31 December 2019, the Company had 519 employees in total. The breakdown of the composition of the employees is as follows:

	Category	Number	Proportion (%)
By profession	Administrative management	43	8.29
	Financial planning	15	2.89
	Management of brokerage business	43	8.29
	Information technology	24	4.62
	Risk control & Clearing	14	2.70
	Compliance and audit	39	7.51
	Research and development	16	3.08
	Customer services	32	6.17
	Assets management	13	2.50
	Marketing	184	35.45
	Luzheng Trading	76	14.64
	Luzheng Information Technology	7	1.35
	LUZHENG INTERNATIONAL FUTURES LIMITED	7	1.35
	JINOVA S.A.	6	1.16
	Total	519	100
By age	Below 30	159	30.64
	31-35	159	30.64
	36-40	102	19.65
	41-45	48	9.25
	Above 45	51	9.82
		Total	519
By education background	Post-graduate and above	124	23.89
	Bachelor degree	324	62.43
	College degree and below	71	13.68
		Total	519

Company Profile

IV. BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES

According to the Company Law (《公司法》), the Futures Trading Management Regulations (《期貨交易管理條例》) and the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) of the PRC, the Listing Rules and laws and regulations of Hong Kong, as well as the relevant provisions under the Articles of Association, the Company has established the legal corporate governance structure, namely the structure of “three organisations and one management level”. Under this structure, the general meeting will serve as the highest authority of the Company, with the Board of Directors, Supervisory Committee and senior management serving as the organs of decision-making, supervision and execution, respectively. As at the date of the report, the Company has set 13 functions departments, 6 business segments and 27 branches. The organization structure of the Company is set out below:



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

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Jinan Branch	Zhao Dong	40	18 October 2007	Area B, 4/F, Jihua Building, No. 19 Yingxian Street, Tianqiao District, Jinan	0531-81916261
Beijing Branch	Meng Tao	11	16 April 2007	Unit 202, 2/F, Block No. 99, North Third Ring Road West, Haidian District, Beijing	010-82194010
Shanghai Branch	Ren Yifei	12	13 October 2008	Room 1801, No. 438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049968
Tianjin Branch	Zhang Wei	9	10 April 2007	Units 2(05), Building 2(2)(101), No. 11 Olympic Road Economy and Technology Development Zone, Tianjin	022-66283471
Dalian Branch	Jiang Hong	10	11 February 2003	Units 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No. 129 Huizhan Road, Shahekou District, Dalian	0411-84807388
Shenyang Branch	Song Binbin	7	6 November 2007	Units 701-703, Block C, No. 161 Nanjing North Street, Heping District, Shenyang	024-23259108

Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Hangzhou Branch	Wang Genwang	6	31 July 2008	Unit 4001, Yueming Building, No. 231 Moganshan Road, Xihu District, Hangzhou, Zhejiang	0571-28118966
Zhengzhou Branch	Sheng Xiaolong	6	11 June 2009	No. DT12, 14/F, Weilai Building, No. 69 Weilai Road, Zhengzhou	0371-65629609
Ningbo Branch	Xu Chenyi	4	8 June 2010	Unit 9-1, Block 004, No. 475 Jiangdongbei Road, Jiangdong District, Ningbo, Zhejiang	0574-27893883
Qingdao Branch	Liang Dong	8	4 November 2008	No. 78 Jiangxi Road, Shinan District, Qingdao	0532-80776050
Yantai Branch	Guo Feng	13	27 May 2002	4/F, Block B, Guanhai Building, No. 267 Guanhai Road, Laishan District, Yantai	0535-6605095
Zibo Branch	Xu Xiao	7	25 July 2008	9/F, Securities Building, No. 66 Renmin West Road, Zhangdian District, Zibo	0533-2770098
Linyi Branch	Wang Tianbo	10	29 October 2007	Unit 701, Block 3, Aoernuo International Building, No. 26 Qiyang Road, Lanshan District, Linyi	0539-8055816
Jining Branch	Li Xiangmin	6	16 May 2008	Unit 807, Xingtang Jinmao Building, No. 123, Guanghe Road, Jining	0537-2715707
Weifang Branch	Mo Zhenqiang	7	30 October 2008	4/F, Office Building, No. 166 Dongfeng West Road, Weicheng District, Weifang	0536-8232653

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Dongying Branch	Fan Chao	6	11 November 2008	Room 417, Room 419, Room 420, Room 422, No. 787, North 1st Road Dongying District, Dongying	0546-8279996
Dezhou Branch	Tang Zhen	6	29 January 2010	11/F, Lijing Building, No. 1369 Tianqu Central Road, Decheng District, Dezhou	0534-2617088
Wenzhou Branch	Pang Sen	5	12 August 2011	Unit 103, Block 1-2 Renhe Jiayuan Station Road, Lucheng District, Wenzhou, Zhejiang	0577-85552188
Shenzhen Branch	Lu Zongjian	6	27 December 2011	Unit 03, 25th Floor, Zhaobangji Building, No. 319, Fuhua Road, Gangxia Community, Futian Avenue Futian District, Shenzhen	0755-83509686
Guangzhou Branch	Xu Jie	5	22 October 2012	904 East, No. 30 Tianhe North Road, Tianhe District, Guangzhou	020-38838558
Changsha Branch	Wang Li	6	12 March 2013	Room 706, Kairui Building No. 245 Laodong Road West, Tianxin District, Changsha	0731-89737711
Rizhao Office Department	Tong Lizhen	7	26 December 2014	Unit 1203, Block 001, Hangmao Center, No. 277 Beijing Road, Rizhao Economy and Technology Development Zone, Rizhao, Shandong	0633-8088158
Shanghai Branch	Liu Jie	7	1 February 2016	Room 1502A, No. 438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950-8008

Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Wuxi Office Department	Dai Qichao	3	26 April 2016	Rooms 901-902, No. 2 Wuai Renjia, Wuxi	0510-82728370
Wuhan Branch	Qiu Kuanhong	6	8 June 2017	Rooms 601, 602, 609, Qingcuiyan Unit 1-2, Qingshan District, Wuhan	027-86681096
Jinan Branch	Niu Baodong	4	27 July 2017	Zone A, 4/F, Main Building, Jihua Building, No. 19, Yingxian Street, Tianqiao District, Jinan	0531-86113901
Nanjing Branch	Wu Jing	4	3 August 2017	Room 2112, No. 168, Laoshan District, Jianye District, Nanjing	025-57626667

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

2019 saw rapid development of China's futures market. During the year, the size of the futures market achieved rapid growth, with a cumulative trading volume of 3.962 billion lots, and a cumulative turnover of RMB290.61 trillion, representing an increase of 30.8% and 37.8% as compared with the previous year, respectively; products were innovated at a faster pace in the futures market. 15 futures varieties and option instruments were listed. A total of 75 futures varieties and option instruments were listed, which has initially formed a pattern of coordinated development of exchange and OTC commodity finance, futures options at home and abroad. Although the size of the futures market is growing rapidly, the prospect of the futures companies' brokerage business is becoming increasingly challenging. The industry is experiencing continued decline in futures brokerage business income in recent years. The transformation and development for futures companies are imminent.

VI. BUSINESS BRIEFINGS OF THE COMPANY

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

VII. BRIEFINGS OF OUR SUBSIDIARIES

As at the end of the Reporting Period, the Company owns six wholly-owned subsidiaries, namely Luzheng Trading (魯証經貿有限公司), Luzheng Information Technology, ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED (中泰滙融(香港)有限公司), LUZHENG INTERNATIONAL HOLDING LIMITED, LUZHENG INTERNATIONAL FUTURES LIMITED and JINOVA S.A..

The business scope of Luzheng Trading Co., Ltd. includes sale and wholesale of agricultural products, edible oil (licensed business item), metal products, metallurgical materials, mining products (except special provisions of the state) and chemical products (except hazardous chemicals, MCCS, fireworks, explosives for civilian use and precursor chemicals), import and export activities (except for the items prohibited by laws, administrative regulations and the decisions of the state council, the limited items shall be operated only after obtaining a license), provision of technical consulting and provision of investment consulting service (except restricted items).

The business scope of Luzheng Information Technology includes sale of electronic products, office automation equipment, computers, cultural office machinery, control equipment, machine room equipment; computer information system integration service; development, sales and related technical services of computer network products and software; electronic engineering design and construction and information technology consulting services.

The business scope of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED includes import and export activities, investment, capital risk management and technology consultancy services.

The business scope of LUZHENG INTERNATIONAL HOLDING LIMITED includes investment holding.

The business scope of LUZHENG INTERNATIONAL FUTURES LIMITED includes transaction of futures contract.

JINOVA S.A.'s business scope includes any business relating to bulk commodities, including but not limited to, the purchase, import, export, transport, storage, transfer, sale and distribution of bulk commodities and the procurement and/or services for all goods of the group company or third parties related to bulk commodities.

Details are as follows:

Name of the company	Shareholding percentage (%)	Date of establishment	Registered capital	Registered address	Responsible person	Contact number
Luzheng Trading Co., Ltd. (魯証經貿有限公司)	100	2013.4.24	RMB750 million	Room 201, Block A, No. 1 Qianwanyilu, Shenzhen – Hong Kong Cooperation Zone, Qianhai, Shenzhen, Guangdong Province, the PRC	Liu Qingbin	+86-531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.2.15	RMB50 million	Room 1515, Floor 15, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC	Pei Yingjian	+86-531-81678620

Company Profile

Name of the company	Shareholding percentage (%)	Date of establishment	Registered capital	Registered address	Responsible person	Contact number
ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED (中泰匯融(香港)有限公司)	100	2013.11.21	HK\$118.82 million	40th Floor, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong	Liu Qingbin	+86-531-86161199
LUZHENG INTERNATIONAL HOLDING LIMITED	100	2018.4.16	HK\$30 million	Rooms 2608-10, 26/F, Wing On Building, 71 Des Voeux Road Central, Central, Hong Kong	Liu Yunzhi	+852-38997101
LUZHENG INTERNATIONAL FUTURES LIMITED	100	2018.5.17	HK\$15 million	Rooms 2608-10, 26/F, Wing On Building, 71 Des Voeux Road Central, Central, Hong Kong	Shen Mingxia	+852-38997101
JINOVA S.A.	96.6	2018.8.29	CHF3 million	Carrefour de Rive 1, 1207 Geneva, Switzerland	Li Xuekui	+41-795285957

VIII. HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD

In 2019, the Company was honored with “China’s Best Futures Company”, “China’s Futures Company Management Team Gold Award”, “Best Precision Poverty Alleviation Public Welfare Award”, “Best Corporate Brand Building Award”, “Best Investor Education Work of the Year”, “China’s Futures Research Institute Gold Award”, “Best Futures IT System Construction Award”, “Freshwater Company Internationalization Progressive Award”, “Best Futures Derivatives Comprehensive Service Innovation Award”, “China’s Best Futures Subsidiary in Risk Management” in the 12th selection of best futures operation institutions in China;

The Company was honored with the title of “Provincial Spiritual Civilization Unit” by the Spiritual Civilization Construction Committee of Shandong Province;

The Company was honored with the title of “March 15 Integrity Financial Brand” by Dazhong Daily Newspaper;

The Company was honored with the title of “Excellent Member of 2019” by Shandong Futures Industry Association;

The Company was honored with the title of “Poverty Alleviation Pioneer in Rural Rejuvenation” of Shandong Financial Industry”;

The Company was honored with the “Excellent Organization Award” of “ CFFEX Cup” at the 7th National College Student Financial Knowledge Competition, “Excellent Member Platinum Award”, “Industry Development Award (Stock Index Option Category)” and “Business Innovation Award” by China Financial Futures Exchange;

The Company was honored with the “Excellent Member for Talent Cultivation Award” and “Excellent Member Award for Technical Support” by Zhengzhou Commodity Exchange;

Company Profile

The Company was honored with the “Excellent Member Gold Award”, “Excellent Industrial Service Award”, “Excellent Organization Service Award”, “Excellent Agricultural Production Service Award” and “Excellent Technical Support Award” by Dalian Commodity Exchange; and

The Company was honored with the “Excellent Member Silver Award”, “Aluminum Industrial Service Award”, “Lead and Zinc Industrial Service Award”, “Nickel Industrial Service Award”, “Gold Industrial Service Award”, “Steel Industrial Service Award”, “Energy and Chemical Industrial Service Award” and “Option Market Service Award” by Shanghai Futures Exchange.

Financial Summary

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

I. MAJOR ACCOUNTING DATA OF THE GROUP

Unit: RMB'000

Item	2019	2018	Increase/ decrease over corresponding period of last year	2017
Operating income	321,867	423,148	(23.94%)	465,865
Operating profit	45,286	147,412	(69.28%)	207,488
Profit before income tax	42,363	152,745	(72.27%)	206,568
Net profit attributable to shareholders of the Company	29,750	117,719	(74.73%)	158,631
Net cash flow from operating activities	430,648	334,458	28.76%	(212,046)

Unit: RMB'000

Item	31 December 2019	31 December 2018	Increase/ decrease over corresponding period of last year	31 December 2017
Total assets	8,928,814	7,900,430	13.02%	8,828,934
Total liabilities	6,744,152	5,667,104	19.01%	6,644,231
Total equity attributable to shareholders of the Company	2,184,201	2,208,442	(1.10%)	2,156,571
Total share capital	1,001,900	1,001,900	0.00%	1,001,900

II. MAJOR FINANCIAL INDICATORS OF THE GROUP

Item	2019	2018	Increase/ decrease over corresponding period of last year	2017
Basic earnings per Share (RMB)	0.03	0.12	(75%)	0.16
Diluted earnings per Share (RMB)	0.03	0.12	(75%)	0.16
Weighted average return on net asset	1.33%	5.14%	decreased by 3.81 percentage points	7.36%

Item	31 December 2019	31 December 2018	Increase/ decrease over corresponding period of last year	31 December 2017
Net asset per Share attributable to shareholders of the Company (RMB)	2.18	2.20	(0.91%) increased by 0.25 percentage points	2.15
Gearing ratio	13.97%	13.72%		19.98%

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

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

Indicators	31 December 2019	31 December 2018	Regulatory standard
Net capital (RMB)	1,137,376,147.32	1,327,893,600.10	30,000,000.00
Net capital/total risk capital reserves	462.90%	829.55%	100.00%
Net capital/net assets	54.51%	63.51%	20.00%
Current assets/current liabilities	683.42%	844.52%	100.00%
Liabilities/net assets	9.90%	10.21%	150.00%
Settlement reserve funds (RMB)	755,729,195.85	181,203,243.18	12,000,000.00

Note: During the Reporting Period, the net capital and other risk regulatory indexes of the Company have been complying with relevant requirements under the Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) (2017年修訂版) (revised in 2017) (the "Regulatory Standard") promulgated by the CSRC.

Financial Summary

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

1. Profitability

Unit: RMB'000

Item	2019	2018	2017	2016	2015
Operating income	321,867	423,148	465,865	398,915	369,898
Operating expenses	276,581	275,736	258,377	244,106	254,714
Profit before income tax	42,363	152,745	206,568	154,926	124,910
Net profit attributable to shareholders of the Company	29,750	117,719	158,631	113,003	93,583

2. Assets Condition

Units: RMB'000

Item	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Total assets	8,928,814	7,900,430	8,828,934	8,204,293	7,433,409
Total liabilities	6,744,152	5,667,104	6,644,231	6,125,765	5,455,048
Equity attributable to shareholders of the Company	2,184,201	2,208,442	2,156,571	2,048,755	1,978,361
Total share capital	1,001,900	1,001,900	1,001,900	1,001,900	1,001,900

3. Key financial indicators

Item	2019	2018	2017	2016	2015
Basic earnings per Share (RMB)	0.03	0.12	0.16	0.11	0.11
Diluted earnings per Share (RMB)	0.03	0.12	0.16	0.11	0.11
Weighted average return on net asset	1.33%	5.14%	7.36%	5.59%	5.94%
Net asset per Share attributable to shareholders of the Company (RMB)	2.18	2.2	2.15	2.04	1.97
Gearing ratio	13.97%	13.72%	19.98%	16.24%	10.88%

Chairman Statement

Dear Shareholders,

2019 marks the 70th anniversary of the founding of the People's Republic of China. Over the past 70 years, Chinese people have striven with untiring efforts and endured great hardships in pioneering, and the New China has witnessed the fundamental changes and recorded the historic achievements in economic and social development. Along with the sustained and rapid economic development in China, the futures and derivatives markets also stepped up its pace of development. Each of the commodity futures, financial futures, commodity options and financial options started to emerge and gradually prosper. This is of great significance to a well-developed multi-level capital market system in the PRC.

2019 witnessed Luzheng Futures' transition from the Second Session of the Board of Directors upon expiry of its term to the Third Session of the Board of Directors which was officially established, precluding a new phase of development. On behalf of the new session of the Board of Directors, I hereby thank all shareholders for their long-term trust in and support of Luzheng Futures, and thank all members of the community for their concern about and help to Luzheng Futures.

2019 is unusual for the futures market evidenced by record highs in the number of new varieties listed, the size of market funds, and positions. At the same time, the prospect of the futures companies' brokerage business is becoming increasingly challenging because the futures brokerage companies are experiencing continued decline in their futures brokerage income, which is a trend in the industry in recent years. Given the increasingly fierce competition in the industry, all employees of Luzheng Futures are united and dedicated with determination in their ceaseless strivings. They are always guided by the idea of serving the development of the real economy, and focus on basic customers, basic assets and basic services, and increased customers' stickiness and operating income by developing risk management business and research business; expanded its market from the PRC to overseas, and made aggressive moves towards a professional provider of integrated financial derivatives service; by adhering to the idea of "from the industries and to the industries", Luzheng Research brand was established. With greater influence, the brand has received many honors such as "China's Best Futures Company" and "China's Futures Company Management Team Gold Award".

In 2019, Luzheng Futures kept people on its mind, and was committed to making contribution to the community. Leveraging on its financial advantages to fulfil its social responsibilities, the Company launched nine "insurance + futures" projects in respect of six futures varieties in 18 counties and districts out of five provinces. A total of 185,500 tonnes of physical commodities were underwritten, approximately 100,000 farmers in 37 cooperatives were served, nearly 800,000 acres of land were covered, and total claim amount of more than RMB130 million were paid, putting it in a leading position among its peers in terms of total scale. The "Huachuan Model" of "insurance + futures" has been upgraded from price insurance to income insurance that provides more protection, and has contributed to Huachuan County's successful poverty alleviation. The "insurance + futures" pilot project in respect of cotton variety implemented in six counties of Shandong Province is the only "insurance + futures" project in respect of cotton variety across the country, but also an "insurance + futures" project conducted by a single futures company that covers the largest number of counties.

Chairman Statement

2020 will put an end to China's drive in building a well-off society in an all-round way and the "13th Five-Year Plan". It will be the last year of the "three critical battles (namely forestall and resolve major risks, push targeted poverty alleviation and pollution control)", and is crucial for the country to win such battles. In the coming year, Luzheng Futures will strengthen its foundation, push the transformation ahead, accelerate development, and pay back to the community. It will devote more efforts on market development for concerted growth of commodity finance, exchange and OTC business at home and abroad so as to curb the continued downward trend and improve its profitability; transform business in a more powerful manner, and continued to serve industrial customers as its core approach so as to meet various needs of entities for risk management and so on; increase parent-subsidary business coordination, optimize parent-subsidary business coordination mechanisms, and improve professional service capabilities; consolidate the internal control system by establishing effective and efficient compliance risk control management system; strengthen basic management by implementing basic management enhancement projects, strengthen cultural construction, and promote the sustainable and healthy development of the Company. The beginning of a new journey has set a solid foundation for the Company to become a leader in the industry.

We will push ahead with aspirations in a new era, hold firmly and fast to our original mission and make further achievements. The campaign has been started. In the new year, with a unitary goal and cohered as a whole, the staff of Luzheng Futures will work harder and spend all possible time in delivering outstanding performances to our shareholders!

LUZHENG FUTURES Company Limited
ZHONG Jinlong
Chairman
26 March 2020

Management Discussion and Analysis

I. ECONOMIC AND FUTURES MARKET ANALYSIS DURING THE REPORTING PERIOD

(1) Economic Conditions

In 2019, given the complex situation of significantly increasing risks and challenges in China and abroad, the Chinese economy as a whole maintained a healthy and stable development momentum. The main macroeconomic indicators remained within a reasonable range. The supply-side structural reform continued to advance, and the reform and opening up continued to deepen. The quality and level of the people's life continued to increase, pushing the economy toward high-quality development.

The general economic growth was stable. According to the preliminary calculation of the National Bureau of Statistics, the annual Gross Domestic Product ("GDP") amounted to RMB99.09 trillion, representing an increase of 6.1% as compared with the previous year based on comparable prices, indicating the fastest growth rate among the major economies in the world. As regards various economic indicators, the value added of industries above designated size in the country increased by 5.7% as compared with the previous year; the national investment in fixed assets (excluding farmers) increased by 5.4% as compared with the previous year; the total value of imports and exports of goods increased by 3.4% as compared with the previous year. Among them, exports increased by 5.0% and imports increased by 1.6%. The annual per capita consumption expenditure of residents throughout the country was RMB21,559, representing a nominal growth rate of 8.6% as compared with the previous year, and the growth rate was 0.2 percentage points higher than the previous year.

The quality of growth has improved steadily. The growth of resident income is basically in line with the economic growth. The national disposable income of residents has actually increased by 6.1%, which is consistent with GDP's growth. Prices have also stabilized. The consumers price index ("CPI") rose by 3% as compared with the previous year, and the core CPI (excluding food and energy) rose by only 1.5%. Tax and fee reduction measures have reduced the burden on enterprises. In the first three quarters of 2019, small and micro enterprises accounted for 53% of the benefits of tax reduction and exemption policy. The percentage of tax revenue to general budget revenue decreased by 0.4% as compared with the previous year. The supporting policies targeted at high-tech industries and strategic emerging enterprises have further promoted China's economic transformation and upgrading. In 2019, the added value of high-tech manufacturing and strategic emerging industries among various industrial sectors increased by 8.8% and 8.4% as compared with the previous year, respectively, and the growth rates were 3.1 and 2.7 percentage points higher than the value added of the industrial enterprises above designated size in China.

Management Discussion and Analysis

(2) Futures Market Analysis

(1) Review of futures market transaction size and volatility

In 2019, the cumulative trading volume of the Chinese futures market was 3.962 billion lots, representing an increase of 30.8% as compared with the previous year; the cumulative turnover amounted to RMB290.61 trillion, representing an increase of 37.8% as compared with the previous year. Among them, the cumulative trading volume of commodity futures was 3.896 billion lots, representing an increase of 29.8% as compared with the previous year, and the cumulative turnover amounted to RMB220.99 trillion, representing an increase of 19.6% as compared with the previous year. As the requirements on trading of stock index futures were further reduced in April 2019, financial futures's trading volume and turnover increased significantly as compared to the previous year. In 2019, the cumulative trading volume was 66.410 million lots, representing an increase of 144.1% as compared with the previous year; the cumulative turnover amounted to RMB69.62 trillion, representing an increase of 166.5% as compared with the previous year.

In terms of commodity futures, due to the slowdown of economic growth, the overall demand for industrial products was weak. Except for iron ores, which rose sharply due to the disruption of supply from Brazil's mines, other industrial products only experienced slight fluctuations. The 2019 Wenhua Industrial Index rose by a slight 0.86% as compared with the previous year. The prices of agricultural products fluctuated around the theme of pork and trade friction. The prices of feed varieties moved within a narrow range due to weak demand and supply. Prices of oil rose sharply due to the output reduction in Southeast Asia. Prices of cotton plunged due to the negative impact of trade friction. Prices of eggs fluctuated wildly due to the supply of porks. The 2019 Wenhua Agricultural Index increased by 5.80% as compared with the previous year. In terms of financial futures, due to the weakening effect of Sino-U.S. Trade frictions and availability of ample capital, the stock index rose sharply, and the IF, IC, and IH weighted indexes rose by 37.4%, 27.8%, and 34.5%, respectively.

(2) Futures market was further improved

The portfolio of new varieties and new tools were expanded continuously. In 2019, a total of 7 commodity futures and 7 commodity options were listed. The CSI 300 stock index futures and options of the China Financial Futures Exchange were listed simultaneously with the CSI 300 ETF options of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Requirements on stock index futures trading were reduced for the fourth time. In April 2019, China Financial Futures Exchange once again reduced the margin requirements for stock index futures, intraday trading limit and handling fee standards, which have positive effect on improving the liquidity of the stock index futures market, reducing transaction costs, and improving the quality and efficiency of market operations.

Futures market "see-through supervision" policy was officially implemented. "See-through supervision" requires futures companies to perform authentication management on the terminal trading software used by investors to ensure that the software has the function of truly, accurately and completely collecting and reporting information about investor's trading terminal. It will help China Futures Exchange to strengthen front-line supervision, and supervision and enforcement by the CSRC, maintain order in the futures market, and protect the interests of investors.

Commodity futures ETF achieved zero breakthrough. The first batch of domestic commodity futures ETFs was approved on 27 August 2019. This marks the beginning of a new era of index investment in commodity futures by public funds. The listing of commodity futures ETFs provides new investment tools for the domestic capital market and facilitates asset allocation and related risk management for institutional and individual investors.

The “insurance + futures” pilot area was steadily expanded. As at the end of the Reporting Period, 60 futures companies across the country have launched 370 “insurance + futures” projects in poverty-stricken areas, covering 22 provincial-level administrative regions and 190 poverty-stricken counties. They guaranteed the prices of agricultural products such as natural rubber, cotton and apples valued at approximately RMB10.8 billion in poverty-stricken areas.

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

As at 31 December 2019, the Group's main businesses are commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management, commodity trading, spread trading, warehouse receipt services, cooperative hedging, market making business, and OTC derivatives business, information technology consulting services, and other business activities permitted by CSRC.

(1) Futures Brokerage

Market Analysis:

During the Reporting Period, China's derivatives market launched a total of 17 new varieties, the largest quantity of new varieties introduced in a year in the history. In particular, 7 commodity futures varieties including red dates, No. 20 gum, urea, japonica, and soda futures, and 10 options including natural rubber, cotton, corn, PTA, methanol, iron ore, gold, CSI 300 stock index options and the respective CSI 300 ETF options of both stock exchanges. As at the end of the Reporting Period, a total of 78 types were listed on China's derivatives market, including 58 types of commodity futures, 6 types of financial futures, 10 varieties of commodity options, 4 types of financial options.

Development Plans and Results:

Firstly, it actively developed options brokerage business, seized market share, and continued to maintain its leading position since commencement of options business. The Company's share of the stock options market in terms of annual trading volume in 2019 was 4.43%, ranking 4th in the entire market, and second among the futures companies.

Secondly, it successfully passed the on-site acceptance of the Shenzhen Stock Exchange and became one of the 18 futures companies that obtained the Trading Participant License from Shenzhen Stock Exchange. It successfully completed preparations for launch of the options futures hedging of Dalian Commodity Exchange and the service of offsetting margin with treasury bills of China Financial Futures Exchange, portfolio security and portfolio exercise of Shanghai Stock Exchange. The listing of 7 futures varieties and 10 option varieties has been successfully completed, including the listing of 2 stock option varieties and 1 stock index option variety, which has opened up a bigger space for the Company's future development.

Management Discussion and Analysis

Thirdly, it further optimized the distribution of outlets, sped up the construction of talent teams, improved business expansion capabilities, and timely changed the heads of Nanjing, Zhengzhou, Linyi and Zibo sales offices.

Fourthly, through the Internet operating model and leveraging on information technology, it carried out related work including brand promotion, cooperation with Internet channels, Internet services, etc. to enhance the Company's brand influence. Leveraging on the advantages of the Internet exhibition industry and Internet service resources, it gradually transformed the traditional brokerage business into an internet-based brokerage business.

In 2019, the Company's end-of-period futures equity amounted to RMB6.333 billion, representing a year-on-year increase of 17.85%. The stock option business (including shares) had an end-of-period equity of RMB332 million, representing a year-on-year increase of 116.99%. The average daily client's futures equity of the Company was RMB6.405 billion, representing a year-on-year increase of 3.72%. The average daily equity of stock options business (including physical commodities) amounted to RMB211 million, representing a year-on-year increase of 38.82%. The Company's cumulative trading volume of futures was 80 million lots, representing a year-on-year decrease of 13.98% with a market share of 1.01%, and the total trading volume amounted to RMB5.47 trillion, representing a year-on-year decrease of 25.59% with a market share of 0.94%. The Company's accumulative trading volume of stock options was 39 million lots, representing a year-on-year increase of 44.44%.

(2) Futures Investment Consulting Business

Market Analysis:

As at the end of the Reporting Period, a total of 78 varieties of futures and options were listed on China's derivatives market. With the enhanced ability of the futures market to serve the real economy, the needs of industrial customers in China to use futures markets for risk management, hedging and asset management institutions' demand for investment consulting services are increasing. However, due to the current market environment, most futures investment consulting services are only used as an auxiliary business and have not yet formed a scale.

Development Plans and Results:

Firstly, the Company has formulated incentives to mobilize the enthusiasm of researchers to foster the coordinated development of the business of the research institute and other departments; secondly, the research institute visited the industry, to actively enhance the level of research, and improve the ability of investment consulting services. During the Reporting Period, the Company's accumulated income from investment consulting business was RMB198,000.

(3) Futures Assets Management Business

Market Analysis:

Affected by the implementation of the new asset management regulations in 2018, futures companies explored and adjusted the asset management business development model following rectification of asset management products in 2019. As at the end of the Reporting Period, the scale of asset management business of futures companies and their subsidiaries was RMB143.3 billion, representing an increase of RMB18.4 billion or approximately 15% as compared with RMB124.9 billion in 2018. In addition, as futures companies attached importance to scale growth and ignored product quality and risk issues during the early transition prior to commencing the asset management business, many futures companies experienced asset management business risk events and were punished by the regulatory authorities in 2019.

Development Plans and Results:

By reflecting on the development history of the asset management business, the Company unanimously and clearly defined the new goal and focus of returning to the essence of asset management business and striving to create active management capabilities. During the Reporting Period, the Company continued to reduce the quantity of its products without adding new asset management business; explored quantitative trading and commodity indexed products; optimized the staff structure of asset management business; further improved the internal control management of the asset management business, and improved its work procedure, and business systems have been comprehensively and systematically reviewed and improved. As at the end of the Reporting Period, the scale of the Company's asset management business had shrunk to RMB1.7 million.

(4) Commodity Trading and Risk Management Business

Market Analysis:

Against the background of the global economic slowdown, weak domestic demand, and the trade friction between China and the United States, the price of commodities fluctuated violently, and the demand of the real economy for risk management has been increasing. After nearly 7 years' exploration and practice, the relevant businesses of the risk management companies to serve the real economy have gradually become more refined and diversified. In terms of service model, risk management companies switched from a single warehouse receipt service to basis trading, OTC options, and "insurance + futures" and other modes; in terms of service content, risk management companies switched from providing pure financial financing to a wide range of risk management services, including OTC derivatives services and hedging services. The asset status and capital strength of commodity trading and risk management industry have been increasing gradually, and its ability and level to serve the real economy have been improved significantly. As at the end of the Reporting Period, the total assets of 84 risk management companies amounted to RMB62,174 million, representing an increase of 81% as compared with the previous year, and the paid-in capital was RMB23,291 million, representing an increase of 37% as compared with the previous year.

Development Plans and Results:

The Company continued to carry out commodity trading and risk management business through its wholly-owned subsidiary Luzheng Trading, including commodity trading, basis trading, warehouse receipt services, cooperative hedging business, market making business, and OTC derivatives business, which primarily involves inventory management and commodity price risk management for clients.

Management Discussion and Analysis

In terms of commodity trading, the Group actively carried out multi-industry chain commodity trading, involving various varieties on the industrial chain such as grains, oils and fats, and ferrous metals. The turnover of physical commodities amounted to RMB3.856 billion, representing an increase of 123.80% as compared with the previous year. The Group's turnover of hedging and arbitrage positions totaled 2.2742 million lots, representing an increase of 18.10% as compared with the previous year, and the transaction value amounted to RMB96.088 billion, representing an increase of 17.65% as compared with the previous year. The Group's market channels have been further expanded with increased number of clients, and greater market influence, which has provided stronger support for the Group's other businesses.

In 2019, despite generally more stringent supervision and intensified market competition of OTC business, Luzheng Trading's OTC business achieved stable growth through product innovation and business model innovation. The turnover of options amounted to 11,753 lots, with a nominal amount of RMB83.3 billion, representing an increase of 35% as compared with the previous year. Luzheng Trading's OTC option business had a market share of approximately 10%, and continued to maintain its leading position in the industry.

The scale and benefits of the "insurance + futures" pilot project have grown in parallel, and they have become more effective in serving the real economy. Following the implementation of pilot project across Huachuan County, Heilongjiang Province (a Grain Variety County) for the first time in China last year, Luzheng Trading obtained one corn income insurances for Huachuan County, Heilongjiang, and one soybean income insurance for Lingcheng District, Shandong from Dalian Commodity Exchange, as well as a total of 9 pilot projects in other regions in 2019, placing it in a leading position in the industry. In addition, the "insurance + futures" model was piloted in a wider area in Shandong. The pilot project involved more than 400,000 mu cotton plantation area in six counties, equivalent to an output of 32,500 tons, all of which were undertaken by Luzheng Trading. The project's total claim paid amounted to RMB78.5094 million. Luzheng Trading insists on returning to its nature in business of serving the real economy. It achieved healthy and sustainable development while solving practical problems for farmers.

In terms of market-making business in the exchange, the Group provided market-making services for 4 option varieties and 4 futures varieties, and added 3 futures market-making varieties this year. The current market-making varieties involve three exchanges including soybean meal, sugar, copper, and crude oil. The market-making strategy is gradually improved and enriched, which contributed to a substantial increase in annual revenue. The market-making business will provide good liquidity services for more options and futures varieties, and foster the development of options and futures markets.

(5) Information Technology

The Group firmly believes information technology ("IT") infrastructure and information systems are essential to the effective management and successful development of its business and hence made continuous investment in IT.

During the reporting period, on one hand, the Company achieved new breakthroughs in information system construction and information system service level, and successfully launched master seat Hang Seng UF2.0 system, which improved performance of the system, expanded capacity of the system, and optimized functions of the system; combined with the opportunity to upgrade the Company's master seat system, reorganized the information technology management process and revised the relevant management system, defined and streamlined the duties of each job; created favorable conditions for the Company to expand its business scale and develop innovative businesses, opening up space for further development.

On the other hand, the Company set up Luzheng Information Technology, the only IT subsidiary in the futures industry. Capitalizing on the Company's strengths in technical maintenance and operation, the Company offered IT maintenance and operation services to medium and small futures firms. As at the end of the Reporting Period, Luzheng Information Technology had established its software development platform and team and developed OTC option business management system and the futures and physical commodity risk control management system on its own, which provided strong technical support for Luzheng Trading to develop its daily business and to serve the real economy. In addition, Luzheng Information Technology has achieved progress in the development of user-end trading software, high-volume trading software, mobile-end service platform and futures information platform.

(6) International Business

In line with its stated internationalization strategy, the Company established LUZHENG INTERNATIONAL HOLDING LIMITED, a wholly-owned subsidiary, in Hong Kong in 2018, and established LUZHENG INTERNATIONAL FUTURES LIMITED, a wholly-owned subsidiary, in the same year through LUZHENG INTERNATIONAL HOLDING LIMITED in Hong Kong. The Group established JINOVA S.A. in Geneva, Switzerland, a 96.6%-owned subsidiary, through its subsidiary ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED in 2018.

After obtaining approval of the No. 2 Futures Contract Trading License from the Securities and Futures Commission of Hong Kong in March 2019, LUZHENG INTERNATIONAL HOLDINGS LIMITED further accelerated construction of fundamental software and hardware facilities and talent teams, and stepped up efforts on management and business development. In accordance with the overall planning of the Group, it further improved the governance structure of the board of directors and management, and scientifically formulated and implemented long-term development plans.

Having constructed its organizational structure, compliance structure, and team building, JINOVA S.A. fully leveraged on the advantages of talents, technologies, regional presence and time zones to actively develop OTC futures options business and market-making business, providing clients with comprehensive risk management services by linking global markets with global derivatives.

(7) Main Work Plans for 2020

In 2020, the Group will still act in line with the market development trend and laws of the industry development. Taking into account its characteristics, the Group has the following overall plans and development priorities: strengthening market development, concentrating efforts on commodity finance, on-site and over the counter business, domestic and overseas business to curb the continued downward trend and improve profitability level; furthering business transformation and giving priority on serving industry customers, and satisfying various needs such as real economy risk management; strengthening parent-subsidiary business coordination mechanism, optimizing parent-subsidiary business system and mechanisms, and improving professional service capabilities; strengthening development of internal control system, and establishing effective and efficient compliance risk control management system; consolidating basic management, implementing basic management enhancement projects, putting more efforts on cultural construction, and promoting the Company's sustainable and healthy development.

Management Discussion and Analysis

By the business lines, the Group's major work plan for 2020 is detailed as follows:

Futures Brokerage Business

Firstly, it will integrate resources and optimize the organizational structure; secondly, it will formulate feasible and effective policies and measures to stimulate the initiative and creativity of various business entities; thirdly, it will increase development of customers according to various needs such as the risk management of industrial customers to advance the transformation of brokerage business; fourthly, it will strengthen marketing management and team building; fifthly, it will establish a group thinking and take effective measures to create business synergy with Zhongtai Securities; and sixthly, it will attach great importance to and actively develop online financial business.

Futures Asset Management Business

By reflecting on the development history of the asset management business, the Group unanimously and clearly defined the new goal and focus of returning to the essence of asset management business and striving to create active management capabilities, with emphasis on enhancing professional asset management capabilities. Firstly, it will intensify efforts on developing the internal control mechanism of the asset management business, establish and improve the systems and processes of asset management business, intensify efforts on developing the internal control mechanism, and achieve effective checks and balances; secondly, it will strengthen the team in a timely manner to create active management capabilities; thirdly, it will give prominence to the advantages of futures, and focus on futures strategies and commodity index products.

Investment Consulting Business

Firstly, it will move the institute from the middle and back office to the middle and front office in providing services to customers, especially industrial customers, and to increase market development efforts; secondly, the institute shall build up the team through internal and external introduction according to the market-oriented mechanism, and strive to reach the industry-leading level within three years; thirdly, it will formulate practical measures to mobilize the enthusiasm of researchers to facilitate the collaborative work with other business entities in terms of customer development and services to achieve timely response and full support; fourthly, other business entities must actively strengthen their cooperation with the institute, and make good use of the professional capabilities of the institute for customer development and service.

Commodity Trading and Risk Management Business

The Group will further improve the human resources system, double its efforts on developing its investment and research capabilities, reasonably adjust and allocate research resources of various varieties and lines, so that the commodity trading and risk management business can receive stronger support from research. Firstly, it will create an OTC business system with core competitiveness, achieve quantitative and qualitative improvement, to realize scale and efficiency; secondly, it will steadily improve the market-making business ability, and make it an important earning stream for the Company as soon as possible; thirdly, it will further develop advantaged industries and seek better development in futures and physical commodities business; fourthly, it will review and improve the system and procedures to make sure that the compliance are effectively incorporated, and risk management measures are in place; fifthly, it will strengthen team building in accordance with market-orientated approach, so that the business scale, type and level of risks match its team's ability; sixthly, it will increase the collaboration between the institute and other business entities.

Information Technology

The Group will make good use of the expertise of Luzheng Information Technology to build a first-class information system, promote the application of financial technology and data governance, create a core competitiveness, and quickly occupy the market. Firstly, it will strengthen the informationization and standardization of technical system management, improve the support of system operation, and reduce the risk of technical operation; secondly, it will have better access to external system, programmatic filing, see-through supervision, and management of genuine softwares to ensure relevant business cooperation; thirdly, it will intensify efforts on developing information systems, use financial technology to support the Company's digital transformation, and improve customer service capabilities; fourthly, it will further strengthen the security management of the Company's network information, build the Company's network information security system comprising physical security, network security, localization (password, software, Hardware) and IPV6 with the cooperation of professional security service vendors.

International Business

Firstly, it will make overall plans and arrangement, to further clarify the development positioning of overseas subsidiaries, and to encourage subsidiaries to standardize their operations and grow their core businesses; secondly, it will formulate management measures for domestic and overseas business coordination, give full play to the respective advantages of domestic and overseas business entities, so as to provide comprehensive services to domestic and overseas customers.; thirdly, it will adhere to the risk orientation, improve the compliance management, risk management and internal control systems of overseas subsidiaries, improve risk management and control capabilities; fourthly, it will increase the analysis of capital investment, risks, and profits of overseas subsidiaries to ensure such investments match their strategies and their actual capabilities.

III. FINANCIAL STATEMENT ANALYSIS

(1) Profitability Analysis

During the Reporting Period, as the Group focused on promoting business transformation, the revenue from commodities and risk management business decreased. Moreover, due to the intensified market competition and unrealized synergy effects between innovative business and brokerage business, the income from brokerage business of the Group declined, resulting in a decrease in net profits of the Group attributable to shareholders for the year ended 31 December 2019.

During the Reporting Period, the Group achieved operating income of RMB321.867 million, which represented a decrease of 23.94% as compared with RMB423.148 million in 2018; operating expense of RMB276.581 million, which represented an increase of 0.31% as compared with RMB275.736 million in 2018; and profit attributable to shareholders amounting to RMB29.75 million, which represented a decrease of 74.73% as compared with RMB117.719 million in 2018. Earnings per share attributable to shareholders of the Company were RMB0.03.

Management Discussion and Analysis

(2) Asset Structure and Asset Quality

At the end of the Reporting Period, affected by the increase in customers' equity, both total assets and total liabilities of the Group grew at different paces.

At the end of the Reporting Period, the Group's assets totalled RMB8.929 billion, representing an increase of 13.02% as compared with RMB7.9 billion at the end of 2018. The Group's liabilities totalled RMB6.744 billion, representing an increase of 19.01% as compared with RMB5.667 billion at the end of 2018. Net assets attributable to shareholders were RMB2.184 billion, representing a decrease of 1.1% as compared with RMB2.208 billion at the end of 2018.

At the end of the Reporting Period, the Group's total assets were as follows: non-current assets were RMB179 million, which represented a decrease of 13.11% as compared with RMB206 million at the end of 2018, and current assets were RMB8.749 billion, which represented an increase of 13.70% as compared with RMB7.695 billion at the end of 2018. The decrease in the non-current assets was mainly due to the decrease in the financial assets at fair value through profit or loss. The increase in current assets was mainly due to the increase in margins deposited with exchange-clearing agencies. During the Reporting Period, there was no indication of material impairment of assets of the Group.

At the end of the Reporting Period, liabilities excluding accounts payable to brokerage clients were RMB355 million, unchanged as compared with RMB355 million at the end of 2018. The Group's gearing ratio was 13.97%, representing an increase of 0.25 percentage points as compared with 13.72% at the end of 2018. During the Reporting Period, asset and liability levels were relatively stable.

(3) Financing Channels and Ability

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

(4) Liquidity Level Management

The Company places great emphasis on liquidity management based on the principle of "being comprehensive, prudent and predicable" while focusing on the organic combination of the security, liquidity and profitability of capital. The liquidity monitor index of the Company in each month throughout 2019 complied with the regulatory requirements of the CSRC.

(5) Cash Flow Situation

During the Reporting Period, net cash inflow generated from operating activities of the Group was RMB431 million, representing an increase of RMB97 million as compared with the net inflow of RMB334 million in 2018; net cash outflow generated from investing activities was RMB14 million, representing a decrease of RMB496 million as compared with the net inflow of RMB482 million in 2018; net cash outflow generated from financing activities was RMB79 million, representing a decrease of RMB264 million as compared with net cash outflow of RMB343 million generated from financing activities in 2018; and net increase in cash and cash equivalents was RMB338 million, representing a decrease of RMB136 million as compared with the net increase of RMB474 million in 2018, which was mainly due to the decrease in net cash flow generated from investing activities.

(6) Items of Income Statement

During the Reporting Period, the Group's profit before income tax amounted to RMB42,363 thousand, representing a year-on-year decrease of RMB110,382 thousand or 72.27%. The summary of the financial results is as follows:

Stated in RMB'000	Year ended 31 December	
	2019	2018
Revenue	287,409	338,957
Gains on physical commodities trading	37,897	3,093
Net investment (losses)/gains	(29,464)	56,357
Other income	26,025	24,741
Operating income	321,867	423,148
Staff costs	(145,318)	(137,009)
Commission to brokerage agents	(7,689)	(3,469)
Introducing broker commission	(8,905)	(6,081)
Depreciation and amortization	(18,312)	(11,699)
Credit impairment losses	(147)	(513)
Other operating expenses	(96,210)	(116,965)
Operating expenses	(276,581)	(275,736)
Operating profit	45,286	147,412
Share of losses of investment in associates	(1,224)	(1,848)
Other (losses)/gains, net	(1,699)	7,181
Profit before income tax	42,363	152,745
Income tax expense	(12,862)	(39,031)
Profit for the year	29,501	113,714

Management Discussion and Analysis

Stated in RMB'000	Year ended 31 December	
	2019	2018
Other comprehensive income		
Currency translation differences	1,118	1,278
Other comprehensive income for the year, net of income tax	1,118	1,278
Total comprehensive income	30,619	114,992
Profit attributable to:		
– Shareholders of the Company	29,750	117,719
– Non-controlling interests	(249)	(4,005)
	29,501	113,714
Total comprehensive income attributable to:		
– Shareholders of the Company	30,860	118,998
– Non-controlling interests	(241)	(4,006)
	30,619	114,992
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)		
Basic/Diluted	0.03	0.12

1. Operating Income

During 2019, the Group achieved total operating income of RMB321,867 thousand, which represented a year-on-year decrease of 23.94%, among which, revenue amounted to RMB287,409 thousand, gains on physical commodities trading amounted to RMB37,897 thousand, and net investment losses amounted to RMB29,464 thousand. The income structure of the Group is as follows:

Stated in RMB'000	Year ended 31 December				Increase/growth rate in 2019 as compared with 2018	
	2019 Amount	(%)	2018 Amount	(%)	Amount	%
Revenue ⁽¹⁾	287,409	89.29%	338,957	80.10%	(51,548)	(15.21%)
Gains on physical commodities trading	37,897	11.77%	3,093	0.73%	34,804	1125.25%
Net investment (losses)/gains ⁽²⁾	(29,464)	(9.15%)	56,357	13.32%	(85,821)	(152.28%)
Other income ⁽³⁾	26,025	8.09%	24,741	5.85%	1,284	5.19%
Total operating income	321,867	100.00%	423,148	100.00%	(101,281)	(23.94%)

(1) Revenue

During the reporting period, the composition of the Group's income is as follows:

Stated in RMB'000	Year ended 31 December	
	2019	2018
Net commission and fee income ¹	45,837	46,542
Net interest income ²	158,306	195,332
Net refunds of trading fees ³	83,266	97,083
Total revenue	287,409	338,957

Management Discussion and Analysis

Notes :

1 Net commission and fee income

During the reporting period, the composition of the Group's net commission and fee income is as follows:

Stated in RMB'000	Year ended 31 December	
	2019	2018
Commission and fee income		
Futures brokerage service	265,824	272,616
Settlement and clearing service income from other futures firms	15,192	4,158
Asset management service	388	930
Investment consultancy service	198	9
	281,602	277,713
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	220,573	227,013
Settlement and clearing service expense to exchange-clearing organizations	15,192	4,158
	235,765	231,171

During the Reporting Period, the Group achieved net commission and fee income of RMB45,837 thousand, representing a year-on-year decrease of 1.51%.

Commission and fee income increased by RMB3,889 thousand, representing a year-on-year increase of 1.40%, while commission and fee expense increased by RMB4,594 thousand, representing an increase of 1.99%. Therefore, after consolidating income and expense factors, net commission and fee income decreased by 1.51% as compared with the previous year.

2 Net interest income

During the Reporting Period, the Group achieved net interest income of RMB158,306 thousand, representing a year-on-year decrease of 18.96%. The composition of the Group's net interest income in 2019 is as follows:

Stated in RMB'000	Year ended 31 December	
	2019	2018
Interest income		
Interest income from deposits with banks	176,267	198,265
Interest income from financial assets held under resale agreements	14,867	8,325
Interest income from deposits with exchange-clearing organizations	6,974	8,115
	198,108	214,705
Interest expense		
Interest expense to brokerage clients	35,000	14,669
Interest expense on lease liabilities	2,203	N/A
Interest expense on financial assets sold under repurchase agreements	1,809	3,297
Interest expense on settlement and clearing services to other futures firms	694	997
Interest expense on borrowings	96	410
	39,802	19,373

Interest income was mainly derived from interest from demand and term deposits of the Group's own capital and interest from client margin deposits. Interest income decreased by RMB16,597 thousand, representing a year-on-year decrease of 7.73%, which was primarily due to a decrease in the market interest rates.

Interest expense increased by RMB20,429 thousand, representing a year-on-year increase of 105.45%, which was primarily due to an increase in interests payable to clients.

3 Net refunds of trading fees

During the reporting period, the Group received refund of trading fees of RMB83,266 thousand, representing a year-on-year decrease of 14.23%.

Net refunds of trading fees reflect the refunds of trading fees from futures exchanges to the Group, partially offset by the consequential return from the Group to its customers. To improve the development of the futures markets, the futures exchanges implement a practice to partially refund trading fees to their clearing members. Policies on the timing and calculation method of refund are made and adjusted periodically at the discretion of the futures exchanges. In some cases, the Group further returns all or part of these refunds to its customers.

Management Discussion and Analysis

(2) Net investment (losses)/gains

During the Reporting Period, the Group achieved net investment gains of RMB-29,464 thousand. The composition of the Group's investment gains in 2019 is as follows:

Stated in RMB'000	Year ended 31 December	
	2019	2018
Net realized (losses)/gain:		
– Financial assets at fair value through profit or loss	4,520	(263)
– Financial liabilities at fair value through profit or loss	(34,927)	–
– Derivative financial instruments	4,827	39,712
– Financial assets measured at amortized cost	–	171
Unrealized fair value changes of:		
– Financial assets at fair value through profit or loss	(5,431)	(16,377)
– Financial liabilities at fair value through profit or loss	5,536	(29,841)
– Derivative financial instruments	(17,288)	19,586
– Physical commodities	1,532	–
Dividend from financial assets at fair value through profit or loss	11,767	43,369
	(29,464)	56,357

(3) Other income

Stated in RMB'000	Year ended 31 December	
	2019	2018
Exchange service fees	21,117	14,879
Cooperative hedging fees	923	5,864
Software service fees	396	1,194
Other	3,589	2,804
	26,025	24,741

2. Operating expenses

During 2019, the Group's operating expenses amounted to RMB276,581 thousand, representing a year-on-year increase of RMB845 thousand or 0.31%. The breakdown is as follows:

Stated in RMB'000	Year ended 31 December				Increase/decrease in 2019 compared with 2018	
	2019 Amount	(%)	2018 Amount	(%)	Amount	%
Staff costs ⁽¹⁾	145,318	52.54%	137,009	49.69%	8,309	6.06%
Commission to brokerage agents	7,689	2.78%	3,469	1.26%	4,220	121.65%
Introducing broker commission	8,905	3.22%	6,081	2.21%	2,824	46.44%
Depreciation and amortization ⁽²⁾	18,312	6.62%	11,699	4.24%	6,613	56.53%
Credit impairment losses ⁽³⁾	147	0.05%	513	0.19%	(366)	(71.35%)
Other operating expenses ⁽⁴⁾	96,210	34.79%	116,965	42.41%	(20,755)	(17.74%)
Total operating expenses	276,581	100.00%	275,736	100.00%	845	0.31%

(1) Staff costs

Stated in RMB'000	Year ended 31 December	
	2019	2018
Salaries and bonus	116,531	106,764
Pension	12,350	11,932
Other social securities	11,461	12,490
Labor union funds and employee education funds	4,760	4,794
Other welfares	216	1,029
	145,318	137,009

Management Discussion and Analysis

(2) Depreciation and amortization

Stated in RMB'000	Year ended 31 December	
	2019	2018
Depreciation of right-of-use assets	8,435	N/A
Depreciation of property and equipment	7,047	7,432
Amortization of intangible assets	1,634	2,186
Amortization of long-term prepaid expenses	1,196	2,081
	18,312	11,699

(3) Credit impairment losses

Stated in RMB'000	Year ended 31 December	
	2019	2018
Net impairment losses on accounts receivable	147	(86)
Net impairment losses on bank balances	–	599
	147	513

(4) Other operating expenses

Stated in RMB'000	Year ended 31 December	
	2019	2018
Insurance expenses	17,511	20,900
Information system maintenance fees	17,424	13,286
Marketing and distribution expenses	15,271	16,836
Office expenses	11,144	16,212
Professional service expenses	7,145	6,723
Rentals	4,672	14,553
Property maintenance fee	4,224	4,508
Consulting expenses	3,711	14,886
Auditors' remuneration		
– PwC	1,800	1,650
– Other auditors	104	–
Tax and surcharges	1,369	1,319
Futures Investors Protection Fund	312	410
Other expenses	11,523	5,682
	96,210	116,965

Other operating expenses decreased by RMB20,755 thousand, representing a year-on-year decrease of 17.74%, which was primarily due to the decrease in rental and consulting fees for the year.

(7) Items of Assets

As at 31 December 2019, the Group's total assets were RMB8,928,814 thousand, representing a year-on-year increase of 13.02%, among which cash assets amounted to RMB7,911,962 thousand, representing a year-on-year increase of 22.63%; financial investment assets amounted to RMB413,443 thousand, representing a year-on-year decrease of 60.91%; and other assets amounted to RMB603,409 thousand, representing a year-on-year increase of 54.49%. The Group's total assets are as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	
			Amount	%
Cash assets	7,911,962	6,452,059	1,459,903	22.63%
Financial investment assets	413,443	1,057,783	(644,340)	(60.91%)
Other assets	603,409	390,588	212,821	54.49%
Total	8,928,814	7,900,430	1,028,384	13.02%

1. Cash assets

As at 31 December 2019, the Group's cash assets increased by RMB1,459,903 thousand, representing a year-on-year increase of 22.63%. The composition of the Group's cash assets is as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	
			Amount	%
Deposits with exchange-clearing organizations	3,735,024	2,387,336	1,347,688	56.45%
Bank balances held for clients	3,600,073	3,256,333	343,740	10.56%
Cash and bank balances	576,865	808,390	(231,525)	(28.64%)
Total cash assets	7,911,962	6,452,059	1,459,903	22.63%

Changes in cash assets are mainly attributable to the deposits with exchange-clearing organizations and money held for clients. The deposits with exchange-clearing organizations amounted to RMB3,735,024 thousand, accounting for 41.83% of the total assets of the Group, representing an increase of RMB1,347,688 thousand or 56.45% as compared with the previous year; the bank balance held for clients amounted to RMB3,600,073 thousand, accounting for 40.32% of the total assets of the Group, representing an increase of RMB343,740 thousand, or 10.56% as compared with the previous year. Cash and bank balances amounted to RMB576,865 thousand, accounting for 6.46% of the Group's total assets, representing a decrease of RMB231,525 thousand or 28.64% as compared with the previous year.

Management Discussion and Analysis

2. Financial investment assets

As at 31 December 2019, the Group's financial investment assets decreased by RMB644,340 thousand, representing a year-on-year decrease of 60.91%. The composition of the Group's financial investment assets is as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	
			Amount	%
Financial assets at fair value through profit or loss ⁽¹⁾	270,369	637,492	(367,123)	(57.59%)
Financial assets at fair value through other comprehensive income	1,400	1,400	–	–
Investments in associates	57,790	43,643	14,147	32.42%
Derivative financial assets	53,628	37,930	15,698	41.39%
Financial assets held under resale agreements ⁽²⁾	30,256	337,318	(307,062)	(91.03%)
Total assets of financial investment	413,443	1,057,783	(644,340)	(60.91%)

(1) Financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Non-current assets		
Trust schemes	–	31,683
Private securities investment funds	–	29,597
Non-current assets	–	61,280
Current assets		
Trust schemes	144,305	405,456
Asset management schemes	66,250	98,325
Private securities investment funds	59,809	67,299
Bank wealth management products	–	5,128
Listed equity securities	5	4
Current assets	270,369	576,212
Total	270,369	637,492

(2) Financial assets held under resale agreements

At 31 December 2019, the Group's financial assets held under resale agreements was RMB30,256 thousand, representing a decrease of RMB307,062 thousand as compared with last year, primarily due to stop of Treasury Bond reverse repo.

	31 December 2019	31 December 2018
Analysed by asset type:		
– Debt securities	–	260,000
– Warehouse receipts ⁽¹⁾	30,256	77,318
	30,256	337,318

Note:

- (1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2019, the Group has accepted collateral that can be re-pledged with a fair value of RMB33,518 thousand (31 December 2018: RMB100,018 thousand).

As at 31 December 2019, no collateral is re-pledged for margin deposits or financial assets sold under repurchase agreements (As at 31 December 2018, the collateral with a fair value of RMB28,782 thousand is re-pledged for margin deposits and the collateral with a fair value of RMB23,375 thousand was re-pledged for financial assets sold under repurchase agreements).

3. Other assets

As at 31 December 2019, the Group's other assets amounted to RMB603,409 thousand, representing a year-on-year increase of RMB212,821 thousand or 54.49%. The composition of the Group's other assets is as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	%
			Amount	
Property, plant and equipment	42,593	44,748	(2,155)	(4.82%)
Intangible assets	8,479	15,398	(6,919)	(44.93%)
Other non-current assets	18,897	2,668	16,229	608.28%
Deferred income tax assets	18,915	11,009	7,906	71.81%
Refundable deposits	31,170	25,683	5,487	21.36%
Contract assets	12,371	13,895	(1,524)	(10.97%)
Physical commodities	309,256	199,769	109,487	54.81%
Other current assets	161,728	77,418	84,310	108.90%
Total other assets	603,409	390,588	212,821	54.49%

Management Discussion and Analysis

(8) Items of Liabilities

As at 31 December 2019, the Group's total liabilities amounted to RMB6,744,152 thousand, representing a year-on-year increase of RMB1,077,048 thousand or 19.01%, among which accounts payable to brokerage clients amounted to RMB6,389,258 thousand, representing a year-on-year increase of 20.28%. The Group's key changes of total liabilities are as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	
			Amount	%
Deferred income tax liabilities	11	2,438	(2,427)	(99.55%)
Other non-current liabilities	13,454	5,983	7,471	124.87%
Borrowings	—	10,328	(10,328)	(100.00%)
Other current liabilities	266,682	182,529	84,153	46.10%
Financial assets sold under repurchase agreement	—	32,346	(32,346)	(100.00%)
Current income tax liabilities	5,585	19,788	(14,203)	(71.78%)
Derivative financial liabilities	44,600	62,506	(17,906)	(28.65%)
Financial liabilities at fair value through profit or loss	24,562	39,110	(14,548)	(37.20%)
Accounts payable to brokerage clients	6,389,258	5,312,076	1,077,182	20.28%
Total liabilities	6,744,152	5,667,104	1,077,048	19.01%

1. Accounts payable to brokerage clients

As at 31 December 2019, the Group's accounts payable to brokerage clients amounted to RMB6,389,258 thousand, representing 94.74% of the Group's total liabilities and a year-on-year increase of RMB1,077,182 thousand or 20.28%. The composition of the Group's accounts payable to brokerage clients is as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	
			Amount	%
Domestic				
Individual clients	3,621,915	2,636,251	985,664	37.39
Corporate clients	2,767,343	2,675,825	91,518	3.42
Overseas	—	—	—	—
Total	6,389,258	5,312,076	1,077,182	20.28

2. Financial liabilities at fair value through profit or loss

	As at 31 December 2019	As at 31 December 2018
Payable to a holder of a consolidated SE ⁽¹⁾	24,305	29,841
Payable to clients for cooperative hedging business	257	7,355
Interests of holders of consolidated SEs	–	1,914
	24,562	39,110

Note (1): The Company entered into a contract with China Merchants Bank Co., Ltd. ("CMB"), which is the Company's co-investor of a trust scheme named CR Trust-Huiquan Wantai FOF No. 2. Pursuant to the contract, the Company is obliged to compensate CMB for any under-performance of the scheme until CMB's rate of return per annum reaches an agreed level. There was a dispute between the Company and CMB regarding the enforceability of the contract in previous period. In September 2019, both parties agreed to settle the dispute at an amount at RMB61,525 thousand. The Company has paid RMB37,221 thousand in 2019, of which RMB2,294 thousand were from certain third parties involved in the trust scheme and prosecuted by the Company.

Payable to a holder of a consolidated SE represents the fair value of the above contract to reflect the Company's best estimate on potential obligation.

(9) Items of Equity

As at 31 December 2019, the Group's total equity amounted to RMB2,184,662 thousand, representing a year-on-year decrease of 2.18%. The composition of Group's equity is as follows:

Stated in RMB'000	As at 31 December 2019	As at 31 December 2018	31 December 2019 compared with 31 December 2018	
			Amount	%
Share capital	1,001,900	1,001,900	–	–
Share premium	650,630	650,630	–	–
Other reserves	259,037	241,744	17,293	7.15%
Retained earnings	272,634	314,168	(41,534)	(13.22%)
Total equity attributable to shareholders of the Company	2,184,201	2,208,442	(24,241)	(1.10%)
Non-controlling interests	461	24,884	(24,423)	(98.15%)
Total equity	2,184,662	2,233,326	(48,664)	(2.18%)

Management Discussion and Analysis

(10) Charges over Assets

As at 31 December 2019, trading commodities with carrying amount of RMB229,225 thousand are placed as collateral of margin deposits on futures exchanges by the Group (31 December 2018: RMB66,290 thousand).

As at 31 December 2019, no trading commodities are placed as collateral of secured borrowings (31 December 2018: RMB12,364 thousand).

As at 31 December 2019, no trading commodities are placed as collateral of financial assets sold under repurchase agreements (31 December 2018: RMB21,194 thousand).

(11) Risk of Fluctuation of Exchange Rate and Mitigation Measures

The foreign currency assets and liabilities held by the Group are not material compared with the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions is not significant. Therefore, the Group considers that its foreign exchange risk is immaterial. As at 31 December 2019, the Group does not use any derivative financial instruments to hedge the exchange risk.

(12) Contingencies

The Group received a number of complaints from retail investors about loss incurred from investing in five asset management schemes, questioning whether the Group had performed its responsibilities as the manager. The five asset management schemes are distributed by a joint stock commercial bank. As at 31 December 2019, these schemes have commenced but not yet completed the liquidation process and no legal actions are taken by investors against the Group. The Group disclaims any significant misconduct in performing its duties. The Group considers the possibility of an outflow of financial resources is remote and there is no reliable estimate on the amount of potential obligation.

(13) Gearing Ratio

Item	As at 31 December 2019	As at 31 December 2018	Increase/ decrease in 2019 compared with the same period of 2018	As at 31 December 2017
Gearing ratio (%)	13.97	13.72	increased by 0.25 percentage points	19.98

IV. EMPLOYEES STRUCTURE, REMUNERATION AND TRAINING

As at 31 December 2019, the Group had 519 employees in total. The composition of employees is as follows:

Category		Number	Percentage (%)
By profession	Administrative management	43	8.29
	Financial planning	15	2.89
	Management of brokerage business	43	8.29
	Information technology	24	4.62
	Risk control and settlement	14	2.70
	Compliance and auditing	39	7.51
	Research and development	16	3.08
	Customer services	32	6.17
	Assets management	13	2.50
	Marketing	184	35.45
	Luzheng Trading	76	14.64
	Luzheng Information Technology	7	1.35
	LUZHENG INTERNATIONAL FUTURES LIMITED	7	1.35
	JINOVA S.A.	6	1.16
Total		519	100
By age	Below 30	159	30.64
	31-35	159	30.64
	36-40	102	19.65
	41-45	48	9.25
	Above 45	51	9.82
	Total		519
By education background	Post-graduate and above	124	23.89
	Bachelor degree	324	62.43
	College degree and below	71	13.68
	Total		519

Management Discussion and Analysis

The total remuneration expenses of the Group in 2019 were RMB145,318 thousand, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2019	2018
Salaries and bonus	116,531	106,764
Other social security	11,461	12,490
Pension	12,350	11,932
Labor union charge and employee education charge	4,760	4,794
Other welfare	216	1,029
	145,318	137,009

The five highest paid individuals

For the year ended 31 December 2019, the five highest paid individuals do not include any of the directors and supervisors (2018: the five highest paid individuals do not include any directors and supervisors). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and other welfares	5,195	5,508
Bonus	3,073	3,017
	8,268	8,525

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

	Year ended 31 December	
	2019	2018
RMB1,000,001 to RMB1,500,000	2	3
RMB1,500,001 to RMB2,000,000	2	1
RMB2,000,001 to RMB2,500,000	1	1
	5	5

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

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

During the Reporting Period, the Company devoted more efforts in developing the training system, offered more trainings on the Company's rules and regulations, and focused on business line training. The trainings centered around the needs of employees and needs of business development. It promoted learning by examination and foster nursing of talents by training. In 2019, a total of 71 internal trainings were held, covering the New and existing Varieties, futures and subsidiary business, business support such as information technology, investor suitability, integrity, new employee, marketing skills improvement, talent management skills improvement, and the Company's regulations. In addition, 115 employees were selected to participate in 79 external training sessions organized by exchanges, associations, industry organizations, etc., including trainings on types of futures, options derivatives, finance, compliance, information technology and other business training.

V. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

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

1. Details on changes in branches of the Company

On 11 January 2019, the Company completed the relocation of the Changsha Sales Office in the same city. On 17 December 2019, the Nanjing branch was relocated in the same city.

During the Reporting Period, the Company did not establish or terminate any branch.

2. Details on changes in subsidiaries of the Group

Shandong Exchange Markets Clearing House Co., Ltd does not consolidate its financial statements into the Company this year, so it is no longer a subsidiary of the Company.

Management Discussion and Analysis

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

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

During the Reporting Period, changes of the Company's branches had no material effect on the results.

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

During the Reporting Period, Shandong Exchange Markets Clearing House Co., Ltd lost RMB9,950,500. The above Company is no longer a subsidiary of the Company, which has no impact on the net profit attributable to the shareholders of the Company.

VI. MAJOR INVESTMENTS AND FINANCING

(1) Major investments

During the Reporting Period, the Company injected RMB200 million for the capital increase of Luzheng Trading on 8 March 2019 and 26 September 2019 respectively, for the purpose of its daily operation.

(2) Major financing

During the Reporting Period, the Group had no financing activity.

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

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

VIII. POSSIBLE RISKS, UNCERTAINTIES AND COUNTERING MEASURES

(1) Possible major risks

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

1. **Market Risk:** the risk of incurring losses due to the changes in market price and interest rate. The major risks faced by the Group are the price risk of equity-based assets, price risk of commodities and interest rate risk. Along with the development and advancement in the option business of the Group in 2019, we may also encounter several risks in option market such as hedge risk and pricing risk.
2. **Credit Risk:** the risk of incurring losses resulting from the failure of a counterparty to perform its contractual obligations. The major risks that the Group may encounter are default risk and settlement risk.

3. Liquidity Risk: the capital liquidity risk due to insufficient capital to meet the obligations of the liabilities or payment settlement during operation; the trading liquidity risk due to the failure to buy or dispose of option, physical commodity and option contract at the market prices.
4. Operational Risk: the risk related to a series of non-financial issues, including unsatisfactory performance of internal operation process, staff, system and losses resulting from external incidents.
5. Compliance Risk: the risk that the Group or its staff may face legal sanction, regulatory measure and disciplinary punishment and may incur economic losses and reputation harm due to the violation of laws, regulations and regulatory rules of our business activities or by our staff.

(2) Countering measures adopted

1. General countering measures adopted

(1) Establish Scientific and Effective Risk Management Organizational Structure

The board of directors of the Company is the highest decision-making institution of risk management, with risk control committee and audit committee to review and audit major risk matters. The board of supervisors is responsible for supervising the performance of risk management of the board of directors; The management team is responsible for organizing and carrying out the Company's daily comprehensive risk management; The chief risk officer is responsible for organizing, coordinating and implementing all kinds of comprehensive risk management; The compliance and risk control department is the centralized management department of the Company's overall risk management, which is responsible for the implementation of specific risk management work and the evaluation of its effectiveness; other functional departments and branches are responsible for setting up own compliance risk control respectively, and are responsible for organizing the identification, assessment, response and reporting of various types of risks of own units.

(2) Consistently improving the corporate governance structure

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

(3) Consistently improving the comprehensive risk management system

The Company's risk management covers all departments of the Company, all business sectors and the whole business process from the start to the end. It takes the Company as a whole to organize and carry out risk management and to centralize the monitoring reports.

Management Discussion and Analysis

(4) Consistently improving the risk awareness

The Company puts great emphasis on enhancing risk awareness and risk management capabilities among our staff. Through holding seminars and training in the Company frequently, it puts great effort in enhancing the capabilities of the Company's staff in identifying and preventing risks as well as raising the risk awareness of the Company's staff. It fosters a favorable risk management culture and ensures that the general risk management objectives of the Company are achieved.

2. Countering measures against major risks

(1) Market Risk

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

(2) Credit Risk

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

(3) Liquidity Risk

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

(4) Operational Risk

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

Management Discussion and Analysis

(5) **Compliance Risk**

- (i) The Company has built up a comprehensive compliance management and organization system. The Company has appointed a chief risk officer who is responsible for the risk management, internal compliance and auditing.
- (ii) The Company has designated compliance controllers in each branches to strengthen risk management in advance and during the event.
- (iii) The compliance department and the audit department of the Company operate under the guidance of the chief risk officer. The Company has adopted certain measures to reduce compliance risk, including interpreting the latest laws and regulations in a timely manner, conducting compliance training, offering compliance consultation and carrying out internal audit.

Report of the Board of Directors

I. PRINCIPAL BUSINESSES

The Company is a futures company. The Group's business scope covers commodity futures brokerage, basis trading, warehouse receipt services, cooperation insurance, OTC derivatives business, market-maker, business information technology consultancy services, financial futures brokerage, futures investment and consultancy, futures asset management as well as other business activities permitted by the CSRC.

II. RESULTS AND FINAL DIVIDENDS

Please refer to Chapter XIV of this report for the details of the Group's results for the year ended 31 December 2019.

The Board of Directors does not recommend any payment of a final dividend for the year ended 31 December 2019.

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

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

Should the holders of H Shares of the Company have any doubts in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for opinions about the relevant tax impacts in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

Report of the Board of Directors

III. BUSINESS REVIEW

A review of the business for the year and a discussion on future development of the Group are set out from pages 25 to 33 of this report. An analysis of the major financial key performance indicators on the performance of the Group for the year is set out from pages 33 to 48 of this report. Details of the significant events that have material impact on the Group during the Reporting Period and since the end of the financial year are set out from pages 85 to 101 of this report. Major risks and uncertainties that may be faced by the Group are set out in pages 52 to 56. Major relationship with employees, customers and suppliers were set out on pages 49 to 51 and page 64 of this report, respectively.

IV. DIRECTORS AND DIRECTORS' BIOGRAPHIES

(i) Directors

During the Reporting Period and up to the end of the Reporting Period, the Directors of the Company are as follows: Mr. Chen Fang (chairman of the Board, whose tenure expired on 10 December 2019), Mr. Zhong Jinlong (chairman of the Board, appointed on 10 December 2019) and Mr. Liang Zhongwei as executive Directors; Mr. Yin Ge (whose tenure expired on 10 December 2019), Mr. Liu Hongsong (appointed on 10 December 2019), Mr. Hu Kainan (appointed on 10 December 2019), Mr. Lin Chuanyong (whose tenure expired on 10 December 2019), Mr. Ming Gang (appointed on 10 December 2019) and Mr. Liu Feng as non-executive Directors; Mr. Gao Zhu, Mr. Yu Xuehui (whose tenure expired on 10 December 2019), Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping (appointed on 26 December 2019) as independent non-executive Directors.

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

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

(ii) Directors' biographies

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

V. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

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

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

As at 31 December 2019, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be owned under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executive of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, are as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) ⁽¹⁾	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. ^{(1),(2)}	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. ⁽²⁾	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CM International Capital Limited ⁽⁴⁾	H Shares	Beneficial owner	18,211,000 (long position)	1.82%	6.57%
CMIG International Capital Limited (中民投國際資本有限公司) ⁽⁴⁾	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) ⁽⁴⁾	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%

Report of the Board of Directors

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 31 December 2019.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.91% of the equity interest in Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 80.52% by Shandong Iron & Steel Group Co., Ltd.. Therefore, Shandong Iron & Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel Group Co., Ltd. for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 18,211,000 (long position) H Shares of the Company. According to the form of disclosure of interest submitted by China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) to the Hong Kong Stock Exchange on 4 October 2018, CMIG International Capital Limited (中民投國際資本有限公司) directly holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Group Corp., Ltd. and CMI Financial Holding Corporation (is wholly-owned by CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司, which is wholly-owned by China Minsheng Investment Group Corp., Ltd.)), hold 31.5% and 68.5% of equity interests in CMIG International Capital Limited, respectively. Therefore, China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司), CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司), CMI Financial Holding Corporation and CMIG International Capital Limited (中民投國際資本有限公司) are deemed to be interested in the 18,211,000 (long position) H Shares of the Company held by CM International Capital Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2019, the Directors of the Company are not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

On 18 January 2019, the Company's CTP (Comprehensive Transaction Platform) sub-seat system in relation to Shanghai Futures Exchange failed to quote properly due to an error of our employees, which affected the normal transactions of certain clients. Administrative warning measures were issued to the Company by Shandong Securities Regulatory Bureau. The Company actively rectified upon receipt of the administrative regulatory measures. Through all-round inspection of system risks, the ability of its system's self-inspection and self-correction was improved. Through all-round inspection and review of its business system processes, the Company optimized the operation and maintenance processes, and strengthened internal control management in an all-round way. The Company held specific trainings to improve the professional level and professional quality of the Company's employees; through internal accountability and other methods, the relevant people were notified and criticized together with economic punishment, to the effect of warning. After the rectification was completed, Shandong Securities Regulatory Bureau did not impose any further regulatory measures on the Company.

On 7 November 2019, due to improper management of our products in relation to an Asset Management Scheme named Luzheng – Huiquan Wantai FOF No. 2 and Asset Management Schemes named Luzheng – Huiquan Wantai FOF No. 3 to No. 7, Shandong Securities Regulatory Bureau issued administrative warning measures to the Company for correction. The Company was required to earnestly strengthen the internal control management of the asset management business, establish, improve and implement effectively relevant business systems and procedures, take measures to raise employees' awareness of compliance, and rectify and submit rectification reports on time. The Company actively rectified upon receipt of administrative supervision measures. By proactively suspending new asset management business, it focused on finding out the problems hidden, and improved the legal compliance of the asset management business. Through all-round investigation and review of the internal control system, effectiveness of the Company's internal control was improved; through strengthening the management of the Company's personnel, the Company's employees' awareness on risk control and responsibility was increased; through imposing internal accountability and other methods, relevant measures such as demotion, suspension of remuneration payment, termination of labor contracts, were given to relevant personnel, who were also held liable according to laws. After the rectification was completed, Shandong Securities Regulatory Bureau did not impose any further regulatory measures on the Company.

IX. THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

(1) THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

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

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

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

In 2019, the Company had no material environmental or other social security issues.

(2) The Company's commitment to poverty-alleviation cause

As at the end of the Reporting Period, the Company has signed pairing assistance agreements with 6 national poverty-stricken counties, and helped 200 people from 70 registered poor households to shake off poverty. In particular, the Company actively explored ways to utilize "insurance + futures" model to serve agriculture, rural areas and farmers and serve the national strategy of poverty alleviation. The "Huachuan Mode" in implementing "insurance + futures" played a great role in Huachuan County's success in alleviating poverty. The project won the "Best Poverty Alleviation Project Award for Innovative Financial Products" awarded by certain departments such as the State Council's Poverty Alleviation Office and CSRC, and the "2019 Excellent Financial Products for Shifting to the New Economic Growth Driver from the Old Driver in Shandong Province" by the People's Bank of China, Jinan Branch, Local Financial Supervision and Administration of Shandong Province, and CSRC, Shandong Office, and was selected as the "Qianhai Excellent Financial Innovation Case in 2019" at Shenzhen Qianhai Achievement Conference. Huachuan County was granted the "National Organization Innovation Award for Alleviating Poverty" by the Leading Group Office of Poverty Alleviation and Development of the State Council. "Huachuan Model" in implementing "insurance + futures" has played an important demonstrative role in providing financial supports for precision poverty alleviation.

Report of the Board of Directors

X. ISSUE OF SHARES AND USE OF PROCEEDS

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

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

On 13 April 2018, passes by the resolution of the board (the “Board Resolution”), the Company changed uses of 35% of the net proceeds in the first item described in the section headed “Future Plans and Use of Proceeds” of the Prospectus to “for working capital and general corporate purposes”; 15% of the net proceeds in the third item described therein to “contribute additional capital to Luzheng Trading for expanding commodity trading and risk management business so as to achieve economies of scale and improve profitability of such business”.

As at 31 December 2019, the aforementioned proceeds raised were utilized for the purposes set out in the Prospectus and the announcement of the Company dated 13 April 2018 as follows:

Unit: RMB'000

Title of the committed project	Whether there were changes in the project	The amount of raised proceeds invested during the Reporting Period	The accumulated amount of raised proceeds actually invested	The percentage of the accumulated amount of raised proceeds actually invested (%)	Net proceeds
Establishment of light branches and recruitment of staff	Yes	0	1,137.719	0.18	0
Capital contribution to Luzheng Trading	No	89,559.35	319,559.350	49.43	0
Investment in IT	Yes	0	36,005.273	5.57	0
Replenishing working capital	No	0	289,778.790	44.82	0

As at the end of the Reporting Period, the Company has utilized the net proceeds raised in the amount and usages as prescribed in the Prospectus and in the resolution approved by the Board.

XI. CLOSURE OF REGISTER OF MEMBERS

As at the date of this report, the Company has not yet decided on the date of the 2019 annual general meeting. The specific date of the annual general meeting and the matters concerning the closure of register of members will be disclosed separately.

XII. OTHER DISCLOSURES

(1) Permitted Indemnity Provision

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

(2) Management Contract

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

(3) Environment Policies and Performance

The Group is a low-energy consumption, non-manufacturing financial enterprise with slight-pollution. The main impacts on environment in the ordinary course of business of the Group are the consumption of paper, electricity, water and automobile exhaust emission. In the daily operations, the Group strictly abides by the relevant state environmental protection laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and the Air Pollution and Control Law of Atmospheric Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》). The Group actively promotes environmental protection concepts and puts them into action.

The Group has maintained an internal practice of recycling consumables (such as toner cartridges and paper) to minimize resource consumption and environmental impact in the course of our business. The Group encourages employees to use double-sided printing when printing is needed, and recycle single-sided paper.

The Group promotes energy-saving practices in our offices, sales offices and other places by encouraging employees to reduce unnecessary use of lighting and air conditioning. Through the abovementioned policies and measures, the Group has improved the overall environmental awareness and reduced consumption of energy.

(4) Compliance of Laws and Regulations

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

Report of the Board of Directors

(5) Relationship with Key Stakeholders

1. Employees

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

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

2. Major customers and suppliers

The Company provides services for the various individual and institutional customers. The Company's large customers include institutional and high-net-worth individuals. For the year ended 31 December 2019, the revenue from the five largest customers of the Company represented less than 30% of operating cost. As far as the Directors are aware, as at the date of this report, none of the Directors, Supervisors, their respective close associates or any Shareholders who owned more than 5% of the Company's number of issued shares had any interest in the five largest customers of the Company.

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

(6) Directors' Competing Business

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

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

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

(8) Equity-linked Agreements

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

(9) Reserves and Reserves Available for Distribution to Shareholders

During the Reporting Period, the changes of the reserves and reserves available for distribution to Shareholders of the Group are set out in Note 33 to the consolidated financial statements and the consolidated statements of changes in equity in this report.

(10) Pre-Emptive Rights

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

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

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

(12) Property and Equipment

Please refer to the Note 19 to the consolidated financial statements of this report for details of property and equipment of the Group during the Reporting Period.

(13) Public Float

For the year ended 31 December 2019, the public float of the Company was in compliance with the minimum public float requirement of 25% of the Stock Exchange.

(14) Share Capital

As at 31 December 2019, the total share capital of the Company was RMB1,001,900,000, divided into 1,001,900,000 Shares (including 724,810,000 Domestic Shares and 277,090,000 H Shares) with a nominal value of RMB1.00 each. The details of changes in share capital of the Company during the Reporting Period is set out in Note 32 to the consolidated financial statements of this report.

(15) Issuance of Debentures

The Company had no issued debentures for the year ended 31 December 2019.

Report of the Board of Directors

(16) Donation

In April 2019, the Company donated RMB1 million to the people's government of Makit County, Xinjiang Uygur Autonomous Region for enhancing the capacity of its red date processing production line.

In July 2019, the Company held a series of "agricultural technology to the countryside" training activities, with a total investment of nearly RMB900,000 in conjunction with China Futures Association and other six futures companies. These trainings were intended to help Yanchang County to cultivate 160 farmer technicians and achieve the overall improvement of its fruit tree planting technology, so as to accelerate the county's transformation and upgrading of the fruit industry, implement standardized management, and to consolidate its achievements made in Yanchang County by fostering poverty alleviation through industry development.

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

(17) Subsequent Events

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

By order of the Board
Chairman
Zhong Jinlong
26 March 2020

Work Report of the Supervisory Committee in 2019

In 2019, the Supervisory Committee independently exercised its supervision functions and performed its duties, kept themselves informed of and supervised the Company's operating activities, financial status, execution of major decisions, general meetings and board resolutions, and also supervised the compliance of the Company in operation and the performance of duties by the Directors and senior management in strict compliance with the requirements of the Company Law of the PRC, the Listing Rules, the Articles of Association, the Rules of Procedure of the Supervisory Committee of the Company, and other relevant laws and regulations. The work report of the Supervisory Committee in 2019 is as follows.

I. ROUTINE WORK OF THE SUPERVISORY COMMITTEE IN 2019

Details of the meetings held by the Supervisory Committee of the Company during this Reporting Period are as follows:

(I) The eighth meeting of the second session of the Supervisory Committee was held on 27 March 2019. The following six proposals were approved by voting at the meeting:

1. The "Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for the Year 2018" (《關於魯証期貨股份有限公司2018年度總經理工作報告的議案》);
2. The "Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited for the Year 2018" (《關於魯証期貨股份有限公司2018年度監事會工作報告的議案》);
3. The "Proposal on the Annual Results Announcement of LUZHENG FUTURES Company Limited for the Year 2018" (《關於魯証期貨股份有限公司2018年度業績公告的議案》);
4. The "Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for the Year 2018" (《關於魯証期貨股份有限公司2018年度報告(國際財務報告準則)的議案》);
5. The "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for the Year 2018" (《關於魯証期貨股份有限公司2018年度報告(中國企業會計準則)的議案》);
6. The "Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for the Year 2018" (《關於魯証期貨股份有限公司2018年度利潤分配的議案》).

(II) The ninth meeting of the second session of the Supervisory Committee was held on 28 August 2019. The following three proposals were approved by voting at the meeting:

1. The "Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司截至2019年中期業績公告的議案》);
2. The "Proposal on the Interim Report of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019中期報告的議案》); and
3. The "Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019年中期利潤分配的議案》).

Work Report of the Supervisory Committee in 2019

(III) The tenth meeting of the second session of the Supervisory Committee was held on 24 October 2019. The following proposal was approved by voting through telecommunication:

Proposal on Election of Non-staff Representative Supervisors of the Third Session of the Supervisory Committee to be considered at the general meeting.

(IV) The first meeting of the third session of the Supervisory Committee was held on 10 December 2019. The following proposal was approved by voting at the meeting:

Proposal on Election of the Chairman of the Third Session of the Supervisory Committee.

II. MAJOR WORK OF THE SUPERVISORY COMMITTEE IN 2019

(1) Completion of re-election of the Supervisory Committee

During the Reporting Period, the Company held the First Extraordinary General Meeting of 2019 on 10 December 2019, and elected 4 non-staff representative supervisors of the new session of the Supervisory Committee, who, together with the three staff representative supervisors newly elected at the 14th meeting of the second session of the Staff Representative Meeting, comprise the third session of the Supervisory Committee. On the same day, the first meeting of the third session of the Supervisory Committee was held and Chairman of the new session of the Supervisory Committee was elected. Thus, the re-election of the Company's Supervisory Committee was completed.

(2) Supervision and inspection of daily business activities

During the Reporting Period, the Supervisory Committee strengthened the daily supervision and inspection of the Company's operating activities. Firstly, it carried out supervision and inspection on 7 branches in Nanjing, Shenzhen, Yantai, Linyi, Beijing, Zhengzhou, and Zibo through on-site inspection, data review, and discussion; secondly, it conducted special internal inspection on how the Company's own funds were invested and how the risk management subsidiary companies operated; thirdly, it conducted special supervision and inspection of the Company's integrity management. For problems revealed through supervision and inspections, corresponding opinions and suggestions were given.

(3) Supervision and inspection of financial status and major investments

During the Reporting Period, the Supervisory Committee reviewed the Company's financial reports regularly or irregularly, and were provided updates about the Company's assets and liabilities, cash flow and operating results, and other financial information in a timely manner. It paid close attention to the Company's own funds, customer margin liquidity, and net capital and other risk regulatory indicators. At the same time, it monitored and inspected the legal compliance of the Company's major investment decision-making procedures irregularly.

Work Report of the Supervisory Committee in 2019

(4) Supervision and inspection of the duty-performance by directors and senior management

During the Reporting Period, members of the Supervisory Committee implemented supervision and inspection functions by attending general meetings of the Company's shareholders, and meetings of the Board and management. By attending general meetings and Board meetings, it supervised and inspected the legal compliance of relevant working procedures and voting on important issues, and supervised the performance of duties by the directors of the Company; by attending management meetings, it kept abreast of the Company's business and management activities and decision-making on major issues in a timely manner, and monitored the performance of duties by the Company's senior management.

(5) Improving the ability of the Supervisory Committee to perform their duties

During the Reporting Period, the Supervisory Committee was reshuffled through re-election, strengthened the supervisors' ability to perform their duties, and ensured that all tasks were done in a satisfactory manner. Arrangements were made for the members of the Supervisory Committee to learn the latest regulatory policies and regulations continuously, and understand the relevant laws and regulations relating to listing and regulatory rules so as to ensure that the functions of the Supervisory Committee were brought into play.

III. REVIEW OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS IN 2019

During the Reporting Period, the Supervisory Committee supervised and inspected such aspects of the Company as finance, legal operation, major decision and significant operating activities, and the Supervisory Committee attended the general meeting, on-site meetings of the Board and the working meetings of the management as required. Based on the foregoing, the Supervisory Committee issued the following opinions.

- (i) The Supervisory Committee believed that: during the Reporting Period, the overall operating activities of the Company were in compliance with related laws, regulations and related requirements of regulatory policies; the Board practically implemented all resolutions and key decision-making procedures conformed to the requirements of the Company Law of the PRC and the Articles of Association; the Directors and senior management tried their best in performing their duties pursuant to national laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association nor harm the interest of the Company when discharging their duties in the Company.
- (ii) The Supervisory Committee believed that: during the Reporting Period, the financial system of the Company was sound, and the financial operation was legal. The financial statements prepared by the Company gave a true, objective and accurate picture of the financial conditions of the Company. PricewaterhouseCoopers LLP issued an unqualified audit report, which gave a true and fair picture of the financial performance and operating results of the Company in 2019.
- (iii) The Supervisory Committee believed that: during the Reporting Period, it found that the spillover of the risk events of the Company's asset management products has a significant impact on the Company's asset management business and classification and assessment. In addition, it found that there was a lag in the building of the system of certain businesses of the Company.

Work Report of the Supervisory Committee in 2019

- (iv) The Supervisory Committee believed that: during the Reporting Period, the transactions between the Company and its Controlling Shareholder Zhongtai Securities and its connected persons, were entered into in line with the general market transaction principles. The price was fair and the information disclosure was complete, and relevant procedures were implemented to ensure that the transactions were fair and reasonable, and no incident was found to use connected transactions to harm the interests of the Company and other minority shareholders.
- (v) The Supervisory Committee believed that: during the Reporting Period, no illegal external guarantees, debt restructurings, non-monetary transactions, asset replacements, major acquisitions or disposal of assets were found. There was no incidents that harmed the interests of the Shareholders of the Company or resulted in the loss of assets of the Company.
- (vi) The Supervisory Committee believed that: during the Reporting Period, the Company had implemented the relevant regulations and strictly controlled the scope of insiders when dealing with periodic report preparation, profit distribution, and external investment. There were no such incidents as disclosure of secrets, insider transactions, or illegal trading of the Company's Shares by Directors, Supervisors, senior management and other insiders.

IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2020

(1) Enhancing the ability to perform its duties and insisting on serving the overall goals

The Supervisory Committee will work towards the Company's development strategic goals determined by the general meeting and the Board of Directors. By taking the opportunity when the new session of the supervisory committee takes office, it will continue to exercise strict supervision of key areas and important procedures, and play a role of stable supervision and continuous supervision so as to forge ahead with conviction and become a ballast stone in the Company's future development. Firstly, it will faithfully perform its duties in accordance with the laws and regulations, further promote the Company's legal operation and protect the interests of the Company and all shareholders as a whole; secondly, it will take effective measures such as attending board meetings and holding regular meetings of the Supervisory Committee so as to carefully investigate and research issues of concern to shareholders and employees, make recommendation and rationalization suggestions to the Board of Directors; thirdly, it will give full play to the supervisory committee's supervision, service and guarantee functions, promote the scientific, democratic and legal decision-making process of the Company, and promote the healthy development of the Company.

(2) Strengthen daily supervision and safeguard the interests of the Company

It will continue to strengthen supervision of major matters such as the Company's compliant operation, financial management, construction and implementation of internal control system, connected transactions, external investment and guarantees, and the comprehensive and effective anti-money laundering in accordance with laws and regulations to ensure the true, accurate and complete information is disclosed in a timely manner. It seriously supervised the performance of duties by directors and senior management of the Company, and provided suggestions in a timely manner once problems were found to protect the Company's interests from being infringed.

(3) Prevent risks in a practical manner and expand function extension

While strengthening the supervision of the Company's operations and management, in 2020, it will focus on the supervision and inspection of wholly-owned subsidiaries. In particular, it is necessary to instruct the supervisory committee of the subsidiaries to carry out targeted supervision and inspection based on the Company's business characteristics, and urge the subsidiaries to improve the system and development of compliance risk control system, optimize their operating accountability systems, and effectively implement their business objectives. Priority will be given on the operation and management of overseas subsidiaries by supervising and inspecting the effectiveness of their corporate governance system, and the legal compliance of business operation, and urging prompt rectification of any important issues found.

(4) Improve the supervision system and enhance the effectiveness of supervision

On one hand, it will continue to promote the organic combination of supervision by the Supervisory Committee with party discipline supervision, administrative supervision, financial supervision, audit supervision, legal supervision, etc., to produce effective coordination of the Company's supervision and management resources, to make full use of the Company's compliance inspection and risk control system and actively participate in daily operating inspection, to carry out coordinated work for sharing of information resources, so as to further improve the construction of supervision and management system. On the other hand, the external monitoring role of third-party organizations such as accounting firms should be brought into play, and communication with external service entities such as accounting firms and law firms should be strengthened to result in effective supervision of the Supervisory Committee.

By Order of the Supervisory Committee
Chairman
Li Xuekui
26 March 2020

Directors, Supervisors, Senior Management and Staff

I. BRIEFINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

(I) The Board

Executive Directors

Mr. Zhong Jinlong (鍾金龍) (without former name), aged 54, joined the Company in September 2019. At present, he is the secretary to the party committee of the Company and the Chairman of the Board, the deputy general manager of Zhongtai Securities Co., Ltd. (中泰證券股份有限公司) ("Zhongtai Securities"), as well as a member of the Financing Business Committee under the Securities Association of China (中國證券業協會). Mr. Zhong Jinlong worked as assistant engineer and engineer at the Electric Power Test and Research Institute of Shandong Electric Power Supply Bureau (山東省電力局電力試驗研究所) and Shenzhen Nuclear Power Engineering Company (深圳核電工程公司) from July 1986 to September 1993; served as the chief and director of the Administrative Office of Shandong International Trust and Investment Corporation (山東省國際信托投資公司) from August 1995 to June 2000; served as deputy general manager and general manager and other positions in Minsheng Securities Co., Ltd. (民生證券股份有限公司) (formerly known as Yellow River Securities Co., Ltd. (黃河證券有限公司)) from June 2000 to January 2008; he held various positions, such as compliance officer and deputy general manager of Qilu Securities Co., Ltd. (齊魯證券有限公司) from January 2008 to September 2015; served as the secretary to the party committee of the Company since September 2019; and served as the Chairman of the Board of the Company since December 2019. Mr. Zhong Jinlong graduated from Xi'an Jiaotong University with a bachelor's degree in power system and automation in July 1986; graduated from Shanghai University of Foreign Trade (formerly known as Shanghai Institute of Foreign Trade) with a bachelor's degree in international trade in July 1995; graduated from Peking University with a master's degree in EMBA in March 2005. Mr. Zhong Jinlong was awarded the professional qualification of the engineer in August 1987.

Directors, Supervisors, Senior Management and Staff

Mr. Liang Zhongwei (梁中偉) (without former name), aged 45, joined the Company in March 2009. At present, he is a member of the party committee, a staff representative Director, secretary to the Board and an executive Director of the Company as well as the director of the organizational department of the party committee and the director of the Office of the Board. He also serves as director of LUZHENG INTERNATIONAL HOLDING LIMITED and director of LUZHENG INTERNATIONAL FUTURES LIMITED, as well as the director of JINOVA S.A. Mr. Liang Zhongwei served as an employee of Shandong Province Qilu Trust and Investment Co., Ltd. from July 1997 to May 2001; held several positions in Zhongtai Securities, including assistant to the departmental general manager and departmental senior business manager in succession, from May 2001 to March 2009; served as the office manager and the general manager of human resources department of the Company from March 2009 to September 2013; served as executive Director of the Company since June 2012; and served as the secretary general of Shandong Futures Association from September 2013 to August 2017. Since October 2017 he has been the director of the organizational department of the party committee; He has been the director of the Office of the Board of the Company since February 2018. Since October 2017, he has served as director of the organizational department of the party committee; since February 2018, he has served as the office of the Board; since April 2018, he has served as a director of LUZHENG INTERNATIONAL HOLDING LIMITED; since May 2018, he has served as a director of LUZHENG INTERNATIONAL FUTURES LIMITED; since August 2018, he has served as a member of the party committee; since June 2019, he has served as the secretary to the Board and since July 2019 served as a director of JINOVA S.A.. Mr. Liang Zhongwei graduated from Shandong University majoring in international economy in July 1997 and obtained a bachelor degree. Mr. Liang Zhongwei obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 2001.

Non-executive Directors

Mr. Liu Hongsong (劉洪松) (without former name), aged 47, joined the Company in December 2019. At present, he is a non-executive Director of the Company, a member of the Brokerage Business Management Committee (the "Brokerage Management Committee") and the general manager of the brokerage business department of the Brokerage Management Committee of Zhongtai Securities. Mr. Liu Hongsong worked as an employee and deputy manager of the computer department in Jinan Sales Office of Shandong Securities Co., Ltd. (山東證券有限責任公司) from July 1997 to March 2001; he served as the manager of the trading department at Jinan Management Headquarters of Shandong Securities Co., Ltd. from March 2001 to October 2001; he served as the assistant to the general manager of the brokerage business headquarters of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from October 2001 to April 2005; he served as the general manager of Shandong Yingtian Dongli Optoelectronics Technology Co., Ltd. (山東應天嶼立光電科技有限公司) from May 2005 to September 2007; he served as assistant to general manager of customer relations department and customer service department of Zhongtai Securities (formerly known as Qilu Securities Co., Ltd.) from September 2007 to October 2008; he served as deputy general manager of the customer service department, E-commerce department, customer service headquarters, brokerage business headquarters, and retail business headquarters of Zhongtai Securities from October 2008 to February 2015 in succession; he has been a member of the Brokerage Management Committee of Zhongtai Securities since February 2015; he served as deputy general manager of the operations management department of the Brokerage Management Committee of Zhongtai Securities from February 2015 to August 2015; he served as the general manager of the wealth management department of the Brokerage Management Committee of Zhongtai Securities from August 2015 to May 2017; he has served as the general manager of the brokerage business department of the Brokerage Management Committee of Zhongtai Securities since May 2017; and he has served as the non-executive Director of the Company since December 2019. Mr. Liu Hongsong graduated from Shandong University with a bachelor degree in radio electronics in July 1994; graduated from Shandong University with a master's degree in radio electronics in July 1997.

Directors, Supervisors, Senior Management and Staff

Mr. Hu Kainan (胡開南) (without former name), aged 51, joined the Company in December 2019. At present, he is a non-executive Director of the Company, a general manager of the risk management department of Zhongtai Securities. Mr. Hu Kainan worked as an employee in the computer room of Jixi Locomotive Depot of Jinan Railway Sub-bureau (濟南鐵路分局濟西機務段) from July 1990 to November 1994; he served as the assistant to manager of Shenzhen Hongli Road Sales Office of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from November 1994 to November 1997; he worked as an employee in the supervision and inspection department of Tiantong Securities Co., Ltd. from November 1997 to January 2007; he served as senior business manager of the compliance management headquarters and risk control department of Zhongtai Securities (formerly known as Qilu Securities Co., Ltd.), from January 2007 to July 2010; he served as assistant to general manager of risk management department and risk compliance headquarters of Zhongtai Securities from July 2010 to November 2013; he served as the deputy general manager of risk compliance headquarters of Zhongtai Securities from November 2013 to July 2016; he served as the deputy general manager of the risk management department of Zhongtai Securities from July 2016 to October 2019; he became general manager of the risk management department of Zhongtai Securities since October 2019; and he has served as the non-executive Director of the Company since December 2019. Mr. Hu Kainan graduated from Shanghai Railway College with a bachelor's degree in computer software in July 1990.

Mr. Ming Gang (明鋼) (without former name), aged 46, joined the Company in December 2019. At present, he is a non-executive Director of the Company, a general manager of the Supply and Marketing Company of Yongfeng Group Co., Ltd. (永鋒集團有限公司). Mr. Ming Gang has held various positions in Yongfeng Group Co., Ltd. from August 2008 to December 2018, including general manager of Shandong Yongfeng International Trading Co., Ltd., deputy general manager of the marketing company and the head of the trade department; he became general manager of Supply and Marketing Company of Yongfeng Group Co., Ltd. since December 2018; and he has served as the non-executive Director of the Company since December 2019. Mr. Ming Gang graduated from Party School of the CPC Shandong Provincial Committee in December 2001, majoring in economic management.

Mr. Liu Feng (劉峰) (without former name), aged 46, joined the Company in February 2015. At present, he is a non-executive Director of the Company, as well as the general manager and director of Lukang Investment Co., Ltd (魯康投資有限公司) and a non-executive director of Zhongtong Bus Holding Co., Ltd. (中通客車控股股份有限公司). Mr. Liu Feng served as an office staff member of the silk worm cocoon division and the deputy director member of trading and development department of Shandong Silk Corporation (山東省絲綢總公司) from July 1994 to June 2002; served as the manager of comprehensive administration department of Shandong Hengrun Silk Co., Ltd. (山東恒潤絲綢有限公司) from July 2004 to January 2005; served as a principal staff member in the silk worm cocoon unit of Qingdao Hairun Investment Group (青島海潤投資集團) from January 2005 to December 2005; served as the secretary and principal staff member of comprehensive administration office of Shandong Silk Group (山東省絲綢集團有限公司) from January 2006 to June 2009; served in several positions in Shandong State-owned Assets Investment Holdings Co., Ltd. in succession from June 2009 to May 2017 such as the clerical director of comprehensive department, the director of equity operation of capital operation department and the senior business manager and deputy director of capital operation department as well as the vice general manager of the capital operation center; served as a non-executive Director in the Company since February 2015, served as a non-executive director of Zhongtong Bus Holding Co., Ltd. since December 2016 and served as general manager of Lukang Investment Co., Ltd. (魯康投資有限公司) since May 2017. Mr. Liu Feng graduated from Shandong Agricultural University, majoring in sericultural science and obtained a bachelor degree in July 1994; graduated from Renmin University of China majoring in business administration and obtained a master degree in July 2004; and graduated from Shandong Agricultural University majoring in the management of agricultural economy and obtained a doctoral degree in June 2011. Mr. Liu Feng obtained the qualification of agronomist issued by the Intermediate Review Commission of Professional Titles in Agriculture of Shandong Silk Corporation in October 1999.

Directors, Supervisors, Senior Management and Staff

Independent Non-executive Directors

Mr. Gao Zhu (高竹) (without former name), aged 57, joined the Company in December 2012. At present, he is an independent non-executive Director of the Company as well as the deputy chairman of UOB Investment (China) Limited (大華大陸投資有限公司). Mr. Gao Zhu served as the deputy general manager of Minmetals Investment & Development Co., Ltd. (五礦投資發展有限公司) from June 2002 to October 2010; served as the chairman of the board of directors of Minmetals Haiqin Futures Co., Ltd. (五礦海勤期貨有限公司) from August 2003 to November 2010; served as deputy chairman of the board of directors of Minmetals Star Futures Brokerage Co., Ltd. (五礦實達期貨經紀有限公司) from August 2003 to November 2010; served as the general manager and the deputy chairman of the board of directors of Minmetals Securities Co., Ltd. (五礦證券有限公司) from September 2010 to November 2011; served as the president of UOB Investment (China) Limited from November 2011 to April 2016; served as an independent director of AVIC Futures Co., Ltd. (中航期貨有限公司) from December 2012 to October 2018; served as independent director of AVIC Futures Co., Ltd. since December 2014 to October 2018; served as independent non-executive Director of the Company since December 2012; and served as the deputy chairman of UOB Investment (China) Limited since April 2016. Mr. Gao Zhu graduated from University of Science and Technology Beijing majoring in industrial management engineering and obtained his highest degree – a master degree in July 1988. Mr. Gao Zhu obtained the qualification of senior international business executive issued by the Occupation Qualification Review Committee for Senior International Business Expertise under the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999.

Mr. Wang Chuanshun (王傳順) (without former name), aged 54, joined the Company in December 2012. At present, he serves as an independent non-executive Director of the Company, and serves as the director of Shandong Branch of Ruihua Certified Public Accountants (瑞華會計師事務所山東分所), independent director of Shandong Aofu Environmental Protection Technology Co., Ltd., independent director of Qingdao Gancheng Technology Co., Ltd., independent director of Shandong Taihe Water Treatment Technology Co., Ltd. and independent director of Huadian International Power Co., Ltd.. Mr. Wang Chuanshun served as a division member in Shandong Audit Office from July 1990 to November 1994; served as deputy director of audit department of Shandong Accounting Firm (山東會計師事務所) from November 1994 to December 1998; served as vice general manager and senior accountant in Shandong Zhengyuan Hexin Accounting Firm (山東正源和信會計師事務所) from January 1999 to December 2004; served as director of Shandong Branch of Ruihua Certified Public Accountants since January 2005; and served as an independent non-executive Director in the Company since December 2012; served as an independent director of Shandong Aofu Environmental Protection Technology Co., Ltd. since March 2015; served as an independent director of Qingdao iTechene Technologies Co., Ltd. since March 2015; served as an independent director of Shandong Taihe Water Treatment Technologies Co., Ltd. since June 2015; and served as an independent director of Huadian Power International Corporation Limited since June 2016. Mr. Wang Chuanshun graduated from Shandong Agricultural University majoring in management of agricultural economy and obtained a bachelor degree in July 1987; graduated from Southwest Agricultural University and obtained a master degree in July 1990, with research orientation of accounting and audit. Mr. Wang Chuanshun obtained the qualification of senior accountant issued by the Department of Personnel of Shandong Province in November 1997, and obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in June 2000.

Directors, Supervisors, Senior Management and Staff

Mr. Li Dapeng (李大鵬) (without former name), aged 61, joined the Company in June 2016. At present, he is an independent non-executive Director of the Company, the chief executive officer of Qingdao United Credit Asset Trading Center (青島聯合信用資產交易中心) and an independent non-executive director of China Energin International (Holdings) Limited (中國航天萬源國際(集團)有限公司). Mr. Li Dapeng served as a part-time professor in the University of Cincinnati and the Ohio State University from September 1990 to August 2001; and served as the technical advisor of Anthem Blue Cross and Blue Shield Insurance Company in the United States of America from January 1998 to August 2001; served as the chief architect of New York Mercantile Exchange from August 2001 to August 2003; served as an expert of Committee of Formulation of Capital Market Standards and the associate director of STEP working group of CSRC participating in the formulation of information technology standards of the capital market in the CSRC from September 2003 to March 2008; and served as the chief information officer and the chairman of Technology Management Committee of Shanghai Futures Exchange from September 2003 to March 2010; joined the formulation of the 12th Five-Year Plan of CSRC and directly involved in the drafting of its section headed "Internationalization" from September 2010 to February 2011; served as the senior advisor to chief executive officer of Hong Kong Exchanges and Clearing Limited from March 2010 to June 2015; served as the chief information officer of Haier Finance Holdings (Qingdao) Company Limited (海爾金融控股(青島)有限公司) from July 2015 to February 2018; served as an independent non-executive director of China Energin International (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 01185) since November 2015; he has served as the independent non-executive Director of the Company since June 2016 and he has served as chief executive officer of Qingdao United Credit Asset Trading Center since February 2018. Mr. Li Dapeng graduated from University of Science and Technology Beijing (formerly known as Beijing Steel Institute) with a bachelor degree in computer engineering in February 1982 and a master degree in computer engineering in June 1986, and graduated from the University of Cincinnati with a doctoral degree in computer engineering in December 1991 specializing in the theory of computing models of neural networks and the implementation of pattern recognition in the field of artificial intelligence.

Mr. Zheng Jianping (鄭堅平) (without former name), aged 56, joined the Company in December 2019. He is an independent non-executive Director of the Company, a director, executive vice president, managing director and head of Investment Bank Department of Huizhi International Capital Holdings Co., Limited (匯智國際金融控股有限公司). He had worked at London, Singapore, Beijing and Hong Kong as the executive officer of Rothschild, and a director of Rothschild China and Rothschild Hong Kong Limited from September 1994 to May 2002; served as executive director of ICEA (工商東亞有限公司) from June 2002 to August 2003; he held various positions at Investment Banking division of HSBC (滙豐銀行), such as executive director, managing director, head of Resources and Energy Group for Asia Pacific from September 2004 to September 2008; he worked as a partner, senior managing director, head of Greater China Advisory of the Blackstone Group from October 2008 to April 2011; served as managing director, head of China M&A, Investment Banking Division of Citigroup Group from July 2011 to April 2015; he had served as a director, executive vice president, managing director and head of the Investment Bank Department of Huizhi International Capital Holdings Co., Limited since October 2015; and he has served as the independent non-executive Director of the Company since December 2019. Mr. Zheng Jianping graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in July 1985; he graduated from Shanghai Jiao Tong University with a master's degree in computer science in January 1988.

(II) The Supervisory Committee

Mr. Li Xuekui (李學魁) (without former name), aged 56, joined the Company in September 2006. At present, he is a member of the Party Committee, the chairman of the Supervisory Committee and a staff representative Supervisor of the Company, as well as serves as the chairman of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司) and the chairman and director of JINOVA S.A.. Mr. Li Xuekui served in succession as a teacher and deputy director of academic affairs section of Shandong Banking School of the People's Bank of China (中國人民銀行山東銀行學校) from July 1983 to March 2001; served as the associate professor of Financial College of Shandong Polytechnic University (山東輕工業學院金融職業學院) from March 2001 to November 2002; served in succession in several positions in Zhongtai Securities from November 2002 to September 2006, including the assistant to the department manager, deputy general manager to the department and general manager to the department; served as the executive deputy general manager of the Company from September 2006 to August 2008; served as the general manager of the Company from August 2008 to August 2016; served as a party committee member of the Company since March 2009; served as the secretary of the Disciplinary Committee of the Company since August 2016; served as a staff representative Supervisor and the chairman of the Supervisory Committee of the Company since August 2016; from October 2016 to January 2018, he served as the general manager of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司); served as the chairman of Shandong Exchange Markets Clearing House Co., Ltd. since October 2016; served as the chairman and director of JINOVA S.A. since July 2019; Mr. Li Xuekui served as a council member of Shandong Futures Association since April 2009; and served as the standing director of Shandong Futures Association since September 2013. Mr. Li Xuekui graduated from Shanxi Finance College (陝西財經學院) majoring in finance and obtained a bachelor degree in June 1989; graduated from Asia International Open University (Macau) majoring in business administration and obtained a master degree in October 2008. Mr. Li Xuekui obtained the title of associate professor issued by the Office of Educational System Professional Title Reform Group of Shandong Province (山東省教育系統職稱改革領導小組辦公室) in March 2001.

Mr. Tan Shaojie (譚少傑) (without former name), aged 42, joined the Company in December 2019. At present, he serves as a non-staff representative Supervisor of the Company, the head of the Comprehensive Management Office of Jinan Energy Investment Co., Ltd. (濟南市能源投資責任有限公司), and the executive director (legal representative) of Jinan Chanfa Industrial Co., Ltd. (濟南產發實業有限公司). Mr. Tan Shaojie was a trainee at Jinan Energy Investment Co., Ltd. from July 2005 to July 2006; served as an assistant economist at Jinan Energy Investment Co., Ltd. from July 2006 to May 2012; served as an intermediate economist at Jinan Energy Investment Co., Ltd. from May 2012 to September 2017; served as a third-level clerk of the Human Resources Department of Jinan Industrial Development Investment Group Co., Ltd. from September 2016 to November 2016; served as head of the Planning and Finance Department of Jinan Energy Investment Co., Ltd. from September 2017 to December 2017; he has been the head of the Comprehensive Management Office of Jinan Energy Investment Co., Ltd. since December 2017; started to serve as executive director (legal representative) of Jinan Chanfa Industrial Co., Ltd. in April 2019; and served as the Supervisor of the Company since December 2019. Mr. Tan Shaojie graduated from Shandong University of Economics (currently known as Shandong University of Finance and Economics) with a bachelor's degree in information management and information system in July 2005. He graduated from Shandong University of Finance with a master's degree in business administration in June 2009. Mr. Tan Shaojie obtained the qualification of intermediate economist issued by the Human Resources and Social Security Department of Shandong Province in November 2010.

Directors, Supervisors, Senior Management and Staff

Mr. Hu Yuyue (胡俞越) (without former name), aged 58, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, and he is also the consultant to the drafting group of Futures Law in the National People's Congress, the director of institute of securities and futures of Beijing Technology and Business University, a part-time professor of China Agricultural University, Central South University and Qingdao University, a standing director of the Capital Enterprise Reform and Development Society, the director of the Beijing University for Business Administration, a member of the Advisory Committee of Zhengzhou Commodity Exchange, a member of the Product Committee of Shanghai Futures Exchange, deputy director of the Expert Committee of the Research Institute of Dalian Commodity Exchange, a consulting expert of Shanghai Stock Exchange, deputy director of the Financial Work Committee of China Market Society, deputy director of Expert Committee of CFLP Bulk Commodity Market and an independent director of seven companies (please see below for details of these companies). Mr. Hu Yuyue served in several positions in succession in the department of economics of Beijing College of Commerce from August 1983 to April 1999, including teaching assistant, lecturer, associate professor and the director of the teaching and research office of trade and economics; served as a professor of the school of economics and the director of securities and futures institute in Beijing Technology and Business University since May 1999; served as an independent director of Minmetals & Jingyi Futures Co., Ltd. (五礦經易期貨有限公司) since April 2006; served as an independent director of Nanhua Futures Co., Ltd. (南華期貨股份有限公司) since April 2013; served as an independent director of Shanghai Ganglian Ecommerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300226) since May 2014; served as an independent director of Beijing Crowell Technology Corporation Limited (北京康拓紅外技術股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300455) since October 2014, served as an independent director of Shanxi Zhangze Electric Power Co., Ltd (山西漳澤電力股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 000767) since May 2016; served as an independent director of Zhejiang Juhua Co., Ltd (浙江巨化股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600160) since November 2016; served as an independent director of Beijing Urban Construction Investment & Development Co., Ltd. (北京城建集團有限責任公司) (listed in Shanghai Stock Exchange; stock code: 600266) since July 2018; served as a member of the Product Committee of Shanghai Futures Exchange since March 2014, served as the Supervisor of the Company since June 2015. Mr. Hu Yuyue was granted by the Ministry of Education of the PRC the "Research Achievement Award of the Second National Regular Institutions of Higher Learning in Social Science" in December 1998; rewarded as "Excellent Young Elite Teacher in Beijing" by Beijing Municipal Education Commission in 1998; selected to the "Hundred Theoretical Talents Plan for the New Century in Beijing" by Beijing Committee of the Communist Party of China in 2001; and was entitled by Beijing Federation of Trade Unions "Hu Yuyue Securities and Futures Research Team – Municipal Staff Innovation Studio" (胡俞越證券期貨研究團隊 – 市級職工創新工作室) in 2011. Mr. Hu Yuyue graduated from Nanjing University majoring in history and obtained a bachelor degree in July 1983. Mr. Hu Yuyue was granted the title of professor by Beijing High Professional Technical Title Review Committee in September 1999.

Mr. Mu Yong (牟勇) (without former name), aged 43, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center (北京金石農業產業投資基金管理公司), the Managing Director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司), the representative of the Beijing Fruit Industry Development Fund (北京市果樹產業發展基金) and the representative of the Beijing Foreign Economic and Trade Development Guidance Fund (北京外經貿發展引導基金). Mr. Mu Yong served as a staff member in Sichuan Branch of King & Wood Mallesons (金杜律師事務所) from February 2000 to August 2000; served as a legal consultant of Beijing Capital Management Company Limited (北京首創資產管理有限公司) from July 2003 to March 2005; served in succession as level-4 assistant, level-3 assistant, principal staff member and deputy director of the CSRC from March 2005 to May 2013; served as the general manager of Shanxi Dianshi Equity Investment Co., Ltd. (山西典石股權投資管理有限公司) from June 2013 to December 2014; served as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center since January 2014; served as the Managing Director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) since June 2015, the representative of the Beijing Fruit Industry Development Fund (北京市果樹產業發展基金) since March 2016 and the representative of the Beijing Foreign Economic and Trade Development Guidance Fund (北京外經貿發展引導基金) since April 2016 and served as an independent Supervisor of the Company since June 2015. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law, and obtained a master degree in July 2003.

Directors, Supervisors, Senior Management and Staff

Mr. Yu Xuehui (于學會) (without former name), aged 53, joined the Company in January 2008. At present, he is an independent Supervisor of the Company as well as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所), an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) and an independent director of Minsheng Royal Fund Management Co., Ltd (民生加銀基金管理有限公司). Mr. Yu Xuehui served in succession as the broker and deputy manager of the trading department of China International Futures Co., Ltd. (中國國際期貨經紀有限公司) from March 1993 to October 1997; served as a partner of Beijing Hanhua Law Firm (北京市漢華律師事務所) from November 1997 to October 2005; served as a partner of Beijing Besthold Law Firm (北京市必浩得律師事務所) from November 2005 to April 2007; served as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所) since May 2007; served as an independent non-executive Director of the Company since January 2008; served as an independent Supervisor of the Company since December 2019; served as an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司) since March 2008; and served as an independent director of Minsheng Royal Fund Management Co., Ltd. since August 2012. Mr. Yu Xuehui graduated from Peking University majoring in economic law and obtained a bachelor degree in July 1988. Mr. Yu Xuehui was granted the qualification of lawyer by Beijing Municipal Bureau of Justice in June 1993.

Mr. Lin Zongheng (林宗恆) (without former name), aged 46, joined the Company in February 2008. At present, he is a staff representative Supervisor of the Company. Mr. Lin Zongheng held various positions, such as officer, deputy section chief, section chief and financial manager of Qilu Chemical Fiber Group Co.,Ltd (齊魯化纖集團有限責任公司) from July 1996 to June 2006; served as director of audit department of Jinan Coca-Cola Beverage Co. Ltd (濟南可口可樂飲料有限公司) from June 2006 to February 2008; held various positions, such as officer, supervisor and deputy general manager of financial planning department of the Company from February 2008 to May 2013; served as chief financial officer of Luzheng Trading from June 2013 to January 2016; served as deputy general manager of financial planning department of the Company from February 2016 to July 2017; served as director of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED since November 2013; served as general manager of audit department of the Company from July 2017 to December 2019; and served as staff representative Supervisor of the Company since April 2019. Mr. Lin Zongheng graduated from Shandong University of Economic majoring in accounting and obtained a bachelor degree in July 1996. Mr. Lin Zongheng obtained the qualification of intermediate accountant issued by Ministry of Finance of the PRC in May 2004.

Mr. Liu Pu (劉普) (without former name), aged 48, joined the Company in April 2007. At present, he is a staff representative Supervisor and served as the general manager of audit department of the Company. Mr. Liu Pu served as an officer of Taian Hoisting Machinery Factory (泰安起重機械廠) from September 1989 to December 1993; served as floor trader and financial officer of Shanghai office department of Taian Trust and Investment Corporation (泰安市信托投資公司) from December 1993 to May 2001; served as financial officer of Shanghai office department and supervisor of Shanghai accounting center of Zhongtai Securities from May 2001 to April 2007; served as general manager of audit department of the Company from April 2007 to June 2008; served as director of office of the Company from June 2008 to March 2009; served as general manager of audit department of the Company from March 2009 to October 2009; served as the secretary general of Shandong Futures Association from October 2009 to September 2013; served as general manager of IB business service department of the Company from October 2013 to June 2016; served as director of branch service department of the Company from June 2016 to August 2019; served as employee of office of the Board of the Company from August 2019 to December 2019; served as general manager of audit department of the Company since December 2019 and served as staff representative Supervisor of the Company since April 2019. Mr. Liu Pu graduated from Shandong University of Science and Technology majoring in accounting and obtained a bachelor degree in July 2004. Mr. Liu Pu obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 1999; and obtained the qualification of intermediate accountant issued by Ministry of Finance of the PRC in May 2005.

Directors, Supervisors, Senior Management and Staff

(III) Senior Management

Mr. Liu Qingbin (劉慶斌) (without former name), aged 50, joined the Company in May 2014. At present, he is a party committee member and the general manager of the Company, the chairman of Luzheng Trading, the director of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED, and a member of the chairman of the supervisory committee of Zhengzhou Commodity Exchange and a member of the China Futures Association, and chairman of the Legal Committee of the Council. Mr. Liu Qingbin served as a staff of Jinan First Machine Tool Plant (濟南第一機床廠) from July 1992 to July 1997; served as a section member of Jinan Securities Administration Office (濟南市證券監管辦公室) from July 1997 to August 1998; served as a section member, deputy principal section member of Department of Integration, deputy principal section member and principal section member of Department of Intermediary Supervision of Jinan Securities Administration Office of the CSRC in succession from August 1998 to March 2004; served as a principal section member and the deputy director of Institutional Supervision Division, and deputy director and director of Futures Supervision Division of the Shandong Regulatory Bureau of CSRC (中國證監會山東監管局) in succession from March 2004 to August 2008; served as a department cadre and the director of company supervision department I of Futures Supervision Division, and director of the audit office and director of the general office of Futures Supervision Division II of CSRC in succession from August 2008 to April 2014; served as the secretary to the party committee of the Company from June 2014 to August 2016; served as the chairman of Luzheng Trading and the director of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED since August 2015; and served as the general manager of the Company since August 2016; served as a member of council of Zhengzhou Commodity Exchange since April 2017; served as chairman of the Supervisory Committee of Zhengzhou Commodity Exchange since September 2017; served as a member director of China Futures Association since September 2018; and served as the chairman of Legal Committee of the Council of China Futures Association since November 2018. Mr. Liu Qingbin graduated from Luoyang Institute of Technology (洛陽工學院) majoring in marketing and obtained a bachelor degree in July 1992. Mr. Liu Qingbin acquired the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province (山東省註冊會計師協會) in January 2005, and obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業職務高級評審委員會) in February 2005.

Directors, Supervisors, Senior Management and Staff

Mr. Liu Yunzhi (劉運之) (without former name), aged 50, joined the Company in January 2007. At present, he is a party committee member, the deputy general manager, the chief financial officer of the Company, as well as a director of JINOVA S.A., the chairman of the board of directors of LUZHENG INTERNATIONAL HOLDING LIMITED and a member of the Talent Development Committee of China Futures Association. Mr. Liu Yunzhi served as a director of the Auditing Firm of the Audit Office of Shandong Province (山東省審計廳審計師事務所) from July 1993 to December 1999; served as a director and the departmental manager in Shandong Shenyuan CPA LLP (山東申元有限責任會計師事務所) from January 2000 to May 2001; served as the departmental manager and deputy senior accountant of Shandong Zhengyuan Hexin (Limited) Certified Public Accountants (山東正源和信有限責任會計師事務所) from June 2001 to January 2002; served as the deputy general manager of the planning and finance department of Zhongtai Securities from January 2002 to January 2007; served as general manager of Jinan business department of the Company from October 2007 to August 2008; served as the deputy general manager of the Company since January 2008; served as the financial officer of the Company since December 2008; served as a non-executive director of Luzheng Trading from April 2013 to August 2019; served as secretary to the Board of Directors and Joint Company Secretary of the Company From January 2018 to June 2019; served as a member of the Talent Development Committee of China Futures Association since February 2019; served as director of JINOVA S.A. since July 2019; served as director of LUZHENG INTERNATIONAL HOLDING LIMITED since August 2019; and served as the chairman of the board of directors of LUZHENG INTERNATIONAL HOLDING LIMITED since September 2019. Mr. Liu Yunzhi graduated from Jiangxi Finance College (江西財經學院) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) a master degree majoring in business administration in April 2008. Mr. Liu Yunzhi obtained the qualification of senior auditor issued by the High Review Commission of Professional Title in Auditing of Shandong Province (山東省審計專業資格高級評審委員會) in May 2002; obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in December 2009; and obtained the qualification of asset valuer issued by the Ministry of Finance of the PRC in October 1999.

Ms. Jiang Hui (姜輝) (without former name), aged 47, joined the Company in December 2008. At present, she is the deputy general manager of the Company, as well as a non-executive director of Luzheng Trading. Ms. Jiang Hui served as an employee of Heilongjiang Tobacco Futures Co., Ltd. (黑龍江煙草期貨有限公司) from October 1995 to October 1996; served as an employee in Changchun Gaosida Futures Co., Ltd. (長春高斯達期貨有限公司) from October 1996 to December 1999; served as the manager of Dalian business department of Yunnan Binhai Futures Co., Ltd. (雲南濱海期貨有限公司) from December 1999 to January 2001; served as the manager of Dalian business department of Dalian Wanheng Futures Co., Ltd. (大連萬恒期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a director of Luzheng Trading since April 2013. Ms. Jiang Hui graduated from Shenyang Sport University (瀋陽體育學院) majoring in physical education and obtained a bachelor degree in July 1992.

Directors, Supervisors, Senior Management and Staff

Mr. Pei Yingjian (裴英劍) (without former name), aged 46, joined the Company in November 2006. At present, he is the deputy general manager, as well as the supervisor of information and technology department of the Company and an executive director of Luzheng Information Technology and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. and a member of the Information Technology Committee of China Futures Association. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of Yingda International Trust Co., Ltd. (英大國際信託有限公司) from September 1994 to August 1998; served as the director of the securities department of Shandong International Trust Corporation (山東省國際信託有限公司) from August 1998 to May 2001; served as the director of information and technology department of Zhongtai Securities from May 2001 to November 2006; served in several positions in succession in the Company from November 2006 to April 2015, including an employee of the information and technology department and general manager of information and technology department; served as the information and technology supervisor of the Company since July 2010; served as the deputy general manager of the Company since July 2012; served as an executive director of Luzheng Information Technology since February 2015; He served as and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. since September 2016 and a member of the Information Technology Committee of China Futures Association since February 2019. Mr. Pei Yingjian graduated from Jinan Machinery University for Employees (濟南機械職工大學) majoring in foreign trade and economy, and obtained the college diploma in July 1994; graduated from Yunnan University majoring in computer science and technology, and obtained a bachelor degree in January 2009. Mr. Pei Yingjian obtained the qualification of engineer issued by Intermediate Review Committee of Shandong Provincial Economic and Trade Commission for Engineering Technology Titles (山東省經濟貿易委員會工程技術職務中級評審委員會) in November 2005.

Mr. Liu Jianmin (劉建民) (without former name), aged 49, joined the Company in January 2000. At present, he is the chief risk officer of the Company and a supervisor of Luzheng Trading. Mr. Liu Jianmin served in succession as the dealer, trading clearing principal and manager of Shanghai trading department of Shandong Metal Material Corporation (山東省金屬材料總公司) from September 1993 to January 2000; served in several positions in the Company from January 2000 to September 2014, including the manager of the market development department, manager of the trading clearing department, assistant of general manager, the general manager of compliance and review department, compliance supervisor, chief risk officer and general manager of the audit department; served as the supervisor of Luzheng Trading since April 2013; and served as the deputy general manager of the Company from September 2014 to September 2018 and chief risk officer of the Company since September 2018. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

Ms. Shen Mingxia (沈銘霞) (without former name), aged 48, joined the Company since November 2017. At present, she is the deputy general manager of the Company, the chairman of the board of directors of LUZHENG INTERNATIONAL FUTURES LIMITED as well as a member of the Research and Development Committee of the Council of the China Futures Association. Ms. Shen Mingxia served as the head of Wuxi Office of Shanghai East Futures Co., Ltd. from July 1994 to September 1996; served as the head of Wuxi Office of Nanjing CIFCO Futures Co., Ltd. from October 1996 to December 1999; served as the head of Wuxi Office Department of Jianzheng Futures Co., Ltd. (建證期貨有限公司) from January 2000 to June 2005; served as the head of Shanghai Office Department of, assistant to general manager, and deputy general manager of Yongan Futures Co., Ltd. from June 2005 to December 2015; served as deputy general manager of Chang'an DERI VATIVES Investment Co., Ltd. (長安德瑞威投資公司) of Beijing Chang'an Investment Group (北京長安投資集團) from January 2017 to November 2017; served as the investor of Beijing Huiyu Consulting & Advisor Co., Ltd. (北京惠裕諮詢顧問有限公司) from February 2016 to May 2018; served as deputy general manager of the Company since May 2018; served as the member of the Research and Development Committee of the Council of the China Futures Association since February 2019; served as director of LUZHENG INTERNATIONAL FUTURES LIMITED since August 2019, and served as the chairman of the board of directors of LUZHENG INTERNATIONAL FUTURES LIMITED since August 2019. Ms. Shen Mingxia graduated from Jiangnan University, majoring in foreign trade and economy in July 1990, and obtained a college degree. In September 2008, she graduated from East China Normal University with a bachelor's degree in business administration. In June 2013, she graduated from Shanghai Jiao Tong University with EMBA degree.

(IV) Company Secretaries

As at the date of this report, Mr. Liang Zhongwei also serves as a joint company secretary of the Company. For Mr. Liang Zhongwei biography, see (I) The Board of this section.

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

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

During the Reporting Period, Mr. Chen Fang ceased to act as the chairman of the Board of the Company, Mr. Yin Ge ceased to act as the non-executive director of the Company, Mr Li Chuanyong ceased to act as the non-executive director of the Company, and Mr. Yu Xuehui ceased to act as the independent non-executive director of the Company. Mr. Zhong Jinlong was appointed to serve as the chairman of the Board and the executive director, Mr. Liu Hongsong was appointed to serve as the non-executive director, Mr. Hu Kainan was appointed to serve as the non-executive director, with the appointment of Mr. Ming Gang serving as the non-executive director, and of Mr. Zheng Jianping was appointed to serve as the independent non-executive director.

During the Reporting Period, Ms. Ding Mei ceased to act as a Supervisor of the Company, Mr. Wang Hairan ceased to act as a staff representative Supervisor of the Company, and Mr. Yu Zhanyong ceased to act as a staff representative Supervisor of the Company. Mr. Tan Shaojie was appointed to serve as a Supervisor of the Company, Mr. Yu Xuehui was appointed to serve as an independent Supervisor of the Company, Mr. Lin Zongheng was appointed to serve as a staff representative Supervisor of the Company, and Mr. Liu Pu was appointed to serve as a staff representative Supervisor of the Company.

During the Reporting Period, the Company held a Board meeting to review and approve the proposal on the appointment of the new senior management on 10 December 2019, and there was no change of the Senior Management.

On 21 June 2019, Mr. Liu Yunzhi ceased to act as the secretary to the Board and a joint company secretary of the Company, and Mr. Liang Zhongwei was appointed as the secretary to the Board and a joint company secretary of the Company effective on the same date.

Directors, Supervisors, Senior Management and Staff

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

The remuneration of staff representative Directors and Supervisors (except for the chairman of the Supervisory Committee) of the Company shall be confirmed according to their labor contract with the Company; the remuneration of the chairman of the Supervisory Committee of the Company shall be confirmed according to the remuneration standard reviewed and approved by the annual general meeting.

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

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

(III) Long-term incentive scheme

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

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

1. Remuneration information of Directors and Supervisors

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

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

2. Remuneration information of senior management

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

IV. STAFF AND REMUNERATION

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

Significant Events

I. MATERIAL LITIGATIONS AND ARBITRATIONS

As regards the lawsuit filed by a customer called Liu against Wang, the Company and its Dezhou Sales Office with a claim of RMB7.23 million in relation to disputes over a private contract for entrusted wealth management, the People's Court of Decheng District of Dezhou City ruled in its first-instance decision that Wang should indemnify Liu Hua against the loss of RMB7.23 million incurred and other claims alleged by Liu was dismissed. Liu appealed to Dezhou Intermediate People's Court against the judgment. Dezhou Intermediate People's Court ruled in its second instance decision that Liu's appeal was dismissed and the original judgment was upheld. The Company or its Dezhou Sales Office was not ruled by the court to make any payments.

As regards the lawsuit filed by Shunxin Asset Management Co., Ltd (舜欣資產管理有限公司) against the Company in relation to disputes over a loan contract with a claim of RMB5,924,150, the People's Court of Shizhong District of Jinan City ruled in its first instance decision that the lawsuit filed by Shunxin Asset Management Co., Ltd. was dismissed. Shunxin Asset Management Co., Ltd. appealed to Jinan Intermediate People's Court against the first instance ruling. Jinan Intermediate People's Court ruled that the appeal of Shunxin Asset Management Co., Ltd. was dismissed and the original ruling was upheld.

As regards the lawsuit filed by China Merchants Bank (招商銀行) against the Company in relation to disputes over a contract with a claim of RMB63,987,690.44. China Merchants Bank applied for withdrawal of the lawsuit, and Shenzhen Intermediate People's Court had approved the withdrawal of the lawsuit.

II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

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

III. CONNECTED TRANSACTIONS

(I) Connected transactions

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

(II) Connected persons

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

- **Zhongtai Securities**

Zhongtai Securities was established under the laws of the PRC in May 2001 with a registered capital of approximately RMB6.2717632 billion. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading of securities. As at 31 December 2019, Zhongtai Securities owned approximately 63.10% of the total issued share capital of the Company and is therefore a Controlling Shareholder and a connected person of the Company.

Significant Events

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

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

- **Shandong Steel**

Shandong Steel was established under the laws of the PRC in March 2008 with a registered capital of RMB11,192.989834 million. It is primarily engaged in the production and sale of steel products such as steel and steel billets. As at 31 December 2019, Shandong Steel owned 80.52% equity interest in Laiwu Steel. Meanwhile, as known to the Company, Laiwu Steel is interested in approximately 45.91% of our Controlling Shareholder Zhongtai Securities, and Laiwu Steel is the holding company of Zhongtai Securities. Shandong Steel is therefore a Controlling Shareholder and connected person of the Company.

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

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

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

(III) Continuing connected transactions

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

Financial Services Framework Agreement

In the ordinary and usual course of business, the Group regularly provides certain financial services (as described below) to Zhongtai Securities and its associates. On the other hand, Zhongtai Securities and its associates also regularly provide various financial services (as described below) to the Group. To comply with the requirements of the Listing Rules, the Company entered into a financial services framework agreement (the “former Financial Services Framework Agreement”) with Zhongtai Securities on 28 April 2017 (after trading hours) to accept the following services provided by Zhongtai Securities and/or its associates in the ordinary and usual course of business of the Group. The former Financial Services Framework Agreement is for a fixed term of three years, valid from the date of approval at the 2017 annual general meeting, subject to renewal. As the former Financial Services Framework Agreement is valid continuously for the three years ended 31 December 2018, 2019 and 2020, the highest applicable percentage ratio under Chapter 14A of the Listing Rules is expected to be more than 5% on an annual basis, such transactions constitute continuing connected transactions of the Company, and is subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, and the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the corresponding annual caps under the former Financial Services Framework Agreement will expire on 31 December 2020 and the Group will continue to enter into certain transactions under the former Financial Services Framework Agreement after 31 December 2020, and the Company intends to adjust the caps of securities brokerage and other financial services, and accept OTC option introduction services provided by Zhongtai Securities and/or its associates, the Company entered into the Financial Services Framework Agreement with Zhongtai Securities on 26 April 2019 (after trading hours). Pursuant to such agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, primarily including acceptance of IB services, asset management services, securities brokerage and other financial services as well as OTC option introduction services provided by Zhongtai Securities and/or its associates. The Financial Services Framework Agreement is for a term of three years, valid from the date of approval at 2018 annual general meeting (20 June 2019) and will expire on 31 December 2021. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions for the following three years (from 20 June 2019 to 31 December 2021). For the details of entering into the Financial Services Framework Agreement and the transactions thereunder, see the announcement dated on 26 April 2019 and the circular dated 28 May 2019 of the Company.

- A. Acceptance of IB services provided by Zhongtai Securities and/or its associates: Zhongtai Securities and/or its associates will provide IB services to the Company in the ordinary and usual course of business of the Company to introduce potential customers to the Company's futures brokerage business;
- B. Purchase of the Asset Management Schemes in which Zhongtai Securities and/or its associates act as the manager: The Company will purchase the asset management schemes in which Zhongtai Securities and/or its associates act as the manager in the ordinary and usual course of business on a continuing basis;
- C. Securities Brokerage and other Financial Services: Zhongtai Securities and/or its associates will provide securities brokerage and other financial services to the Company in the ordinary and usual course of business of the Company on a continuing basis; and
- D. OTC option introduction services: In the ordinary and usual course of business of the Company, Zhongtai Securities and/or its associates will provide OTC option introduction services to the Company to introduce potential customers to the Company's OTC derivatives business.

Significant Events

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

Nature of transaction	Transaction amounts for the year ended 31 December 2019 (RMB' 000)	Proposed annual caps for the year ended 31 December 2019 (RMB' 000)
A. Acceptance of IB Services Provided by Zhongtai Securities and/or its associates Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Group	8,905	20,600
B. Purchase of Asset Management Schemes from Zhongtai Securities and/or its associates Maximum daily amount invested Asset Management Fees charged by Zhongtai Securities and/or its associates	66,250 139.4	206,000 3,090
C. Securities Brokerage and other Financial Services Commissions charged by Zhongtai Securities and/or its associates	183.6	1,700
D. OTC option introduction services Introduction fee charged by Zhongtai Securities and/or its associates	0	3,000
Total Commissions charged by Zhongtai Securities and/or its associates on the Group	9,228	28,390

Financial Services Framework Agreement

A. Acceptance of IB Services Provided by Zhongtai Securities and/or its associates

Principal terms:

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

Reasons for the transaction:

Acceptance of IB services by the Company (as a futures firm) provided by Zhongtai Securities (as a securities company) could give it quick access to the relatively abundant customer resources of Zhongtai Securities and/or its associates, and could effectively achieve synergies while enhancing the Company's customer service capabilities and increase its operating income. In addition, Zhongtai Securities and/or its associates have been providing IB services to the Company for many consecutive years and have a deep understanding of the Company's business needs. Thus, the continuous provision of such services by Zhongtai Securities and/or its associates to the Company would foster the development of the Company's futures brokerage business.

Pricing terms:

- (i) the commission charged by Zhongtai Securities and/or its associates for provision of IB services to the Company will be 60% of the commission revenue generated by such customers introduced by Zhongtai Securities and/or its associates (the "Commission Split"). According to the Company's inquiry with other futures companies that conduct IB business with securities companies on the commission split of futures services, the Company believes that the 60% commission split is within a reasonable range of the market and is in line with market practice;
- (ii) the commission revenue equals the revenue generated by such customers, net of the trading and clearing fees paid to the PRC futures exchanges, including but not limited to, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Trading Center); and
- (iii) the Commission Split of 60% has been determined based on arm's-length negotiations between Zhongtai Securities and the Company with reference to the prevailing market commission rates for similar IB businesses and on normal commercial terms, and is in line with market practice.

B. Purchase of the Asset Management Schemes in which Zhongtai Securities and/or its associates act as the manager

Principal terms:

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

Significant Events

Reasons for the transaction:

Investment in asset management schemes could enhance the Group's investment return and, compared with other investments, the return on investment in assets management schemes is relatively more stable and thus in line with the Company risk management requirements. In addition, the Group has invested in various asset management schemes in which Zhongtai Securities and/or its associates acted as managers for many consecutive years, and have developed a good understanding of the investment strategies and performances of Zhongtai Securities and/or its associates. This can effectively promote business cooperation between the two parties and increase the return on the Group's asset.

Pricing terms:

- (i) asset Management Fees charged by Zhongtai Securities and/or its associates as the manager of the asset management schemes are calculated based on the Group's investment amounts times the Asset Management Fees rate; according to the Company's similar transactions with independent third parties in the past, the asset management fee rate is approximately 1.5%.
 - (ii) for collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such schemes equally and evenly, including the Group and any other independent third party investor participants. Such Asset Management Fees rate is also consistent with the prevailing market rates for collective asset management schemes issued by any other independent third parties with similar scales of investment; and
 - (iii) for targeted asset management schemes, (a) the Asset Management Fees rate charged by Zhongtai Securities and/or its associates as the manager is comparable to, or no less favorable than, those charged by Zhongtai Securities to any other independent third parties for similar targeted asset management schemes; (b) such Asset Management Fees rate charged on the Group is also comparable to, or no less favorable, than the asset management fees rate charged on the Group by any other independent third party managers in other similar targeted asset management schemes the Group participated in; and (c) the Asset Management Fees rate has been determined based on arm's length negotiations between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rates for similar targeted management schemes and on normal commercial terms, and is in line with market practice.
- C. *Acceptance of Securities Brokerage and other Financial Services Provided by Zhongtai Securities and/or its associates*

Principal terms:

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

Reasons for the transaction:

In consideration of the need of the Group to increase the capital return by securities investment during our wealth management activities, the Group needs to conduct securities investment and other financial businesses through companies who hold securities brokerage license. In addition, the Group has cooperated with Zhongtai Securities and/or its associates for securities brokerage and other financial services for many consecutive years. Zhongtai Securities and/or its associates have developed a good understanding of our needs. This is a key factor considered in selecting a provider of securities brokerage and other financial services.

Pricing policy:

- (i) the commissions charged by Zhongtai Securities and/or its associates for provision of securities brokerage and other financial services will be determined based on arm's-length negotiations between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rate for similar business, and is in line with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee calculated with transaction amount being multiplied by the commission rate of 0.03% exceeds RMB5, the transaction will be charged at the commission rate of 0.03%). Different commission rates are applicable to the bond brokerage business provided to us by Zhongtai Securities and/or its associates depending on different types of bonds (such as reverse repo of bonds with the term of one day or exceeding 28 days), ranging from 0.001% to 0.03%. Such commission rates are also applicable to independent third parties; and
- (ii) the commissions charged by Zhongtai Securities and/or its associates for provision of securities brokerage and other financial services to the Group are comparable to, or no less favorable than the average market commission rate, and the corresponding commission rate is also within the range as specified by China's stock exchanges (i.e. Shanghai Stock Exchange and Shenzhen Stock Exchange).

D. Acceptance of OTC option introduction services provided by Zhongtai Securities and/or its associates

Principal terms:

In recent years, the Group's OTC derivatives business has achieved development at a large scale with solid profits and hold one of the largest market shares. It has formed a strong risk management capability and competitive advantage. As the largest securities Group in Shandong Province, Zhongtai Securities trades OTC derivatives with its customers. However, Zhongtai Securities' OTC derivatives business primarily focuses on stock index, ETFs and stocks. Therefore, Zhongtai Securities and/or its associates will introduce customers engaged in trading of commodity OTC derivatives to the Group, and at the same time, due to the restricted trading ability of Zhongtai Securities, it also needs to introduce certain customers trading equity OTC derivatives to the Group. Zhongtai Securities and/or its associates charge an introduction fee on the Group for such introduction services.

Reasons for the transaction:

The Group's acceptance of the introduction service provided by Zhongtai Securities and/or its associates can enable the Group to share the abundant customer resources of Zhongtai Securities, enhance the synergy effect of the Group and increase its operating income.

Significant Events

Pricing terms:

The introduction fee for Zhongtai Securities and/or its associates to introduce the OTC business to the Group will be based on 10% to 30% of the Group's income from its OTC option business. The relevant split ratio is determined based on the risk level of different types of OTC option businesses. The higher the risk, the lower the split ratio to be given to Zhongtai Securities. The Group will negotiate with Zhongtai Securities within the above-mentioned range to determine the split ratio of each specific business.

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

A. New Futures Brokerage Services Framework Agreement

In the ordinary and usual course of business of the Company, it provides futures brokerage and other related financial services to our customers, including Shandong Steel and/or its associates. The Company entered into the New Futures Brokerage Services Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours) and proposed the annual caps for 2018, 2019 and 2020 under the New Futures Brokerage Services Framework Agreement.

Pursuant to such agreement, the Group provides futures brokerage services to Shandong Steel and/or its associates in the Group's ordinary and usual course of business. The term of the New Futures Brokerage Services Framework Agreement is three years, valid from 1 January 2018 until 31 December 2020. The Company is subject to the reporting and announcement requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions for the following three years (from 1 January 2018 to 31 December 2020). For the details of entering into the New Futures Brokerage Services Framework Agreement and the transactions thereunder, see the announcement dated 22 May 2017 of the Company.

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

Nature of transaction	Transaction amounts for the year ended 31 December 2019 (RMB' 000)	Proposed annual caps for the year ended 31 December 2019 (RMB' 000)
Derivatives brokerage Commissions received by the Group for provision of derivatives brokerage service by the Group to Shandong Steel and/or its associates ⁽ⁱ⁾	2,627	7,600

- (i) Commissions received by the Group for provision of derivatives brokerage service to Shandong Steel and/or its associates include those commission received by the Group from Zhongtai Securities and/or its associates for provision of derivatives brokerage services, netting off trading and clearing fees paid to exchange-clearing organization.

Principal terms:

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

Reasons for the transaction:

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

Pricing terms:

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

B. Asset Management Service Framework Agreement

Reference is made to the announcement of the Company dated 28 April 2017 in relation to the former Asset Management Service Framework Agreement entered into between the Company and Shandong Steel and its annual caps, pursuant to which Shandong Steel and/or its associates will continuously purchase the collective asset management schemes in which the Company acted as the manager. Being the asset manager, the Company invests in financial products of various aspects with the collective asset management schemes. As such, Shandong Steel and/or its associates will pay asset management fees to the Company. As the corresponding annual caps under the Asset Management Service Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct continuing connected transactions under the Asset Management Service Framework Agreement after 31 December 2019 and to sell asset management schemes to Shandong Steel and/or its associates, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The Asset Management Service Framework is for a term of three years, valid from 1 January 2020 to 31 December 2022. The continuing transactions thereunder are subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of Listing Rules, and the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of Listing Rules.

Significant Events

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

Nature of transaction	Transaction amounts for the year ended 31 December 2019 (RMB' 000)	Proposed annual caps for the year ended 31 December 2019 (RMB' 000)
Collective asset management schemes purchased by Shandong Steel and/or its associates		
Daily maximum investment amount	0	338,000
Asset management fees received from Shandong Steel and/or its associates	0	3,380

Principal terms:

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

Reasons for the transaction:

The Group commenced its operation of asset management business in January 2013. The successful launch and operation of asset management products of the Group bring actual benefits to our customers, increase the Group's income of asset management business, and gain market recognition and branding effect of the asset management business. Moreover, Shandong Steel and/or its associates have actual investment demand for purchase of asset management products. As the Group is more familiar with the investment demand of Shandong Steel and/or its associates as compared with other asset management companies, the Group is expected to increase the assets return of Shandong Steel and/or its associates as well as the income of the asset management business of the Group. Also, it is expected to facilitate the business cooperation between both parties which is in the interest of the Company and the Shareholders as a whole.

Pricing terms:

- (i) as the manager of the asset management schemes, we charge Asset Management Fees based on the calculation of the investment amounts in the asset management schemes by Shandong Steel and/or its associates times the Asset Management Fees rate; and
- (ii) For collective asset management schemes, the Asset Management Fees rate (approximately 1.5% on average) as stipulated in the collective asset management contracts is applicable to all investors participating in such plan, including Shandong Steel and/or its associates and any other independent third party investor participants. Such Asset Management Fees rate is also comparable to, or no less favorable than, the rates we charged any other independent third parties for comparable collective asset management schemes.

C. Bulk Commodities Sale and Purchase Framework Agreement

Reference is made to the announcement of the Company dated 28 April 2017 in relation to the former Bulk Commodities Sale and Purchase Framework Agreement entered into between the Company and Shandong Steel. As disclosed in the announcement of the Company dated 28 April 2017, the Group will purchase and sell bulk commodities from or to Shandong Steel and/or its associates in accordance with the former Bulk Commodities Sale and Purchase Framework Agreement. As the corresponding annual caps under the former Bulk Commodities Sale and Purchase Framework Agreement will expire on 31 December 2019, and Luzheng Trading, a wholly-owned subsidiary of the Company, will continue to purchase bulk commodities, such as hot rolled wide steel plates from Shandong Steel and/or its associates in the future, and that Shandong Steel and/or its associates may continue to purchase raw materials, including coke and iron ores, from Luzheng Trading, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The Bulk Commodities Sale and Purchase Framework Agreement is for a term of three years, valid from 1 January 2020 to 31 December 2022. The continuing transactions thereunder are subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of Listing Rules, and the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2019 (RMB' 000)	Proposed annual caps for the year ended 31 December 2019 (RMB' 000)
The cost paid by the Group for purchase of physical commodities from Shandong Steel and/or its associates	42,290	450,000
The cost paid by Shandong Steel and/or its associates for purchase of physical commodities from the Group	738	225,000

Principal terms:

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

Significant Events

Reasons for the transactions:

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

For the purchase of raw materials, including but not limited to, coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, Luzheng Trading was established in April 2013 and principally engaged in bulk commodities transaction business with its scope of business covering the sales and wholesale of agricultural products, metal products, ore products, chemical products and edible oils. It generally purchases raw materials, such as coke and iron ores at suitable market price and sells such bulk commodities when there is an increase in the market price as compared to the purchase price in order to earn price differences. As a steel producer, Shandong Steel has a great demand for bulk commodities such as coke and iron ores and plans to purchase such bulk commodities from Luzheng Trading from time to time according to its future production demand and market conditions. By entering into the Bulk Commodities Sale and Purchase Agreement with Shandong Steel to sell bulk commodities including iron ores to Shandong Steel, the Company is able to access stable and reliable sales channels, seize market opportunities and acquire stable profits from the differences in price, and is in the interest of the Company and Shareholders as a whole.

Pricing terms:

For the Group's purchase of commodities such as hot-rolled wide steel plates from Shandong Steel and/or its associates, the prices were determined by Shandong Steel and/or its associates primarily with reference to comparable prices of similar products sold by independent third parties in the local market in order to ensure that the prices and terms of the commodities purchased by the Group from Shandong Steel and/or its associates are fair, reasonable and comparable to those offered by independent third parties for sale of similar products. The Group placed purchase orders through the e-commerce platform of Shandong Steel and/or its associates, and would refer to the prices offered by independent third parties before placing orders. This e-commerce platform adopts the principle of first-come-first-served, and the price published by the e-commerce platform on the day will prevail.

For the purchase of commodities such as cokes and iron ores by Shandong Steel and/or its associates from the Group, the prices were determined by the Group based on fair market value after arms' length negotiation with Shandong Steel and/or its associates, with reference to comparable prices of similar products sold by independent third parties in the local market in order to ensure that the prices and terms of the commodities such as cokes and iron ores purchased by Shandong Steel and/or its associates from Luzheng Trading are fair, reasonable and comparable to those offered by independent third parties for sale of similar products. The Group follows market-oriented principles in selling coke, iron ore and other commodities. In other words, the final transaction price was agreed after negotiation according to the market supply and demand, and based on the market price published by third-party information companies (such as My Steel Network <https://www.mysteel.com/>) on the date of transaction.

D. Risk Management Services Framework Agreement

Reference is made to the announcements of the Company dated 22 May 2017 in relation to (among others) the former Risk Management Service Framework Agreement entered into between the Company and Shandong Steel and its annual caps. As disclosed in the announcement of the Company dated 22 May 2017, the Group will provide risk management services to Shandong Steel and/or its associates in accordance with the former Risk Management Service Framework Agreement. As the corresponding annual caps under the former Risk Management Service Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct continuing connected transactions under the former Risk Management Service Framework Agreement after 31 December 2019 and to provide risk management service to Shandong Steel and/or its associates, the Company entered into the Risk Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The Risk Management Service Framework Agreement is for a term of three years, valid from 1 January 2020 to 31 December 2022. These transactions thereunder constitute continuing transactions of the Company, and are subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of Listing Rules, and the reporting and announcement requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of Listing Rules.

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

Nature of transaction	Transaction amounts for the year ended 31 December 2019 (RMB' 000)	Proposed annual caps for the year ended 31 December 2019 (RMB' 000)
Premium paid by Shandong Steel and/or its associates to the Group	0	9,000
Premium paid by the Group to Shandong Steel and/or its associates	0	9,000

Significant Events

Principal terms:

In the ordinary and usual course of our business, we provide Shandong Steel and/or its associates with risk management services, such as providing customized and comprehensive risk management service for the price risks which Shandong Steel and/or its associates are exposed to in the trading of derivatives instruments, including futures, options, swaps and forwards or their portfolio in the private market. Therefore, Shandong Steel and/or its associates purchase or sell OTC options from or to us. At the beginning of such transactions, the buyers pay premium to the sellers. As the largest securities company in Shandong Province, Zhongtai Securities trades OTC derivatives with its clients, involving swaps and OTC options of such underlying assets as stock indexes, ETFs, stocks and commodities. Zhongtai Securities will trade OTC options with the Company due to its own needs for hedging and transfer risks associated with OTC derivatives transactions. As such, Zhongtai Securities and/or its associates purchase or sell OTC options from or to the Company's subsidiaries, and, the buyers pay premium to the sellers at the beginning of the transactions.

Reasons for the transaction:

As the largest steel manufacturing and trading enterprise in Shandong Province of the PRC, Shandong Steel has a great production capacity and asset scale. In order to overcome price fluctuation risk of commodities, such as raw materials, Shandong Steel has customized risk management demand with respect to part of its production and processing materials. From 2013 up to now, the OTC derivatives business of the Company gradually matured with greater improvement of its trading capacity, risk management and service capability. We plan to provide OTC options on futures of rebars, iron ores, coke and rubber to Shandong Steel and/or its associates in order to meet the risk management demand of Shandong Steel and/or its associates, facilitate the development of the OTC derivatives business of the Company, as well as increase the revenue of the Company. Zhongtai Securities has advantages in equity OTC derivatives, while the Company has advantages in commodity OTC derivatives. Therefore, entering into OTC derivatives transactions between Zhongtai Securities and the Company can allow the parties to make good use of their respective advantages in different fields and overcome their disadvantages so as to meet their customers' needs for OTC derivatives transactions.

Pricing terms:

- (i) taking into consideration the factors including the market volatility and liquidity, the trading period of each OTC derivatives transaction ranging from one to six months, the premium ratio ranges from approximately 0.5% to 8% of the value of the underlying asset;
- (ii) the premium ratio for trading structured financial product between Zhongtai Securities and its customers ranges from approximately 0.1% to 0.5% of the value of the assets;
- (iii) even though the premium of OTC derivatives business charged by us varies depending on the types of futures products, the premium of the same futures products is applicable to all of our clients including Shandong Steel and/or its associates and other independent third party clients; and
- (iv) the premium charged by/paid for risk management services provided by us is determined based on internationally recognized pricing models and risk management systems, with reference to the quotation of market organizations and reference parameters including the volatility rate provided by a third party, i.e. Wind Information, in order to ensure reasonable pricing in line with market practice on the premises of fairness and impartiality, which is in the interest of the Company and Shareholders as a whole.

3. Our independent non-executive Directors' and auditors' confirmation

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

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

In respect of the disclosure of the continuing connected transactions:

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

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

4. Confirmation on related party transactions

Details of the Group's related party transactions are set out in the consolidated financial statements and note 43. Except for the connected transactions and the continuing connected transactions disclosed in this report, no related party transactions constitutes a connected transaction or a continuing connected transaction for the Company and is subject to announcement, independent Shareholder approval under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules for connected transactions and continuing connected transactions as set out in this report.

IV. MAJOR CONTRACTS AND THEIR PERFORMANCE

There was no major contract signed during the Reporting Period.

Significant Events

V. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

VI. UNDERTAKINGS OF THE CONTROLLING SHAREHOLDERS AND THEIR PERFORMANCE

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

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

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

“We hereby confirm that:

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

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

We agree that the Company can disclose the content of this letter, including adding the content of this letter into the 2019 annual report of the Company.”

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

VII. APPOINTMENT, CHANGE AND DISMISSAL OF AUDITORS

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

The Company confirmed to appoint PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as its domestic and international auditors. The Company did not change the auditors during the past three years.

(2) Auditors' Remuneration

As of 31 December 2019, the remuneration of the Group's auditors, which are PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, was RMB1.80 million in total. The audit fees of the statutory audit report was RMB1.65 million, the fees of other assurance service was RMB0.15 million. The remuneration of the Group's other auditors was RMB0.10 million in total.

Save as disclosed in the paragraph above, no other audit related or non-audit related fees were paid to the auditors by the Group for the year ended 31 December 2019.

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

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

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

During the Reporting Period, the Company convened total 26 meetings, of which there was two general meetings, ten Board meetings, four Supervisory Committee meetings, three Risk Control Committee meetings, two Audit Committee meetings, four Nomination Committee meetings and one Strategic Development Committee meeting.

II. GENERAL MEETING

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

1. The 2018 annual general meeting of LUZHENG FUTURES Company Limited

On 20 June 2019, the Company convened the 2018 annual general meeting with physical presence, at which the following resolutions were passed:

- (1) The “Proposal on the Work Report of the Board of Directors for the Year 2018” was considered and passed;
- (2) The “Proposal on the Work Report of the Supervisory Committee for the Year 2018” was considered and passed;
- (3) The “Proposal on the Annual Report (International Financial Reporting Standards) for the Year 2018” was considered and passed;
- (4) The “Proposal on the Profit Distribution Plan for the Year 2018” was considered and passed;

- (5) The “Proposal on the Appointment of Accounting Firms for the year 2019” was considered and passed;
- (6) The “Proposal on the Financial Services Framework Agreement with Zhongtai Securities” was considered and passed;
- (7) The “Proposal on the Asset Management Service Framework Agreement with Shandong Steel” was considered and passed;
- (8) The “Proposal on the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel” was considered and passed;
- (9) The “Proposal on the General Mandate to Issue Domestic and Overseas Bond Financing Instruments” was considered and passed; and
- (10) The “Proposal on the General Mandate to Issue Domestic Shares and H Shares” was considered and passed.

2. The 2019 first extraordinary general meeting of LUZHENG FUTURES Company Limited

On 10 December 2019, the Company convened the 2019 first extraordinary general meeting with physical presence, at which the following resolutions were passed:

- (1) The “Proposal on Election of Non-staff Representative Directors of the Third Session of the Board of Directors” was considered and passed; and
- (2) The “Proposal on Election of Non-Staff Representative Supervisors of the Third Session of the Supervisory Committee” was considered and passed.

Corporate Governance Report

III. PERFORMANCE OF THE DIRECTORS

(1) Summary of the performance of the Directors

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

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

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

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

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

Corporate Governance Report

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

Name of Directors	Attendance at Board meetings						Attendance at general meeting No. of general meeting attended
	No. of Board meetings attended	Attended in person	Attended by means of telecommunication	Attended by proxy	Absent	Two consecutive absents	
Executive Directors							
Chen Fang (<i>tenure expired on 10 December 2019</i>)	8	3	5	0	0	No	2
Zhong Jinlong (<i>appointed on 10 December 2019</i>)	2	1	1	0	0	No	1
Liang Zhongwei	10	4	6	0	0	No	2
Non-executive Directors							
Yin Ge (<i>tenure expired on 10 December 2019</i>)	8	2	5	1	0	No	0
Li Chuanyong (<i>tenure expired on 10 December 2019</i>)	8	2	5	1	0	No	0
Liu Hongsong (<i>appointed on 10 December 2019</i>)	2	1	1	0	0	No	0
Hu Kainan (<i>appointed on 10 December 2019</i>)	2	1	1	0	0	No	0
Ming Gang (<i>appointed on 10 December 2019</i>)	2	1	1	0	0	No	1
Liu Feng	8	0	5	3	0	No	0
Independent non-executive Directors							
Gao Zhu	10	4	6	0	0	No	1
Yu Xuehui (<i>tenure expired on 10 December 2019</i>)	8	3	5	0	0	No	1
Wang Chuanshun	10	4	6	0	0	No	1
Li Dapeng	10	2	6	2	0	No	1
Zheng Jianping (<i>appointed on 26 December 2019</i>)	0	0	0	0	0	No	0
No. of Board meetings held during the year							10
In which: conducted by voting on site							6
conducted by means of telecommunication voting							4
No. of general meeting held during the year							2

Corporate Governance Report

(3) Board meetings and resolutions during the Reporting Period

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

1. The 21th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 5 March 2019, the Company held the 21th meeting of the second session of the Board of Directors through voting by correspondence and passed the Proposal on Increase of Registered Capital of Luzheng Trading.

2. The 22th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 27 March 2019, the Company held the 22th meeting of the second session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (2) The “Proposal on the Work Report of the Board of Directors of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (3) The “Proposal on the Results Announcement LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (4) The “Proposal on the 2018 Annual Report of LUZHENG FUTURES Company Limited (International Financial Reporting Standards)” was considered and passed;
- (5) The “Proposal on the 2018 Annual Report of LUZHENG FUTURES Company Limited (Chinese Accounting Standards for Business Enterprises)” was considered and passed;
- (6) The “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (7) The “Proposal on Reporting Risk Supervision Indicators of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (8) The “Proposal on the Annual Budget Report of LUZHENG FUTURES Company Limited for 2019” was considered and passed;
- (9) The “Proposal on Appointing Accounting Firms of LUZHENG FUTURES Company Limited for 2019” was considered and passed;

- (10) The “Proposal on General Mandate of LUZHENG FUTURES Company Limited to Issue Domestic and Foreign Bond Financing Instruments” was considered and passed;
- (11) The “Proposal on General Mandate of LUZHENG FUTURES Company Limited to Issue Domestic Shares and H Shares” was considered and passed;
- (12) The “Proposal on Revising ‘Procedural Rule of Board Nomination Committee of LUZHENG FUTURES Company Limited’” was considered and passed;
- (13) The “Proposal on ‘Diversification Policy of Board Members of LUZHENG FUTURES Company Limited’” was considered and passed.
- (14) The “Proposal on Revising ‘Terms of Reference of Board Audit Committee of LUZHENG FUTURES Company Limited’” was considered and passed; and
- (15) The “Proposal on Convening the 2018 Annual General Meeting of LUZHENG FUTURES Company Limited” was considered and passed.

3. The 23th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 26 April 2019, the Company held the 23th meeting of the second session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on Financial Services Framework Agreement with Zhongtai Securities” was considered and passed;
- (2) The “Proposal on Risk Management Services Framework Agreement with Shandong Steel” was considered and passed;
- (3) The “Proposal on Assets Management Services Framework Agreement with Shandong Steel” was considered and passed;
- (4) The “Proposal on Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel” was considered and passed; and
- (5) The “Proposal on Changing Business Place of Dezhou Office Department” was considered and passed.

4. The 24th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 21 June 2019, the Company held the 24th meeting of the second session of the Board of Directors through voting by correspondence and passed the “Proposal on Change Secretary to the Board, Joint Company Secretary and Authorized Representative”.

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5. The 25th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 25 July 2019, the Company held the 25th meeting of the second session of the Board of Directors through voting by correspondence and passed “Proposal on the Environmental, Social and Governance Report of LUZHENG FUTURES Company Limited for 2018”.

6. The 26th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 28 August 2019, the Company held the 26th meeting of the second session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on Interim Result Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2019” was considered and passed;
- (2) The “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2019” was considered and passed.
- (3) The “Proposal on the Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2019” was considered and passed; and
- (4) The “Proposal on Reporting Interim Risk Supervision Indicators of LUZHENG FUTURES Company Limited in 2019” was considered and passed.

7. The 27th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 20 September 2019, the Company held the 27th meeting of the second session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on Increase of Registered Capital of Luzheng Trading” was considered and passed;
- (2) The “Proposal on Changing Business Place of Nanjing Branch” was considered and passed; and
- (3) The “Proposal on Changing Business Place of Beijing Office Department” was considered and passed.

8. The 28th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 24 October 2019, the Company held the 28th meeting of the second session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on Approval of Election of Non-staff Representative Directors of the Third Session of the Board of Directors of LUZHENG FUTURES Company Limited by The General Meeting” was considered and passed;
- (2) The “Proposal on convening the 2019 first extraordinary general meeting of LUZHENG FUTURES Company Limited” was considered and passed; and
- (3) The “Proposal on Changing Business Place of Linyi Office Department” was considered and passed.

9. The 1st Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 10 December 2019, the Company held the 1st meeting of the third session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on Election of Chairman of The Third Session of the Board of Directors” was considered and passed;
- (2) The “Proposal on Election of Members of Each Special Committee and Part of Chairman of Special Committee of The Third Session of the Board of Directors” was considered and passed;
- (3) The “Proposal on Appointment of General Manager” was considered and passed;
- (4) The “Proposal on Appointment of Deputy General Manager” was considered and passed;
- (5) The “Proposal on Appointment of Chief Financing Officer” was considered and passed;
- (6) The “Proposal on Appointment of Chief Risk Officer” was considered and passed; and
- (7) The “Proposal on Appointment of Secretary to the Board of Directors” was considered and passed.

10. The second Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 18 December 2019, the Company held the 2nd meeting of the third session of the Board of Directors through voting by correspondence and passed the Proposal on Revising “Anti-money Laundering Internal Control System of LUZHENG FUTURES Company Limited”.

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(4) Appointment, Reappointment and Removal of Directors

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

(5) Training for Directors

The Company places high importance on continual training of Directors to ensure that they have appropriate understanding of the operations and business of the Company and the duties of a Director under the relevant legal and regulatory requirements of CSRC and the Hong Kong Stock Exchange, Hong Kong Companies Ordinance, Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association. During the Reporting Period, the Company has established a multi-level information communication system and an information exchange platform to enhance to increase information sharing and exchanges among Directors, Supervisors and the senior management, enhancing the Directors' ability to fulfill their duties.

Details of the training of the Director during the Reporting Period are as follows:

Name of Directors	Date	Duration	Organizer	Content
Chen Fang	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Liang Zhongwei	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Yin Ge	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Li Chuanyong	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Liu Feng	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Gao Zhu	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Yu Xuehui	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Wang Chuanshun	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Li Dapeng	28 August 2019	4 hours	The Company	Training of Compliance of Directors
Zhong Jinlong	10 December 2019	4 hours	The Company	Training of Compliance of Directors
Liu Hongsong	10 December 2019	4 hours	The Company	Training of Compliance of Directors
Hu Kainan	10 December 2019	4 hours	The Company	Training of Compliance of Directors
Ming Gang	10 December 2019	4 hours	The Company	Training of Compliance of Directors
Zheng Jianping	10 December 2019	4 hours	The Company	Training of Compliance of Directors

IV. WORK PERFORMANCE OF BOARD OF DIRECTORS AND SPECIAL COMMITTEES

(1) Composition and main responsibilities of the Board of Directors during the Reporting Period

As at the end of the Reporting Period, the Board comprised of ten Directors: Mr. Zhong Jinlong as chairman of the Board and an executive Director, Mr. Liang Zhongwei as an executive Director, Mr. Liu Hongsong, Mr. Hu Kainan, Mr. Ming Gang and Mr. Liu Feng as non-executive Directors, and Mr. Gao Zhu, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping as independent non-executive Directors.

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

- (1) to convene the general meetings and report its work to the general meetings;
- (2) to implement the resolutions of the general meetings;
- (3) to decide on the Company's business plans and investment plans, specific annual business objectives and financing plans other than the issuance of corporate debentures or other securities and listings;
- (4) to formulate the Company's annual financial budgets and final accounts;
- (5) to formulate the Company's profit distribution plan and the plan for making up losses;
- (6) to formulate proposals for the increase or reduction of the Company's registered capital and the issuance of corporate bonds;
- (7) to formulate proposals for the major acquisition, the repurchase of the Company's Shares or the merger, division, dissolution or change of corporate form of the Company;
- (8) to determine on the establishment of the Company's internal management structure and on the establishment or closing of the Company's sub-branches or representative offices;
- (9) to elect a chairman and vice-chairman of the Board of Directors of the Company;
- (10) to appoint or dismiss the general manager, secretary to the Board of Directors and chief risk officer of the Company and to fix their remuneration, bonus and punishment;
- (11) pursuant to the general manager's nominations to appoint or dismiss deputy general managers, financial controller and other senior management officers of the Company and to fix their remuneration, bonus and punishment;
- (12) to formulate the Company's basic management system;

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- (13) to formulate proposals for amendments to the Articles of Association;
- (14) to manage the information disclosure of the Company;
- (15) to determine the establishment of special committees under the Board of Directors and to appoint or dismiss the chairmen of these committees;
- (16) to propose to general meetings for the appointment or replacement of the auditors of the Company;
- (17) to hear the regular or non-regular work reports from the general manager of the Company or senior management officers appointed by the general manager and to approve the work reports of the general manager;
- (18) to consider and decide on the security depository system for customer margins to ensure that the depositing of customer margins is in compliance with the requirements for the protection of customer assets as well as the safe depositing and monitoring of futures margins;
- (19) to consider and decide on the Company's risk control system and internal control system;
- (20) to decide on the risk investment, acquisition and disposal of assets, pledge of assets, external guarantees, trust asset management and connected transactions of the Company within the authorization of the general meeting; and
- (21) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange where the Company's Shares are listed, general meetings and the Articles of Association.

(2) Duties concerning corporate governance of the Board

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

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

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

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

(3) Duties of the Board of Directors and the senior management

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

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

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

(4) Composition and main duties of special committees

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

1. As at the date of this report, the Strategic Development Committee comprises six members: Mr. Zhong Jinlong as an executive Director, Mr. Gao Zhu, Mr. Li Dapeng and Mr. Zheng Jianping as the independent non-executive Directors, and Mr. Ming Gang and Mr. Liu Feng as the non-executive Directors. Mr. Zhong Jinlong, an executive Director, is currently the chairman of the Strategic Development Committee. The main duties of the Strategic Development Committee of the Company are as follows:
 - (1) to stay informed of and understand the general development conditions of the Company;
 - (2) to study and understand domestic and overseas industrial developments and relevant national policies;
 - (3) to study and formulate medium and long-term development strategies, plans and proposals of the Company, make recommendations on and evaluate and monitor the implementation of the medium and long-term strategic goals of the Company;
 - (4) to review the medium and long-term development goals and development plans of each business and management segments of the Company;

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- (5) to review and make recommendations on the annual operation and investment plans of the Company;
 - (6) to study and make recommendations on the proposals to increase or decrease the Company's registered capital and the merger, division, dissolution or change of corporate form of the Company;
 - (7) to study and make recommendations on matters requiring Board's review and approval, such as material investment, financing, provision of guarantee, capital operation, asset reorganization and asset operation and management of the Company;
 - (8) to study and make recommendations on proposals to development new markets, businesses and products by the Company;
 - (9) to study and make recommendations on material structural reorganization and adjustment plan of the Company;
 - (10) to study, discuss and make recommendations on other material matters affecting the development the Company; and
 - (11) other duties as assigned by the Board of Directors.
2. As at the date of this report, the Risk Control Committee comprises five members: Mr. Gao Zhu and Mr. Zheng Jianping as the independent non-executive Directors, Mr. Liang Zhongwei as an executive Director, and Mr. Hu Kainan and Mr. Ming Gang as non-executive Directors. Mr. Hu Kainan, a non-executive Director, is currently the chairman of the Risk Control Committee. The main duties of the Risk Control Committee of the Company are as follows:

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

3. As at the date of this report, the Audit Committee comprises five members: Mr. Wang Chuanshun, Mr. Gao Zhu and Mr. Li Dapeng as the independent non-executive Directors, and Mr. Hu Kainan and Mr. Liu Feng as the non-executive Directors. Mr. Wang Chuanshun, an independent non-executive Director, is currently the chairman of the Audit Committee. The main duties of the Audit Committee of the Company are as follows:

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

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

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

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

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

- a. any changes in the accounting policies and practices;
- b. areas which involve significant judgements;
- c. significant adjustments according to the results of audit;
- d. assumptions on the ongoing operations of the Company and any qualified opinions;

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- e. compliance with accounting standards; and
- f. compliance with the listing rules and other legal requirements of the place of listing in relation to financial reporting.

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

- (5) to review and supervise the effective implementation of the financial reporting system, internal control system and risk management system of the Company, including:
 - a. to review and examine the financial control, internal control and risk management system of the Company;
 - b. to discuss the internal control system with the management about the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting and financial reporting function of the Company so as to ensure the management has performed its duty to establish an effective internal control system;
 - c. to review major findings on internal control matters and the responses of management on its own initiative or as delegated by the Board;
 - d. to ensure co-ordination and communication between the internal and external auditors where an internal audit function exists in the Company; to ensure the internal audit function is provided with adequate resources and has appropriate standing in the Company; and to review and monitor its effectiveness;
 - e. to review the financial and accounting policies and practices of the Company;
 - f. to review the auditing descriptions from the external auditor to the management, any significant queries raised by the auditor to the management regarding the accounting records, financial accounts or supervision systems as well as responses of the management;
 - g. to ensure timely responses of the Board to the issues in the auditing descriptions raised by the external auditor;
 - h. to report to the Board of Directors in respect of the issues set out in the terms of reference; and
 - i. to consider other issues raised by the Board of Directors.

- (6) to evaluate and discuss the following arrangements formulated by the Company: whistleblowing system for employees of the Company to report on any potential misconducts regarding the financial reporting, internal control or other aspects of the Company, and to ensure that the Company has put in place appropriate arrangements to carry out fair and independent investigation and follow-up actions for such issues; to arrange a suitable personnel as a key representative between the Company and the external auditor and to supervise their relationship.
 - (7) to audit and supervise connected transactions and evaluate their appropriateness.
 - (8) other duties as assigned by the Board of Directors.
4. As at the date of this report, the Remuneration and Appraisal Committee comprises five members: Mr. Gao Zhu, Mr. Wang Chuanshun and Mr. Zheng Jianping as independent non-executive Directors, Mr. Liang Zhongwei as an executive Director, and Mr. Liu Hongsong as a non-executive Director. Mr. Gao Zhu, an independent non-executive Director, is currently the chairman of the Remuneration and Appraisal Committee. The main duties of the Remuneration and Appraisal Committee of the Company are as follows:
- (1) to provide suggestions to the Board of Directors in respect of the appraisal standards and the overall remuneration policies and structure for the Directors and senior management of the Company, and the establishment of formal and transparent procedures for the formulation of such remuneration policies;
 - (2) to conduct review and approval on the proposed remuneration of the operational level based on the corporate operating objectives. The Remuneration and Appraisal Committee shall consider factors including the remuneration paid by comparable companies, the time commitment and the scope of duties of Directors, the employment conditions of other positions within the Company and whether the remuneration shall be based on results performance;
 - (3) to provide the Board with suggestions on or determine the remuneration of individual executive Directors and senior management, including non-monetary benefits, pension and compensation (including compensation for the loss or termination of office or appointment) relying on authorization granted;
 - (4) to provide the Board of Directors with suggestions on the remuneration packages of individual executive Directors and senior management including non-monetary benefits, pension and compensation (including compensation for the loss or termination of office or appointment);
 - (5) to provide the Board of Directors with suggestions regarding the remuneration of non-executive Directors;

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- (6) to provide the Board of Directors with suggestions on the relevant compensation paid by the Company to executive Directors and senior management in respect of their loss or termination of office or appointment, and the compensation arrangements regarding the dismissal or removal of Directors due to misconduct (and to ensure that such arrangements comply with the terms of their service contracts, or otherwise, such compensation shall be reasonable and appropriate);
 - (7) to ensure that a Director shall not participate in determining his/her own remuneration;
 - (8) to conduct review and supervision in relation to the implementation of the remuneration system of the Company; and
 - (9) other duties as assigned by the Board of Directors.
5. As at the date of this report, the Nomination Committee comprises 5 members: Mr. Li Dapeng, Mr. Wang Chuanshun and Mr. Zheng Jianping as independent non-executive Directors, Mr. Liang Zhongwei as an executive Director, and Mr. Liu Hongsong as a non-executive Director. Mr. Li Dapeng, an independent non-executive Director, is currently the chairman of the Nomination Committee. The main duties of Nomination Committee of the Company are as follows:
- (1) to study the standards and procedures for selection of Directors and senior management, and make recommendations to the Board;
 - (2) the Nomination Committee shall study the structure, number of members and composition (including the skills, knowledge and experience of Directors) of the Board at least once a year, and make recommendations concerning changes to the Board arising from strategic changes of the Company, and the Committee has formulated a policy on diversity of members of the Board (for details please refer to the section “Policy on Board Diversity”) under the corporate governance report;
 - (3) to make recommendations to the Board of Directors in respect of candidates for Directors and senior management and examine their qualifications, and make recommendations to the Board of Directors in respect of the appointment or reappointment of Directors and the succession plans of Directors (in particular the chairman of the Board of Directors and the president);
 - (4) to evaluate the independence of the independent non-executive Directors; and
 - (5) other duties as assigned by the Board.

(5) Special Committees' Meetings

1. Risk Control Committee

On 27 March 2019, the sixth meeting of the Risk Control Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Report of the Annual Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2018" (《關於報告魯証期貨股份有限公司2018年度風險監管指標的議案》) by way of voting on site.

On 28 August 2019, the seventh meeting of the Risk Control Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Report of the Interim Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2019" (《關於報告魯証期貨股份有限公司2019年中期風險監管指標的議案》) by way of voting on site.

On 10 December 2019, the first meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Election of Chairman of Risk Control Committee of The Third Session of The Board of Directors" (《關於選舉第三節董事會風險控制委員會主席的議案》) by way of voting on site.

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

Name	Number of meetings attended/ Number of meetings held
Yu Xuehui ⁽¹⁾ (chairman of Risk Control Committee)	2/2
Hu Kainan ⁽²⁾ (chairman of Risk Control Committee)	1/1
Gao Zhu	3/3
Liang Zhongwei	3/3
Yin Ge ⁽³⁾	2/2
Li Chuanyong ⁽⁴⁾	1/2
Ming Gang ⁽⁵⁾	1/1
Zheng Jianping ⁽⁶⁾	1/1

Notes: (1) On 10 December 2019, Mr. Yu Xuehui retired as the chairman of Risk Control Committee of the second session of the Board.

(2) On 10 December 2019, Mr. Hu Kainan was appointed as the chairman of Risk Control Committee of the third session of the Board.

(3) On 10 December 2019, Mr. Yin Ge retired as the member of Risk Control Committee of the second session of the Board.

(4) On 28 August 2019, Mr. Li Chuanyong, as a non-executive Director of the second session of the Board of Directors, authorized Mr. Yu Xuehui, as an independent non-executive Director, to attend the Risk Control Committee on his behalf; and on 10 December 2019, Mr. Li Chuanyong retired as the member of Risk Control Committee of the second session of the Board.

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- (5) On 10 December 2019, Mr. Ming Gang was appointed as the member of Risk Control Committee of the third session of the Board.
- (6) On 26 December 2019, Mr. Zheng Jianping was appointed as the member of Risk Control Committee of the third session of the Board.

2. Audit Committee

On 27 March 2019, the sixth meeting of the Audit Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Annual Results Announcement of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年度業績公告議案》), the “Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年度報告(國際財務報告準則)的議案》), the “Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年度報告(中國企業會計準則)的議案》), the “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年度利潤分配方案的議案》), the “Proposal on the Budget Report of LUZHENG FUTURES Company Limited for 2019” (《關於魯証期貨股份有限公司2019年度預算報告的議案》), the “Proposal on the Appointment of Accounting Firms of LUZHENG FUTURES Company Limited for 2019” (《關於聘請魯証期貨股份有限公司2019年度會計師事務所的議案》) and the “Proposal on Revising ‘Procedural Rule of Board Audit Committee of LUZHENG FUTURES Company Limited’” (《關於修訂〈魯証期貨股份有限公司董事會審計委員會議事規則〉的議案》) by way of voting on site.

On 28 August 2019, the seventh meeting of the Audit Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2019” (《關於魯証期貨股份有限公司截至2019年6月30日止六個月之中期業績公告的議案》), the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2019” (《關於魯証期貨股份有限公司2019年中期報告的議案》), and the “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2019” (《關於魯証期貨股份有限公司2019年中期利潤分配方案的議案》) by way of voting on site.

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

Name	Number of meetings attended/ Number of meetings held
Wang Chuanshun (chairman of Audit Committee)	2/2
Gao Zhu	2/2
Li Dapeng	2/2
Liu Feng	2/2
Hu Kainan ⁽¹⁾	0/0

Note: (1) On 10 December 2019, Mr. Hu Kainan was appointed as the member of Audit Committee of the third session of the Board.

3. Nomination Committee

On 27 March 2019, the fifth meeting of the Nomination Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Revising ‘Procedural Rule of Board Nomination Committee of LUZHENG FUTURES Company Limited’” (《關於修訂〈魯証期貨股份有限公司董事會提名委員會議事規則〉的議案》) and the “Proposal on ‘Diversification Policy of Board Members of LUZHENG FUTURES Company Limited’” (《關於〈魯証期貨股份有限公司董事會成員多元化政策〉的議案》) by way of voting on site.

On 13 June 2019, the sixth meeting of the Nomination Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Qualification Investigation of Proposed Secretary of The Board of Directors” (《關於擬任董事會秘書資格審查的議案》) by way of voting by correspondence.

On 21 October 2019, the seventh meeting of the Nomination Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Investigation and Suggestion of Non-staff Representative Directors of the Third Session of the Board of Directors” (《關於審查並推薦第三屆董事會非職工代表董事的議案》) by way of voting by correspondence.

On 4 December 2019, the eighth meeting of the Nomination Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Investigation of Nominee of General Manager” (《關於審查總經理提名人選的議案》), the “Proposal on Investigation of Nominee of Deputy General Manager” (《關於審查副總經理提名人選的議案》), the “Proposal on Investigation of Nominee of Chief Financing Officer” (《關於審查財務負責人提名人選的議案》), the “Proposal on Investigation of Nominee of Chief Risk Officer” (《關於審查首席風險官提名人選的議案》), and the “Proposal on Investigation of Nominee of Secretary of the Board” (《關於審查董事會秘書提名人選的議案》) by way of voting by correspondence.

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

Name	Number of meetings attended/ Number of meetings held
Li Dapeng ⁽¹⁾ (chairman of Nomination Committee)	3/4
Yu Xuehui ⁽²⁾	4/4
Wang Chuanshun	4/4
Liang Zhongwei	4/4
Yin Ge ⁽³⁾	4/4
Liu Hongsong ⁽⁴⁾	0/0
Zheng Jianping ⁽⁵⁾	0/0

Notes: (1) On 27 March 2019, Mr. Li Dapeng, as an independent non-executive Director of the second session of the Board of Directors, authorized Mr. Wang Chuanshun, as an independent non-executive Director, to attend the Nomination Committee on his behalf.

(2) On 10 December 2019, Mr. Yu Xuehui retired as the member of Nomination Committee of the second session of the Board.

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- (3) On 10 December 2019, Mr. Yin Ge retired as the member of Nomination Committee of the second session of the Board.
- (4) On 10 December 2019, Mr. Liu Hongsong was appointed as the member of Nomination Committee of the third session of the Board.
- (5) On 26 December 2019, Mr. Zheng Jianping was appointed as the member of Nomination Committee of the third session of the Board.

4. Strategic Development Committee

On 10 December 2019, the first meeting of the Strategic Development Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Election of Chairman of Strategic Development Committee of the third session of the Board of Directors” (《關於選舉第三屆董事會戰略發展委員會主席的議案》) by way of voting on site.

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

Name	Number of meetings attended/ Number of meetings held
Chen Fang (chairman of Strategic Development Committee)	0/0
Li Chuanyong	0/0
Yu Xuehui	0/0
Zhong Jinlong ⁽¹⁾ (chairman of Strategic Development Committee)	1/1
Ming Gang ⁽²⁾	1/1
Liu Feng ⁽³⁾	0/1
Gao Zhu	1/1
Li Dapeng	1/1
Zheng Jianping ⁽⁴⁾	1/1

- Notes: (1) On 10 December 2019, Mr. Zhong Jinlong was appointed as the chairman of Strategic Development Committee of the third session of the Board.
- (2) On 10 December 2019, Mr. Ming Gang was appointed as the member of Strategic Development Committee of the third session of the Board.
- (3) On 10 December 2019, Mr. Liu Feng, as a non-executive Director of the third session of the Board of Directors, authorized Mr. Gao Zhu, as an independent non-executive Director, to attend the Strategic Development Committee on his behalf.
- (4) On 26 December 2019, Mr. Zheng Jianping was appointed as the member of Strategic Development Committee of the third session of the Board.

On 10 December 2019, Mr. Chen Fang, Mr. Li Chuanyong and Mr. Yu Xuehui were retired as the chairman/members of Strategic Development Committee of the second session of the Board. During the Reporting Period, the Strategic Development Committee of the second session of the Board did not convene a meeting.

5. Remuneration and Appraisal Committee

During the Reporting Period, the Remuneration and Appraisal Committee of the Board of Directors of the Company believed that the Company can operate in accordance with the established strategy and salary assessment system, and did not convene a meeting of the Remuneration and Appraisal Committee of the Board.

V. CHAIRMAN AND GENERAL MANAGER

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

Mr. Zhong Jinlong, the Chairman of the Board, is mainly responsible for:

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

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

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

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

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by all the Directors and Supervisors. In addition, the Company has also established guidelines for dealing in securities of the Company by its senior management on terms which are no less exacting than the Model Code. Specific enquiries have been made by the Company with all the Directors and Supervisors in respect of their compliance with the Model Code, and each of them has confirmed that he/she has complied with the required standards under the Model Code during the Reporting Period. Furthermore, specific enquiries have also been conducted with the senior management regarding their compliance with the aforementioned guidelines, and no non-compliance has been noticed by the Company.

VII. PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

VIII. SUPERVISION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

Corporate Governance Report

The Board is responsible for and has reviewed the risk management and internal control system of the Group and is of the view that the risk management and internal control system is effective and sufficient. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only make reasonable, but not absolute, assurances that there will be no material misstatement or loss. With respect to the process of identifying, assessing and managing significant risk, the Company mainly adopts the following measures:

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

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

- (1) Complete cover of risk management and compliance requirements. Risk management and internal control system cover every business line: domestic and foreign currencies, on the statements and off the statements, and domestic and overseas businesses; cover all branches of associations, departments, positions and staff; cover every type of risks and the impact of different risks; cover all the management processes, from decision making to execution and monitoring; the risk management and internal control system of the Company cover all the domestic and foreign requirements in relation to internal control and risk management, such as “The Basic Rules on Enterprise Internal Control”, “Enterprise Internal Control Guidelines” and Listing Rules, which are all applicable to the Company;
- (2) The relative independency of risk management and internal control. The Company established an independent organization structure for comprehensive risk management and internal control system, granting sufficient authority, human resources and other resources to the risk management functions, and establishing a scientific and reasonable reporting channel, which forms an operation mechanism of checks and balances with business line; and

- (3) Risk-oriented internal control. On the basis that the satisfaction of the internal control requirements set out in Listing Rules are ensured, the Company adopts risk assessment methods with the focus on the high risk areas and management hotspots while selecting the major business flow and critical controlling links for fulfilling the relevant requirements of risk control and implements such methods in relevant business management. Through the comprehensive risk management and the whole-process of internal control system, the Company is committed to reasonably ensuring that the business risk appetite is in line with the Company's strategy and the work on risk management is undertaken in an orderly manner. The Company also aims at effectively identifying risk so as to avoid the unnecessary loss while reasonably ensuring the accuracy of the risk assessment method and timely delivery of the risk report. Meanwhile, the Company also reasonably ensures the effective operation of the supervision mechanism of internal control system to timely identify significant risk.

The Board continued to monitor the Group's risk management and internal control systems, and reviewed the system twice every year. During the Reporting Period, the Board has reviewed the Group's risk management and internal control system twice to see its effectiveness. The review should cover all important aspects of monitoring, including financial monitoring, operational monitoring and compliance monitoring.

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

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

Corporate Governance Report

IX. OTHER RELEVANT MATTERS

(i) Auditors and remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as auditors of the Company for the financial statements prepared by the Company in accordance with International Financial Reporting Standards and Chinese Accounting Standards for Business Enterprises for the year ended 31 December 2019, respectively. During the period covered by this report, there was no occurrence of disagreement from the Board of Directors to the opinions of selection and appointment of external auditor from the Audit Committee. For details of the auditors' remuneration, Please refer to "VII. Appointment, Change and Dismissal of Auditors" in Chapter X of this report.

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

The Board of Directors acknowledged its responsibility of preparing the consolidated financial statements of the annual report for the year ended 31 December 2019 of the Group.

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

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

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

(iii) Company secretaries

As of 31 December 2019, Mr. Liang Zhongwei and Ms. Ng Wing Shan were joint company secretaries of the Company. Mr. Liu Yunzhi resigned on 21 June 2019 and on the same date, Mr. Liang Zhongwei was appointed as one of the joint company secretaries of the Company. Ms. Ng Wing Shan (assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited) is another one of our joint company secretaries and is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Corporate Governance in the United Kingdom) (formerly known as the Institute of Chartered Secretaries and Administrators in the United Kingdom). Mr. Liang Zhongwei, a joint company secretary and the secretary to the Board of Directors, is the main internal contact person between Ms. Ng Wing Shan and the Company. Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2019, Mr. Liang Zhongwei and Ms. Ng Wing Shan, the joint company secretaries, had attended 15 or more hours of relevant professional training.

(iv) Rights of Shareholders and communication policy

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

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

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

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

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

(v) Investor relations

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

Corporate Governance Report

(vi) Policy on Board diversity

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

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

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

In order to implement the Board diversity policy, the following measurable goals have been adopted:

1. At least one-third of the Board members are independent non-executive Directors; and
2. At least two members of the Board have obtained legal and accounting or other professional qualifications.

The Board of Directors has achieved the measurable objectives under the Board diversity policy.

As of 31 December 2019, the Board of Directors consisted of ten Directors, four of whom were independent non-executive Directors and one staff Director, thereby enhancing the strict review and monitoring of management procedures. The Board of directors is highly diverse in all aspects of age, cultural and educational background, professional experience, skills, knowledge and terms of service.

(vii) Amendments to the Articles of Association

The Company did not make any significant changes to the Articles of Association of the Company during the Reporting Period.

(viii) Remuneration of the senior management

The remuneration paid to the senior management by bands for the year ended 31 December 2019 is set out below:

Remuneration bands	Year ended 31 December 2019 Number
RMB300,001 to RMB500,000	2
RMB500,001 to RMB700,000	1
RMB700,001 to RMB900,000	1
RMB900,001 to RMB1,100,000	2
	6

(ix) Terms of office of non-executive Directors

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

(x) Dividend Policy

The Company's dividend policy has been stipulated in the Articles of Association. According to the Articles of Association, in distributing the current year's profit after tax, 10% of the profit shall be allocated to the Company's statutory reserve fund. When the aggregate amount of the statutory reserve fund has reached 50% or more of the Company's registered capital, further appropriations are not be required. If the statutory reserve fund of the Company is insufficient to make up the losses of the previous year, the profits of the current year shall be used to make up such losses before allocating to the statutory reserve fund in accordance with the preceding paragraph. The Company shall allocate 10% of its annual profits after tax as a general risk reserve to compensate for risks. After allocation of its profits after tax to its statutory reserve fund and general risk reserve, the Company may allocate its profits after tax to its discretionary reserve fund upon a resolution of the shareholders' general meeting. The remaining profits after tax after the Company has made up its losses and allocated to its reserve funds and general risk reserve may be distributed to its shareholders in proportion to their shareholdings if profit distribution is to be made, unless it is stipulated in the Articles of Association that no profit distribution shall be made in proportion to shareholdings.

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The Company may distribute dividends in the form of (or a combination of both):

- (1) cash;
- (2) shares.

Dividends and other payments payable by the Company to the holders of its domestic shares shall be denominated and declared in Renminbi and paid in Renminbi within three months from the date of declaration of dividends. Dividends and other payments payable by the Company to the holders of foreign shares shall be denominated and declared in Renminbi and paid in foreign currency within three months from the date of declaration of dividends. The exchange rate adopted for conversion shall be the average closing exchange rate of the relevant foreign currency against Renminbi as quoted by the People's Bank of China for the five business days prior to the declaration date. The foreign currency payable by the Company to the holders of foreign shares shall be subject to the relevant regulations on foreign exchange control in the PRC. The board of directors shall be authorized by way of ordinary resolution at a shareholders' general meeting to implement dividend distribution of the Company.

Internal Control

During the Reporting Period, the Company fully implemented the rules of internal control according to the regulatory requirements for Companies listed in Hong Kong and the requirements of “The Basic Rules on Enterprise Internal Control” and the relevant implementation guidelines, and in accordance with the principle of “comprehensiveness, importance, and objectivity”.

I. ESTABLISHMENT OF INTERNAL CONTROL STRUCTURE

The Company has established and perfected the corporate governance structures comprising general meetings, the Board of Directors, the Supervisory Committee and the Management. The Board of Directors is responsible for establishing, improving and effective implementation of internal controls. The Supervisory Committee supervises the Board of Directors in establishing and implementing internal controls. The Management is responsible for organizing and leading the daily operation of the internal control of the Company. In order to strengthen the Company’s internal supervision and risk control and improve internal control mechanism, the Board of Directors of the Company set up the Audit Committee and Risk Control Committee, who are accountable to and report to the Board of Directors. The Compliance Risk Control Department and the Audit Department are subordinated to the Management. The Compliance and Risk Control Department and the Audit Department are led by the Chief Risk Officer, who is accountable to the Board of Directors.

II. IMPLEMENTATION AND OPERATION OF INTERNAL CONTROL SYSTEM

Pursuant to requirements of relevant laws and regulations, regulatory policies and the needs for corporate governance, the Company established and implemented corresponding levels of internal control system, including the Articles of Association, the Rules of Procedure of Shareholders’ Meeting, the Board of Directors, and the Supervisory Committee, financial systems and administrative systems, information technology system, compliance management system, various business systems, etc., and continuously optimized process control, increased the incentive and restraint mechanism, and comprehensively improved the implementation of the systems.

III. SUPERVISION AND INSPECTION OF INTERNAL CONTROL

The Company has established an internal control management model that covers pre-events, ongoing events and post events so as to ensure that various operation and management activities are undertaken in accordance with laws and regulations. The internal supervision system of the Company comprise the Supervisory Committee, the Audit Committee of the Board, the Audit Department and the Compliance and Risk Control Department. The Compliance and Risk Control Department focused on the pre-event and on-going event supervision function of compliance management. The Audit Department’s duties include internal independent audit and assessment, with a focus on post-event supervision. In accordance with regulatory requirements and internal control management needs, the Compliance and Risk Control Department and the Audit Department inspect futures brokerage business, asset management business, investment consulting business, customer margin and self-owned fund management, branch management, and subsidiary management regularly or irregularly, and urge related entities to rectify the problems identified.

Internal Control

During the Reporting Period, the Company implemented various audit and inspection tasks on different business fields, including the Company's assets management business, management of clients' margin deposits and self-owned capital, the management of the branches, anti-money laundering management and the management of risk management subsidiaries, as well as key management procedures in accordance with regulatory requirements and internal control management needs. Regulatory requirements of regulatory authorities and the new rules and system of the Company were taken into account during audit process, and relevant requirements were included in the scope of audit. The enforceability of the Company's internal control system were effectively improved by conducting inspections and assessments, detecting business vulnerabilities and compliance concerns in time and urging rectification and implementation.

In response to the issues raised in the previous CPA internal control evaluation report in relation to the Company's asset management business, the Company changed the list of members of the investment decision-making committee of the asset management business, by increasing the number of compliance risk control employees, and reducing the number of sales people and granting a one-veto power to the Chief Risk Officer; In terms of risk supervision, the Company introduced liquidity risk supervision and stress testing; as regards the risk reporting route, the risk control personnel shall report product operation to the compliance and risk control department every day; as regards value review, prudent decision-making are required on complicated – structured projects, and see-through checks are required on the investment to ensure the net value data are fair. In addition, the Company's asset management department is continuously optimizing the systems, duties of jobs, and talent development.

IV. CONCLUSION OF THE ASSESSMENT OF INTERNAL CONTROL

During the Reporting Period, PricewaterhouseCoopers Zhongtian Certified Public Accountants audited the Company's internal control requirements and internal control related to financial statements through inquiries, observations, inspections, and tracking transactions, and carried out relevant control tests on internal controls related to the preparation of financial statements.

Having examined, no significant defects were found in the Company's internal control related to the financial statements.

Independent Auditor's Report



羅兵咸永道

TO THE SHAREHOLDERS OF LUZHENG FUTURES COMPANY LIMITED

(incorporated in China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Luzheng Futures Company Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 140 to 240, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independent Auditor's Report

Independence

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

Key Audit Matters

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

Key audit matter identified in our audit is related to valuation of financial instruments held at fair value.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial instruments held at fair value	
<p>Refer to notes 4.6, 4.7, 4.8, 4.9, 4.11, 26, 27, 36, and 46.2 to the Group's consolidated financial statements.</p> <p>As at 31 December 2019, the Group's financial instruments held at fair value included various financial assets and liabilities stated at RMB325 million and RMB69 million respectively.</p> <p>Financial assets of RMB78 million including trust schemes and financial liabilities of RMB24 million representing a derivative contract were classified at level 3 with Discounted Cash Flows Model being applied in the valuation as at 31 December 2019. The remaining instruments were classified at either level 1 or level 2 in the fair value hierarchy and were valued through observable market data or net asset value provided by the relevant asset managers.</p>	<p>Our audit procedures in relation to the valuation of financial instruments included the following:</p> <ul style="list-style-type: none">• Understood and evaluated the management procedures and controls over the identification and measurement of valuation risk of financial instruments.• Assessed the appropriateness of the valuation methodologies applied by the Group and compared methodologies with our knowledge of the current industry practice.• For the valuation of level 1 and level 2 non-derivative instruments, we performed sampling test to verify the reasonableness of fair value by independently obtaining the observable market data and the net asset value provided by relevant asset managers, and comparing the prices used by the Group with these data. For the valuation of level 1 and level 2 derivative instruments, we performed sampling test by independently examining the key inputs of the valuation model against observable market data, as well as checking the mathematical calculation.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial instruments held at fair value	
<p>Valuation of the Group's financial instruments held at fair value was a key area of audit focus due to the materiality of the balances. For those financial instruments that were classified at level 3 (i.e. trust schemes and a derivative contract), our audit also focused on the significant management judgments applied in determining the unobservable parameters to the model, including expected future cash flows, expected recovery or payment date and discount rates corresponded to the expected risk level.</p>	<ul style="list-style-type: none"> • For the valuation of trust schemes and the derivative contract that were classified at level 3, which depended on unobservable parameters, we challenged the assumptions and judgements made by management with our knowledge of the current industry practice. We assessed the external evidence, e.g., legal documents, updated trustee's credit assessment report on underlying investment, the trustee's credit standing, and correspondences with the counterparties, to corroborate the management's estimation of the future cash flows, expected recovery or payment date and discount rates. In addition, we applied Discounted Cash Flows Model to recalculate the fair value of all the trust schemes and the derivative contract that were classified at level 3. <p>Based on the procedures we performed, we found that management's key judgements applied in its fair value measurement were appropriate and supported by the evidence we gathered.</p>

Other Information

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2020

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2019	2018
Revenue	7	287,409	338,957
Gains on physical commodities trading	8	37,897	3,093
Net investment (losses)/gains	9	(29,464)	56,357
Other income	10	26,025	24,741
Operating income		321,867	423,148
Staff costs	11	(145,318)	(137,009)
Commission to brokerage agents		(7,689)	(3,469)
Introducing broker commission		(8,905)	(6,081)
Depreciation and amortization	12	(18,312)	(11,699)
Credit impairment losses	13	(147)	(513)
Other operating expenses	14	(96,210)	(116,965)
Operating expenses		(276,581)	(275,736)
Operating profit		45,286	147,412
Share of losses of investments in associates	19	(1,224)	(1,848)
Other (losses)/gains, net	15	(1,699)	7,181
Profit before income tax		42,363	152,745
Income tax expense	16	(12,862)	(39,031)
Profit for the year		29,501	113,714

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2019	2018
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		1,118	1,278
Other comprehensive income for the year, net of tax		1,118	1,278
Total comprehensive income for the year		30,619	114,992
Profit attributable to:			
– Shareholders of the Company		29,750	117,719
– Non-controlling interests		(249)	(4,005)
		29,501	113,714
Total comprehensive income attributable to:			
– Shareholders of the Company		30,860	118,998
– Non-controlling interests		(241)	(4,006)
		30,619	114,992
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)			
Basic/Diluted	17	0.03	0.12

Consolidated Statement of Financial Position

As at 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	18	42,593	44,748
Intangible assets		8,479	15,398
Investments in associates	19	57,790	43,643
Other non-current assets	21	18,897	2,668
Deferred income tax assets	22	18,915	11,009
Refundable deposits	23	31,170	25,683
Derivative financial assets	26	84	–
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss	27	–	61,280
Total non-current assets		179,328	205,829
Current assets			
Physical commodities	24	309,256	199,769
Other current assets	25	161,728	77,418
Contract assets		12,371	13,895
Derivative financial assets	26	53,544	37,930
Financial assets at fair value through profit or loss	27	270,369	576,212
Financial assets held under resale agreements	28	30,256	337,318
Deposits with exchange-clearing organizations	29	3,735,024	2,387,336
Bank balances held for clients	30	3,600,073	3,256,333
Cash and bank balances	31	576,865	808,390
Total current assets		8,749,486	7,694,601
Total assets		8,928,814	7,900,430

Consolidated Statement of Financial Position

As at 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2019	31 December 2018
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	32	1,001,900	1,001,900
Share premium	33	650,630	650,630
Other reserves	33	259,037	241,744
Retained earnings		272,634	314,168
Total equity attributable to shareholders of the Company		2,184,201	2,208,442
Non-controlling interests		461	24,884
Total equity		2,184,662	2,233,326
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	22	11	2,438
Other non-current liabilities	34	13,454	5,983
Total non-current liabilities		13,465	8,421
Current liabilities			
Borrowings		–	10,328
Other current liabilities	35	266,682	182,529
Financial assets sold under repurchase agreements		–	32,346
Current income tax liabilities		5,585	19,788
Derivative financial liabilities	26	44,600	62,506
Financial liabilities at fair value through profit or loss	36	24,562	39,110
Accounts payable to brokerage clients	37	6,389,258	5,312,076
Total current liabilities		6,730,687	5,658,683
Total liabilities		6,744,152	5,667,104
Total equity and liabilities		8,928,814	7,900,430

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 32)	Share premium (Note 33)	Other reserves (Note 33)	Retained earnings		
Balance at 1 January 2019	1,001,900	650,630	241,744	314,168	24,884	2,233,326
Profit for the year	-	-	-	29,750	(249)	29,501
Other comprehensive income for the year	-	-	1,110	-	8	1,118
Total comprehensive income for the year	-	-	1,110	29,750	(241)	30,619
Net appropriation to reserves	-	-	16,183	(16,183)	-	-
Dividends relating to 2018 (Note 39)	-	-	-	(55,101)	-	(55,101)
No longer having control of a subsidiary	-	-	-	-	(24,182)	(24,182)
Balance at 31 December 2019	1,001,900	650,630	259,037	272,634	461	2,184,662

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 32)	Share premium (Note 33)	Other reserves (Note 33)	Retained earnings		
Balance at 1 January 2018	1,001,900	650,630	209,798	294,243	28,132	2,184,703
Changes on initial application of IFRS 9	-	-	(98)	98	-	-
Restated balance at 1 January 2018	1,001,900	650,630	209,700	294,341	28,132	2,184,703
Profit for the year	-	-	-	117,719	(4,005)	113,714
Other comprehensive income for the year	-	-	1,279	-	(1)	1,278
Total comprehensive income for the year	-	-	1,279	117,719	(4,006)	114,992
Net appropriation to reserves	-	-	30,765	(30,765)	-	-
Dividends relating to 2017 (Note 39)	-	-	-	(67,127)	-	(67,127)
Capital contributions by minority shareholders of a subsidiary	-	-	-	-	758	758
Balance at 31 December 2018	1,001,900	650,630	241,744	314,168	24,884	2,233,326

Consolidated Statement of Cash Flows

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2019	2018
Cash flows from operating activities		
Profit before income tax	42,363	152,745
Adjustments for:		
Depreciation and amortization	18,312	11,699
Credit impairment losses	147	513
Interest expense on borrowings	96	410
Interest expense on lease liabilities	2,203	N/A
Net gains on disposal of property and equipment and intangible assets	(25)	(65)
Net gains on modification of lease agreements	(162)	N/A
Foreign exchange losses	102	1,516
Interest income from term deposits	(11,590)	(22,413)
Share of losses of investments in associates	1,224	1,848
	52,670	146,253
Net (increase)/decrease in operating assets:		
Net (increase)/decrease in bank balances held for clients	(349,227)	526,174
Net (increase)/decrease in deposits with exchange-clearing organizations	(775,162)	354,147
Net decrease in financial assets at fair value through profit and loss and derivative financial assets	351,425	391,615
Net decrease/(increase) in financial assets held under resale agreements	307,062	(224,786)
Net decrease/(increase) in contract assets	1,524	(13,895)
Net (increase)/decrease in other assets	(101,787)	35,121
Net increase in physical commodities	(109,487)	(137,372)
	(675,652)	931,004
Net increase/(decrease) in operating liabilities:		
Net increase/(decrease) in accounts payable to brokerage clients	1,077,182	(786,655)
Net (decrease)/increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	(32,346)	18,381
Net (decrease)/increase in financial assets sold under repurchase agreements	(30,540)	32,346
Net increase in other liabilities	76,732	30,573
	1,091,028	(705,355)
Income tax paid	(37,398)	(37,444)
Net cash inflow from operating activities	430,648	334,458

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2019	2018
Cash flows from investing activities		
Cash outflow due to no longer having control of a subsidiary	(20,049)	–
Interest received from term deposits	11,590	24,001
Purchases of property and equipment, intangible assets and other long-term assets	(7,900)	(12,052)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	5,540	184
Payment for purchases of term deposits	(8,635)	–
Proceeds on maturity of term deposits (2018: Proceeds on maturity of term deposits and financial assets at amortized cost)	5,500	470,023
Net cash (outflow)/inflow from investing activities	(13,954)	482,156
Cash flows from financing activities		
Payment for redemption from consolidated structured entities	(1,914)	(273,377)
Proceeds from borrowings	–	10,304
Repayment of lease liabilities	(11,287)	N/A
Repayment of borrowings	(10,424)	(13,467)
Proceeds from capital contributions by minority shareholders of a subsidiary	–	758
Dividends paid to shareholders	(55,101)	(67,127)
Net cash outflow from financing activities	(78,726)	(342,909)
Net increase in cash and cash equivalents	337,968	473,705
Cash and cash equivalents at beginning of year	697,830	225,641
Effect of exchange rate changes on cash and cash equivalents	(102)	(1,516)
Cash and cash equivalents at end of year (Note 38)	1,035,696	697,830

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

1 General information

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

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

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

The Company holds the futures business licence No. 31190000 and business licence No. 91370000614140809E. The registered address of the Company is Floor 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC.

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

The consolidated financial statements were authorised for issue by the Board of Directors on 26 March 2020.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (the “IFRS”), interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of physical commodities which are measured at fair value less costs to sell, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

Following a review of its financial statements, the Group reclassified comparative amounts according to the current presentation or classification, which would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8.

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

2.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual improvements 2015 – 2017 cycle
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint ventures

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. Amendments other than IFRS 16 did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

2.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on 1 January 2019.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.5%.

3.1 Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.2 Measurement of lease liabilities

	2019
Operating lease commitments disclosed as at 31 December 2018	40,988
Discounted using the lessee's incremental borrowing rate of at the date of initial application	36,140
Less: short-term leases recognized on a straight-line basis as expense	(3,274)
Lease liability recognized as at 1 January 2019	32,866
Of which are:	
Current lease liabilities	13,101
Non-current lease liabilities	19,765
	32,866

3.3 Measurement of right-of-use assets

The associated right-of-use assets for property leases are measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that leases recognized in the balance sheet as at 31 December 2018. There are no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets are only related to properties.

	31 December 2019	1 January 2019
Total right-of-use assets	17,420	32,866

3.4 Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies

4.1 Accounting year

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

4.2 Principles of consolidation and equity accounting

(1) Subsidiaries

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

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

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

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.2 Principles of consolidation and equity accounting (Continued)

(2) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

(3) Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 4.16.

(4) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.2 Principles of consolidation and equity accounting (Continued)

(4) Changes in ownership interests (Continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable IFRSs.

4.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4.4 Foreign currency translation

(1) Functional and presentation currency

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.4 Foreign currency translation (Continued)

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(3) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

4.5 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets

(1) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(2) Recognition and derecognition

Regular way purchases and sales of financial instruments are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(3) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(3) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (the "SPPI") are measured at amortized cost. Interest income from these financial assets is presented in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in net investment gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in net investment gains/(losses). Interest income from these financial assets is presented in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within net investment gains/(losses) in the period in which it arises.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(3) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in net investment gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(4) Impairment

The Group assesses on a forward-looking basis the expected credit losses (the "ECL") associated with its debt instruments carried at amortized cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the effective interest rate.

The Group measures the ECL of a financial asset reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(4) Impairment (Continued)

For financial assets whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

- | | |
|----------|---|
| Stage 1: | The Group measures the loss allowance for a financial asset at an amount equal to the next 12 months ECL if the credit risk of that financial asset has not increased significantly since initial recognition. |
| Stage 2: | If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial asset is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Group measures the loss allowance for a financial asset at an amount equal to the lifetime ECL. |
| Stage 3: | If the financial asset is credit-impaired, the financial asset is then moved to "Stage 3". The Group measures the loss allowance for a financial asset at an amount equal to the lifetime ECL. |

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial asset portfolio.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The forward-looking impact on ECL is also considered in measuring ECL.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.7 Financial liabilities

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

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

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

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

Financial liabilities at fair value through profit or loss are initially recognized and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

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

(2) Other financial liabilities

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.8 Determination of fair value

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

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

4.9 Derivative financial instruments

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

Changes in the fair value of the Group's derivative instrument are recognized immediately in profit or loss and are included in net investment gains/(losses).

4.10 Resale agreements

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.11 Offsetting financial instruments

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

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

4.12 Physical commodities

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

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

At the end of each reporting period, physical commodities are measured at fair value less costs to sell. Fair value is based on prices at local markets where physical commodities are located. Costs to sell include commission paid to brokers and dealers and estimated costs of transport but exclude finance costs and income taxes. Changes in fair value of physical commodities are recognized in gains/(losses) on physical commodities trading.

Physical commodities are classified as current assets if they are to be sold within one year.

4.13 Property and equipment

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.13 Property and equipment (Continued)

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

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

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

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

Property and equipment is de-recognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of its carrying amount and related taxes and expenses is recognized in the profit or loss. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount as set out in Note 4.16.

4.14 Intangible assets

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

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4.16.

4.15 Long-term prepaid expenses

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.16 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.17 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.18 Employee benefits

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

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

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

4.19 Revenue recognition

(1) Commission and fee income

The Group provides futures brokerage service to its customers, which contains a series of distinct services that are substantially the same and have the same pattern of transfer. Therefore, the services are identified as one performance obligation. Revenue was recognized upon completion of each service, usually on the date of the transaction;

The Group provides asset management service to its customers, which contains a series of distinct services that are substantially the same and have the same pattern of transfer. Therefore, the services are identified as one performance obligation. Revenue was recognized when services are rendered according to the provisions of the underlying contracts;

Consultancy and advisory fees are recognized when the relevant transactions have been arranged or the relevant services have been rendered.

- (2) Gains/(Losses) on physical commodities trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.
- (3) Refund by the futures exchanges is recognized upon receipt.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.20 Government grants

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

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

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

4.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(1) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(2) Deferred income tax

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

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.21 Current and deferred income tax (Continued)

(2) Deferred income tax (Continued)

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

4.22 Leases

As explained in Note 3 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 3.

The Group leases various offices of which rental contracts are typically made for fixed periods of 2 to 5 years with no extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, leases of property, plant and equipment where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.22 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the leases. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.22 Leases (Continued)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

As at 31 December 2019, the Group does not provide residual value guarantees in relation to property leases.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

4.23 Contingent liabilities

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

4.24 Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

4.25 Dividend distribution

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
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4 Summary of significant accounting policies (Continued)

4.26 Segment information

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

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

4.27 Assets segregated for brokerage clients

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

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

Deposits with exchange-clearing organizations do not include client's non-monetary pledges to exchange-clearing organizations. Such pledges are not presented on the Group's statement of financial position.

4.28 Accounts payable to brokerage clients

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

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(All amounts in RMB'000 unless otherwise stated)

5 Summary of critical accounting estimates and judgments

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

5.1 Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers or trustees are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

5.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include discounted cash flow analysis model, Black-Scholes Model etc. Observable input are used at arm's length in spite of areas such as credit risk (both own and counterparty) require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

5.3 Income taxes

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

5 Summary of critical accounting estimates and judgments (Continued)

5.4 Determination of consolidation scope

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

6 Taxation

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

	Tax basis	Tax rate
Corporate income tax/Profit tax	Taxable profit	25%/24.16%/16.5%
Value added tax ("VAT")	Taxable value added (VAT payable is calculated based on VAT-output less deductible VAT-input)	16%/13%/10%/9%/7.7%/6%
Value added tax ("VAT") ⁽¹⁾	Taxable value added (VAT payable is calculated based on VAT-output)	5%/3%
City construction and maintenance tax	VAT paid	7%

(1) The labor dispatch services provided by the Company's subsidiary Luzheng Information Technology Co., Ltd. and the Company's rental income are subject to a VAT rate of 5% by applying the simplified tax calculation method.

The Company's income from the disposal of property, plant and equipment is subject to a VAT rate of 3% by applying the simplified tax calculation method.

Some branches of the Company are small-scale taxpayers and subject to a VAT rate of 3%.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

7 Revenue

	Year ended 31 December	
	2019	2018
Net commission and fee income ⁽¹⁾	45,837	46,542
Net interest income ⁽²⁾	158,306	195,332
Net refunds of trading fees ⁽³⁾	83,266	97,083
	287,409	338,957

(1) Net commission and fee income

	Year ended 31 December	
	2019	2018
Commission and fee income		
Futures brokerage service	265,824	272,616
Settlement and clearing service income from other futures firms	15,192	4,158
Asset management service	388	930
Investment consultancy service	198	9
	281,602	277,713
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	220,573	227,013
Settlement and clearing service expense to exchange-clearing organizations	15,192	4,158
	235,765	231,171
Net Commission and fee income	45,837	46,542

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
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7 Revenue (Continued)

(2) Net interest income

	Year ended 31 December	
	2019	2018
Interest income		
Interest income from deposits with banks	176,267	198,265
Interest income from financial assets held under resale agreements	14,867	8,325
Interest income from deposits with exchange-clearing organizations	6,974	8,115
	198,108	214,705
Interest expense		
Interest expense to brokerage clients	35,000	14,669
Interest expense on lease liabilities	2,203	N/A
Interest expense on financial assets sold under repurchase agreements	1,809	3,297
Interest expense on settlement and clearing services to other futures firms	694	997
Interest expense on borrowings	96	410
	39,802	19,373
Net interest income	158,306	195,332

(3) Net refunds of trading fees

Net refunds of trading fees reflect the refunds of trading fees from futures exchanges to the Group, partially offset by the consequential return from the Group to its customers. To improve the sustainable development of the futures markets, the futures exchanges implement a practice to partially refund trading fees to their clearing members. Policies on the timing and calculation method of refund are made and adjusted periodically at the discretion of the futures exchanges. In some cases, the Group further returns all or part of these refunds to its customers.

8 Gains on physical commodities trading

	Year ended 31 December	
	2019	2018
Sales proceeds	1,522,070	711,853
Costs of purchases	(1,484,173)	(708,760)
	37,897	3,093

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(All amounts in RMB'000 unless otherwise stated)

9 Net investment (losses)/gains

	Year ended 31 December	
	2019	2018
Net realized (losses)/gains of		
– Financial assets at fair value through profit or loss	4,520	(263)
– Financial liabilities at fair value through profit or loss	(34,927)	–
– Derivative financial instruments	4,827	39,712
– Financial assets at amortized cost	–	171
Unrealized fair value changes of		
– Financial assets at fair value through profit or loss	(5,431)	(16,377)
– Financial liabilities at fair value through profit or loss	5,536	(29,841)
– Derivative financial instruments	(17,288)	19,586
– Physical commodities	1,532	–
Dividends from financial assets at fair value through profit or loss	11,767	43,369
	(29,464)	56,357

10 Other income

	Year ended 31 December	
	2019	2018
Exchange service income	21,117	14,879
Cooperative hedging fees	923	5,864
Software service income	396	1,194
Other	3,589	2,804
	26,025	24,741

11 Staff costs

	Year ended 31 December	
	2019	2018
Salaries and bonus	116,531	106,764
Pension	12,350	11,932
Other social securities	11,461	12,490
Labour union charge and employee education charge	4,760	4,794
Other welfares	216	1,029
	145,318	137,009

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019
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11 Staff costs (Continued)

(1) The five highest paid individuals

For the year ended 31 December 2019, the five highest paid individuals do not include any of the directors and supervisors (2018: the five highest paid individuals do not include any of the directors and supervisors). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and other welfares	5,195	5,508
Bonus	3,073	3,017
	8,268	8,525

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

	Year ended 31 December	
	2019	2018
RMB1,000,001 to RMB1,500,000	2	3
RMB1,500,001 to RMB2,000,000	2	1
RMB2,000,001 to RMB2,500,000	1	1
	5	5

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

12 Depreciation and amortization

	Year ended 31 December	
	2019	2018
Depreciation of right-of-use assets	8,435	N/A
Depreciation of property and equipment	7,047	7,432
Amortization of intangible assets	1,634	2,186
Amortization of long-term prepaid expenses	1,196	2,081
	18,312	11,699

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

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13 Credit Impairment losses

	Year ended 31 December	
	2019	2018
Net impairment losses on accounts receivable	147	(86)
Net impairment losses on bank balances	–	599
	147	513

14 Other operating expenses

	Year ended 31 December	
	2019	2018
Insurance expenses	17,511	20,900
Information system maintenance fees	17,424	13,286
Marketing and distribution expenses	15,271	16,836
Office expenses	11,144	16,212
Professional service expenses	7,145	6,723
Rentals	4,672	14,553
Property maintenance fee	4,224	4,508
Consulting expenses	3,711	14,886
Auditors' remuneration		
– PwC	1,800	1,650
– Other auditors	104	–
Taxes and surcharges	1,369	1,319
Futures Investors Protection Fund	312	410
Other expenses	11,523	5,682
	96,210	116,965

15 Other (losses)/gains, net

	Year ended 31 December	
	2019	2018
Government grants	537	9,764
Donation	(1,111)	(751)
Foreign exchange losses	(102)	(1,516)
Others	(1,023)	(316)
	(1,699)	7,181

Notes to the Consolidated Financial Statements

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16 Income tax expense

	Year ended 31 December	
	2019	2018
Current tax	22,953	42,996
Deferred tax	(10,091)	(3,965)
	12,862	39,031

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

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

Switzerland profit tax has been provided at the rate of 24.16% on the estimated assessable profit for the year.

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

	Year ended 31 December	
	2019	2018
Profit before income tax	42,363	152,745
Tax calculated at applicable tax rates applicable to profits in the respective area	12,779	37,492
Items deducted for tax purposes but not subtracted to arrive at taxable income	(1,886)	(1,869)
Tax losses for which no deferred income tax asset was recognized	318	1,629
Income not subject to tax	(644)	–
Items not deductible for tax purposes	2,415	1,761
Adjustments in respect of prior years	(120)	18
	12,862	39,031

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17 Earnings per share

17.1 Basic earnings per share

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

	Year ended 31 December	
	2019	2018
Profit attributable to shareholders of the Company (in RMB thousands)	29,750	117,719
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.03	0.12

17.2 Diluted earnings per share

For the year ended 31 December 2019, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (2018: same).

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18 Property, plant and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
At 1 January 2019	40,073	9,787	43,316	93,176
Additions	–	–	6,466	6,466
Disposals	–	(999)	(3,294)	(4,293)
At 31 December 2019	40,073	8,788	46,488	95,349
Accumulated depreciation				
At 1 January 2019	(10,237)	(7,823)	(30,368)	(48,428)
Additions	(1,298)	(524)	(5,225)	(7,047)
Disposals	–	900	1,819	2,719
At 31 December 2019	(11,535)	(7,447)	(33,774)	(52,756)
Carrying amount				
At 31 December 2019	28,538	1,341	12,714	42,593
Cost				
At 1 January 2018	40,073	10,341	36,842	87,256
Additions	–	–	7,333	7,333
Disposals	–	(554)	(859)	(1,413)
At 31 December 2018	40,073	9,787	43,316	93,176
Accumulated depreciation				
At 1 January 2018	(8,939)	(7,681)	(25,670)	(42,290)
Additions	(1,298)	(674)	(5,460)	(7,432)
Disposals	–	532	762	1,294
At 31 December 2018	(10,237)	(7,823)	(30,368)	(48,428)
Carrying amount				
At 31 December 2018	29,836	1,964	12,948	44,748

For the year ended 31 December 2019, net gains from disposal of property and equipment amount to RMB25 thousand (2018: net gains of RMB65 thousand).

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19 Investment in associates

Set out below are the associates of the Group as at 31 December 2019 which have share capital consisting solely of ordinary shares held directly by the Group.

Nature of investment in associates as at 31 December 2019:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心 有限公司) ("Rizhao BOT") ⁽¹⁾	Rizhao, the PRC	29.5%	Commodity trading	Equity
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. (上海魯証鋒通經貿有限 公司) ("Luzheng Fengtong") ⁽²⁾	Shanghai, the PRC	35%	Commodity trading	Equity
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有 限公司) ("Lu Clearing") ⁽³⁾	Jinan, the PRC	40%	Registration, settlement and derivatives clearing	Equity

(1) Rizhao BOT

The Group invested RMB35.4 million in Rizhao BOT aggregately. Rizhao BOT is located in Rizhao City, Shandong Province. The registered capital of Rizhao BOT is RMB120 million as at 31 December 2019. The Group holds 29.5% of its equity and accounts for the associate using equity method.

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19 Investment in associates (Continued)

(1) Rizhao BOT (Continued)

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

	Year ended 31 December	
	2019	2018
At 1 January	25,000	27,218
Share of profits/(losses) for the year	2,634	(2,218)
At 31 December	27,634	25,000
Summarized financial information of Rizhao BOT is as follows.		
Opening net assets	89,948	97,467
Profits/(Losses) for the year	3,728	(7,519)
Closing net assets	93,676	89,948
Interest in the associate and carrying value	27,634	25,000

(2) Luzheng Fengtong

The Group invested RMB17.5 million in Luzheng Fengtong in 2017. The registered capital of Luzheng Fengtong is RMB100 million as at 31 December 2019. The Group holds 35% of its equity and accounts for the associate using equity method.

As at 31 December 2019, the Group has made a capital commitment of RMB17.5 million.

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19 Investment in associates (Continued)

(2) Luzheng Fengtong (Continued)

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

	Year ended 31 December	
	2019	2018
At 1 January	18,643	18,273
Share of (losses)/profits for the year	(24)	370
At 31 December	18,619	18,643
Summarized financial information of Luzheng Fengtong is as follows.		
Opening net assets	53,255	52,209
(Losses)/Profits for the year	(58)	1,046
Closing net assets	53,197	53,255
Interest in the associate and carrying value	18,619	18,643

(3) Lu Clearing

The Group no longer had control of Lu Clearing in 2019 and accounts for it as an associate by applying equity method.

The registered capital of Lu Clearing is RMB150 million as at 31 December 2019. The Group holds 40% of its equity and accounts for the associate using equity method.

As at 31 December 2019, The carrying amount of the associate is RMB11,537 thousand.

Summarized financial information of Lu Clearing is as follows.

	Year ended 31 December	
	2019	2018
Opening net assets	40,374	46,887
Losses for the year	(9,950)	(6,513)
Closing net assets	30,424	40,374

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20 Investments in subsidiaries and consolidated structured entities

20.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specifically stated, the Group's interests in these subsidiaries were all ordinary shares, and the percentage of ownership held by the Group represented the voting rights of the Group.

Name of subsidiary	Country/Place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/registered capital	Interests held	Directly/Indirectly	Principal activities
Luzheng Economic and Trade Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB750,000,000/ RMB750,000,000	100%	Directly	Commodity trading, OTC derivatives trading
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong, the PRC	21 November 2013	Limited company	HKD84,449,920.83/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Jinova S.A.	Geneva, Switzerland	29 August 2018	Limited company	CHF3,000,000/ CHF3,000,000	96.6%	Indirectly	Derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Luzheng International Holding Limited (魯証國際控股有限公司) ("Luzheng International Holding")	Hong Kong, the PRC	16 April 2018	Limited company	HKD20,000,000/ HKD30,000,000	100%	Directly	Investment holding
Luzheng International Futures Limited (魯証國際期貨有限公司) ("Luzheng International Futures")	Hong Kong, the PRC	17 May 2018	Limited company	HKD15,000,000/ HKD15,000,000	100%	Indirectly	Derivatives trading

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20 Investments in subsidiaries and consolidated structured entities (Continued)

20.2 Consolidated structured entities

Based on their judgment, the Company have assessed the combination of the three elements listed in Note 5.4 and concluded that below SEs with the following features are controlled by the Group and should be included for consolidation:

Huiquan Wantai FOF No.2 is managed by the Company and the external investors cannot remove the Group from its role as the asset manager without course. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme.

CR Trust-Huiquan Wantai FOF No.2 is established by a third-party asset manager where the Group holds a part of the unit. The manager of the trust scheme is mainly responsible for fund administration with very low management fee level. The trust scheme is the sole investor of Huiquan Wantai FOF No.2. By assessing the management fee and performance reward earned in capacity of the asset manager, it is concluded that the Group is a principal of the scheme.

As at 31 December 2019, the two SEs have commenced but not yet completed the liquidation process.

Net assets of consolidated SEs, the Group's initial investments and maximum exposure arising from its investments in consolidated SEs are:

	Net assets	The Group's initial investments	The Group's maximum exposure
Consolidated SEs	–	30,000	–

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21 Other non-current assets

	31 December 2019	31 December 2018
Right-of-use assets ⁽¹⁾	17,420	N/A
Leasehold improvements ⁽²⁾	1,211	2,441
Long-term prepaid expenses	266	227
	18,897	2,668

(1) Changes in right-of-use assets are analyzed as follows:

	Buildings
Cost	
At 31 December 2018	N/A
Initial adoption of IFRS 16	32,866
At 1 January 2019	32,866
Additions	
– New lease contracts	5,467
Disposals	
– Modifications to lease agreements	(8,589)
– No longer having control of a subsidiary	(5,062)
At 31 December 2019	24,682
Accumulated depreciation	
At 31 December 2018	N/A
Initial adoption of IFRS 16	–
At 1 January 2019	–
Additions	
– Charges	(8,435)
Disposals	
– Modifications to lease agreements	1,038
– No longer having control of a subsidiary	135
At 31 December 2019	(7,262)
Carrying amount	
At 31 December 2019	17,420

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21 Other non-current assets (Continued)

(2) Changes in leasehold improvements are analyzed as follows:

	Year ended 31 December	
	2019	2018
At 1 January	2,441	2,995
Additions	620	1,043
Disposals	(812)	–
Amortization	(1,038)	(1,597)
At 31 December	1,211	2,441

22 Deferred income tax assets and liabilities

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

	Year ended 31 December	
	2019	2018
At 1 January	11,009	7,017
Income statement charge	7,906	3,992
At 31 December	18,915	11,009

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

	Year ended 31 December	
	2019	2018
At 1 January	2,438	2,573
Income statement charge	(2,358)	(135)
No longer having control of a subsidiary	(69)	N/A
At 31 December	11	2,438

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22 Deferred income tax assets and liabilities (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest payable	Deductible tax losses	Tax impact arising from consolidated structured entities	Provisions	Total
As at 1 January 2019	10,696	624	3,260	907	1,506	16,993
Income statement charge	1,156	525	6,296	(907)	(640)	6,430
As at 31 December 2019	11,852	1,149	9,556	-	866	23,423
As at 1 January 2018	1,428	463	4,563	-	1,320	7,774
Income statement charge	9,268	161	(1,303)	907	186	9,219
As at 31 December 2018	10,696	624	3,260	907	1,506	16,993

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The tax loss balance as at 31 December 2019 is attributable to RMB35,849 thousand by Zhongtai Hui Rong (31 December 2018: RMB18,422 thousand), RMB10,463 thousand by Jinova S.A. (31 December 2018: RMB1,767 thousand) and RMB6,745 thousand by Luzheng International Holding (31 December 2018: RMB427 thousand).

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(All amounts in RMB'000 unless otherwise stated)

22 Deferred income tax assets and liabilities (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest receivable	Others	Total
As at 1 January 2019	3,507	4,907	8	8,422
Income statement charge	(3,145)	(692)	3	(3,834)
No longer having control of a subsidiary	(69)	–	–	(69)
As at 31 December 2019	293	4,215	11	4,519
As at 1 January 2018	886	2,376	68	3,330
Income statement charge	2,621	2,531	(60)	5,092
As at 31 December 2018	3,507	4,907	8	8,422

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22 Deferred income tax assets and liabilities (Continued)

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

	31 December 2019	31 December 2018
Deferred income tax assets	(4,508)	(5,984)
Deferred income tax liabilities	(4,508)	(5,984)

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

	31 December 2019	31 December 2018
Deferred income tax assets	18,915	11,009
Deferred income tax liabilities	11	2,438

23 Refundable deposits

	31 December 2019	31 December 2018
Security deposit placed with the China Financial Futures Exchange	20,114	20,114
Security deposit placed with the China Securities Depository and Clearing Co., Ltd.	11,056	5,569
	31,170	25,683

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24 Physical commodities

	31 December 2019	31 December 2018
Carrying amount	307,724	202,474
Change in fair value	1,532	(2,705)
	309,256	199,769

As at 31 December 2019, trading commodities with carrying amount of RMB229,225 thousand are placed as collateral of margin deposits on futures exchanges (31 December 2018: RMB66,290 thousand).

As at 31 December 2019, no trading commodities are placed as collateral of secured borrowings (31 December 2018: RMB12,364 thousand).

As at 31 December 2019, no trading commodities are placed as collateral of financial assets sold under repurchase agreements (31 December 2018: RMB21,194 thousand).

The Group's physical commodities are major metal and agricultural products.

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its physical commodities into the three levels prescribed under IFRS 13. An explanation of each level is provided in Note 45.

The fair value hierarchy of physical commodities held by the Group is set out below.

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Physical commodities	–	309,256	–	309,256

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Physical commodities	–	199,769	–	199,769

There are no transfers between any levels during the period.

Physical commodities have therefore been classified as level 2 in the fair value hierarchy, since no significant adjustments need to be made to the prices obtained from the local markets.

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25 Other current assets

	31 December 2019	31 December 2018
Prepayments	82,611	24,048
Accounts receivable ⁽¹⁾	37,921	44,200
Notes receivable	4,000	5,942
Other receivables	37,196	3,228
	161,728	77,418

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2019		31 December 2018	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	37,484	(2,548)	44,646	(2,627)
Over 3 months	3,347	(362)	2,317	(136)
	40,831	(2,910)	46,963	(2,763)

The impairment allowance for accounts receivable as at 31 December 2018 reconciles to the closing impairment allowance as at 31 December 2019 as follows:

	Year ended 31 December 2019
Closing impairment allowance as at 31 December 2018	(2,763)
Increase in impairment allowance recognized in profit or loss during the year	(147)
	(2,910)

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26 Derivative financial instruments

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Non-current			
OTC options	686,580	84	–
Current			
OTC options	5,727,614	23,526	27,154
Exchange traded options	1,451,291	21,840	16,680
Futures contracts ⁽¹⁾	4,244,032	–	–
Forward contracts	238,443	8,178	766
	11,661,380	53,544	44,600
	12,347,960	53,628	44,600

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Non-current			
OTC options	–	–	–
Current			
OTC options	5,889,061	36,545	60,465
Exchange traded options	66,713	1,385	2,041
Futures contracts ⁽¹⁾	856,552	–	–
	6,812,326	37,930	62,506
	6,812,326	37,930	62,506

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For the Year Ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

26 Derivative financial instruments (Continued)

(1) Futures contracts

	31 December 2019		31 December 2018	
	Notional amount	Fair value	Notional amount	Fair value
Commodities futures	4,244,032	(10,974)	856,552	3,573
Financial futures	–	–	–	–
Less: Cash paid/(received) as settlement		10,974		(3,573)
Net position		–		–

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in "deposits with exchange-clearing organizations".

27 Financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Non-current		
Trust schemes	–	31,683
Private securities investment funds	–	29,597
	–	61,280
Current		
Trust schemes	144,305	405,456
Asset management schemes	66,250	98,325
Private securities investment funds	59,809	67,299
Listed equity securities	5	4
Bank wealth management products	–	5,128
	270,369	576,212
	270,369	637,492

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28 Financial assets held under resale agreements

	31 December 2019	31 December 2018
Analysed by asset type:		
– Warehouse receipts ⁽¹⁾	30,256	77,318
– Debt securities	–	260,000
	30,256	337,318

- (1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2019, the Group has accepted collateral that can be re-pledged with a fair value of RMB33,518 thousand (31 December 2018: RMB100,018 thousand).

As at 31 December 2019, no collateral is re-pledged for margin deposits or financial assets sold under repurchase agreements (31 December 2018: the collateral with a fair value of RMB28,782 thousand was re-pledged for margin deposits and the collateral with a fair value of RMB23,375 thousand was re-pledged for financial assets sold under repurchase agreements).

29 Deposits with exchange-clearing organizations

	31 December 2019	31 December 2018
Clients' deposits		
– Clients' margin deposits	2,512,348	1,563,551
– Clients' unrestricted deposits	466,947	642,582
Proprietary clearing settlement funds	755,729	181,203
	3,735,024	2,387,336
Represented by		
Deposits with Shanghai Futures Exchange	1,023,219	846,741
Deposits with Dalian Commodity Exchange	944,782	566,048
Deposits with China Financial Futures Exchange	683,361	317,439
Deposits with Zhengzhou Commodity Exchange	633,759	314,767
Deposits with China Securities Depository and Clearing Co., Ltd.	411,326	270,816
Deposits with Shanghai International Energy Exchange	38,577	71,525
	3,735,024	2,387,336

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30 Bank balances held for clients

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

31 Cash and bank balances

	31 December 2019	31 December 2018
Cash	58	13
Term deposit with banks	288,296	280,362
Demand deposit with banks	278,312	296,073
Deposit with securities and futures brokers	10,798	232,541
Less:		
Credit impairment allowance	(599)	(599)
	576,865	808,390

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

As at 31 December 2019, the Group's term deposits with banks with carrying amount of RMB6,000 thousand are in restricted use (31 December 2018: nil).

Notes to the Consolidated Financial Statements

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32 Share capital

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

	31 December 2019	31 December 2018
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900

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

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

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

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

Notes to the Consolidated Financial Statements

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33 Share premium and reserves

	Share premium	Other reserves			Currency translation differences	Total
		Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for-sale financial assets revaluation reserve		
As at 1 January 2019	650,630	57,662	182,123	-	1,959	892,374
Appropriation to surplus reserve	-	5,087	-	-	-	5,087
Appropriation to general risk reserve	-	-	5,087	-	-	5,087
Appropriation to futures risk reserve	-	-	6,020	-	-	6,020
Utilization of futures risk reserve	-	-	(11)	-	-	(11)
Currency translation differences	-	-	-	-	1,110	1,110
As at 31 December 2019	650,630	62,749	193,219	-	3,069	909,667
As at 1 January 2018	650,630	46,017	163,002	98	681	860,428
Changes on initial application of IFRS 9	-	-	-	(98)	-	(98)
As at 1 January 2018 (Restated)	650,630	46,017	163,002	-	681	860,330
Appropriation to surplus reserve	-	11,645	-	-	-	11,645
Appropriation to general risk reserve	-	-	11,645	-	-	11,645
Appropriation to futures risk reserve	-	-	7,476	-	-	7,476
Currency translation differences	-	-	-	-	1,278	1,278
As at 31 December 2018	650,630	57,662	182,123	-	1,959	892,374

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33 Share premium and reserves (Continued)

(1) Surplus reserve

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

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

(2) Other risk reserves

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

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

34 Other non-current liabilities

	31 December 2019	31 December 2018
Lease liabilities	8,433	N/A
Other non-current liabilities	5,021	5,983
	13,454	5,983

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35 Other current liabilities

	31 December 2019	31 December 2018
Payable to OTC option counterparties	175,013	79,264
Salaries, bonus, allowance and benefits payables ⁽¹⁾	44,017	56,717
Advance for physical commodity trading	10,241	42,163
Lease liabilities	8,176	N/A
Payable to Futures Investors Protection Fund	335	432
Other payables	28,900	3,953
	266,682	182,529

(1) Salaries, bonus, allowance and benefits payables

	1 January 2019	Current year charge	Current year payment	31 December 2019
Salaries and bonus	47,967	116,531	(130,991)	33,507
Other welfare	5	216	(221)	–
Other social securities	191	23,811	(23,798)	204
Labour union funds and employee education funds	8,554	4,760	(3,008)	10,306
	56,717	145,318	(158,018)	44,017

	1 January 2018	Current year charge	Current year payment	31 December 2018
Salaries and bonus	46,132	106,764	(104,929)	47,967
Other welfare	–	1,029	(1,024)	5
Other social securities	162	24,422	(24,393)	191
Labour union funds and employee education funds	7,408	4,794	(3,648)	8,554
	53,702	137,009	(133,994)	56,717

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36 Financial liabilities at fair value through profit or loss

	31 December 2019	31 December 2018
Financial liabilities designated at fair value through profit or loss		
Payable to a holder of a consolidated SE ⁽¹⁾	24,305	29,841
Payable to clients for cooperative hedging business	257	7,355
Interests of holders of consolidated SEs	—	1,914
	24,562	39,110

- (1) The Company enters into a contract with China Merchants Bank Co., Ltd. ("CMB"), which is the Company's co-investor of a trust scheme named CR Trust-Huiquan Wantai FOF No.2 (Note 19.3). Pursuant to the contract, the Company is obliged to compensate CMB for any under performance of the scheme until CMB's rate of return per annum reaches an agreed level. There was a dispute between the Company and CMB regarding the enforceability of the contract in previous period. In September 2019, both parties agreed to settle the dispute at an amount at RMB61,525 thousand. The Company has paid RMB37,221 thousand in 2019, of which RMB2,294 thousand were from certain third parties involved in the trust scheme and prosecuted by the Company.

Payable to a holder of a consolidated SE represents the fair value of the above contract to reflect the Company's best estimate on potential obligation.

37 Accounts payable to brokerage clients

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

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

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38 Cash and cash equivalents

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

	31 December 2019	31 December 2018
Cash and bank balances (Note 31)	576,865	808,390
Proprietary deposit with exchange-clearing organizations (Note 29)	755,729	181,203
Less:		
Term deposits with original maturity over three months	(283,497)	(280,362)
Minimum clearing settlement funds required by exchange-clearing organizations	(14,000)	(12,000)
Add:		
Credit impairment allowance	599	599
	1,035,696	697,830

39 Dividends

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

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

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

The dividend paid in 2019 was RMB55,101 thousand (2018: RMB67,127 thousand).

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40 Cash flow information

(1) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 December 2019	31 December 2018
Net debt		
Cash and cash equivalents	1,035,696	697,830
Liquid investments ⁽ⁱ⁾	5	4
Borrowings – repayable within one year	–	(10,328)
Net debt	1,035,701	687,506
Cash and liquid investments	1,035,701	697,834
Gross debt – fixed interest rates	–	(10,328)
Net debt	1,035,701	687,506

	Other assets		Liabilities from financing activities Borrowings due within 1 year	Total
	Cash	Liquid investments ⁽ⁱ⁾		
Net debt as at 1 January 2019	697,830	4	(10,328)	687,506
Cash flows	337,968	1	10,328	348,297
Foreign exchange adjustments	(102)	–	–	(102)
Net debt as at 31 December 2019	1,035,696	5	–	1,035,701

- (i) Liquid investments comprise certain investments that are traded in an active market, which are classified as financial assets at fair value through profit or loss.

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41 Commitments and contingent liabilities

(1) Capital commitments

Other than what has been disclosed in Note 19 and 20, the Group is not involved in any material capital commitments as at 31 December 2019 (31 December 2018: same).

(2) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2019, the Group is not involved in any material legal or arbitration which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down (31 December 2018: same).

(3) Contingencies

The Group receives a number of complaints from retail investors about loss incurred from investing in five asset management schemes, questioning the Group's responsibilities as the manager. The five asset management schemes are distributed by a joint stock commercial bank. As at 31 December 2019, these schemes have commenced but not yet completed the liquidation process and no legal actions are taken by investors against the Group. The Group disclaims any significant misconduct in performing its duties. The Group considers the possibility of an outflow of resources is remote and there is no reliable estimate on the amount of potential obligation.

42 Events occurring after the reporting period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

43 Related party transactions

43.1 Related parties

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

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43 Related party transactions (Continued)

43.1 Related parties (Continued)

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2019:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. ("Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Securities (Shanghai) Asset Management Co., Ltd. ("Zhongtai Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Associate invested by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The ultimate controlling shareholder of Zhongtai Securities
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. ("Shandong Steel")	Controlled by Shandong Steel Group
Shandong Steel Group Rizhao Co., Ltd. ("Shandong Steel Rizhao")	Controlled by Shandong Steel Group
Shandong Trading Market Clearing House Co., Ltd. ("Lu Clearing")	Associate invested by the Group
Rizhao Board of Trade Co., Ltd. ("Rizhao BOT")	Associate invested by the Group
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. ("Luzheng Fengtong")	Associate invested by the Group
Shandong Red Bull Financial Service Co., Ltd. ("Shandong Red Bull")	Associate invested by Zhongtai Securities
Shandong Zhuofei Investment Management Co., Ltd. ("Zhuofei Investment")	Associate invested by Zhongtai Securities

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43 Related party transactions (Continued)

43.2 Related party transactions and balances

43.2.1 The Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2019	2018
Introducing broker commission expense ⁽¹⁾	8,905	6,081
Income from providing futures brokerage service	6,529	2,433
Interest expense	1,500	1,878
Rental expense	607	429
Commission expense for stocks trading	184	331

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

Balances at the end of year

	31 December 2019	31 December 2018
Other current assets		
– Rental prepayment	65	65
Deposit with securities brokers	167	202,410
Other current liabilities		
– Introducing broker commission payable	9,511	7,129
– Interest payable	–	232
– Other payables	43	43
Accounts payable to brokerage clients	343,790	352,613

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43 Related party transactions (Continued)

43.2 Related party transactions and balances (Continued)

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

Transactions during the year

	Year ended 31 December	
	2019	2018
Income from providing futures brokerage service	1,599	1,152
Interest income from bank deposit		
– Laishang Bank	11,576	13,764
Purchase of asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	4,000	10,210
– Jinquan 1/7 Days	1,000	5,000
Purchase of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	–	1,123
Proceeds from disposal of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	–	1,123
Proceeds from disposal of asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	3,000	12,050
– Jinquan 7 Days	2,500	2,650
Proceeds from disposal of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	–	10,023
Sales proceeds of physical commodities		
– Yongfeng Trade	738	–
– Laigang Yongfeng	–	11,849
Cost of purchase of physical commodities		
– Shandong Steel Rizhao	173	3,931
– Laigang Yongfeng	42,117	37,493
Sales proceeds of equipment and services		
– Lu Clearing	802	–
Rental income		
– Lu Clearing	356	–

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43 Related party transactions (Continued)

43.2 Related party transactions and balances (Continued)

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

Balance at the end of year

	31 December 2019	31 December 2018
Accounts payable to brokerage clients	16,542	31,062
Cash and bank balances – Laishang Bank	280,007	283,052
Asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	64,750	64,250
– Jinqian 7 Days	1,500	3,000
Other current assets		
Prepayments		
– Shandong Steel Rizhao	–	39
– Laigang Yongfeng	–	32
Other receivables		
– Lu Clearing	265	–
Other current liabilities		
Consulting fee payable		
– Zhaongtai Asset Management	45	45

43.2.3 Key management personnel

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

	Year ended 31 December	
	2019	2018
Key management compensation	9,043	8,292

There is no loan or advance to key management during the year ended 31 December 2019 and 2018.

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44 Segment analysis

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

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

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

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

The Group mainly operates in Shandong Province, the PRC.

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44 Segment analysis (Continued)

	Year ended 31 December 2019					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	
Revenue						
– external	257,678	12,221	388	17,122	–	287,409
– internal	(10,838)	2,751	–	–	8,087	–
Gains on physical commodities trading						
– external	–	37,897	–	–	–	37,897
Net investment gains						
– external	–	(10,258)	(24,873)	5,667	–	(29,464)
– internal	–	8,137	–	28,450	(36,587)	–
Other income						
– external	–	2,041	–	23,984	–	26,025
– internal	–	–	–	2,794	(2,794)	–
Total operating income	246,840	52,789	(24,485)	78,017	(31,294)	321,867
Total operating expenses						
– external	(133,676)	(43,993)	(5,433)	(93,479)	–	(276,581)
– internal	–	–	–	(2,044)	2,044	–
Share of losses of investment in associates	–	2,610	–	(3,834)	–	(1,224)
Other losses, net	–	(56)	–	(1,643)	–	(1,699)
Profit before income tax	113,164	11,350	(29,918)	(22,983)	(29,250)	42,363
Total assets	7,648,299	1,007,814	852	1,501,920	(1,230,071)	8,928,814
Total liabilities	6,951,122	253,506	13	77,718	(538,207)	6,744,152
Supplemental information						
Depreciation and amortization	14,872	1,704	335	1,646	(245)	18,312
Credit impairment losses	–	79	–	68	–	147
Capital expenditure	9,493	2,375	–	906	(203)	12,571

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44 Segment analysis (Continued)

	Year ended 31 December 2018					
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	Total
Revenue						
– external	298,444	856	930	38,727	–	338,957
– internal	1,746	1,563	3,254	–	(6,563)	–
Gains on physical commodities trading						
– external	–	3,093	–	–	–	3,093
Net investment gains						
– external	–	62,624	(29,415)	23,148	–	56,357
– internal	–	(3,309)	–	30,000	(26,691)	–
Other income						
– external	–	6,148	–	18,593	–	24,741
– internal	–	–	–	5,267	(5,267)	–
Total operating income	300,190	70,975	(25,231)	115,735	(38,521)	423,148
Total operating expenses						
– external	(141,020)	(30,070)	(5,833)	(98,813)	–	(275,736)
– internal	–	–	(3,254)	(4,858)	8,112	–
Share of losses of investment in associates	–	(1,848)	–	–	–	(1,848)
Other (losses)/gains, net	–	(339)	–	7,520	–	7,181
Profit before income tax	159,170	38,718	(34,318)	19,584	(30,409)	152,745
Total assets	5,654,774	612,248	3,524	2,146,626	(516,742)	7,900,430
Total liabilities	5,448,814	236,114	27,411	73,387	(118,622)	5,667,104
Supplemental information						
Depreciation and amortization	7,700	187	46	3,766	–	11,699
Credit impairment losses	–	104	–	409	–	513
Capital expenditure	7,377	1,549	17	2,534	23	11,500

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45 Financial risk management

45.1 Risk management policies and structure

(1) Summary

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

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

(2) Policies and structure for the Company

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee; (ii) Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; (iii) Compliance and Internal Audit departments; and (iv) Frontline operation teams at business departments and branches.

Level 1: Board, Supervisory Committee

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

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45 Financial risk management (Continued)

45.1 Risk management policies and structure (Continued)

(2) Policies and structure for the Company (Continued)

Level 2: Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee

The Risk Control Committee is responsible for ensuring that the decision making procedures and risk control system are in compliance with applicable laws and regulations. The Audit Committee is principally responsible for the overall audit related matters. The Asset Management Investment Decision Committee is principally responsible for reviewing the investment scale, major issues in product design, operations, liquidation and other major issues raised by the Asset Management Department. The Treasury Operations Investment Decision Committee principally responsible for reviewing the scale of the treasury operations, prospective investment portfolio, stop-loss measures and other major issues raised by the Treasury Department.

Level 3: Compliance and Internal Audit departments

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

Level 4: Frontline operation teams at business departments and branches

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.

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45 Financial risk management (Continued)

45.1 Risk management policies and structure (Continued)

(3) Policies and structure of Luzheng Trading, a major subsidiary of the Group

Luzheng Trading's risk management structure constitutes Board, Supervisory Committee, Risk Management Department and relevant business department:

Level 1: The Board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.

Level 2: Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.

Level 3: Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

45.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, financial assets held under resale agreements, bank balances held for clients, deposits with exchange-clearing organizations, financial assets at fair value through profit or loss, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

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45 Financial risk management (Continued)

45.2 Credit risk (Continued)

In terms of the Group's investment in trust schemes with underlying investments mainly in loans and receivables, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances and bank balances held for clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of each trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation. To mitigate the credit risk from futures brokerage service, the Group usually requires the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's credit exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 31 December 2019, the Group received warehouse receipts with a fair values of RMB33,518 thousand (31 December 2018: RMB100,018 thousand) as collateral for the balance of RMB30,265 thousand (31 December 2018: RMB77,318 thousand) under financial assets held under resale agreements.

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45 Financial risk management (Continued)

45.2 Credit risk (Continued)

The Group maintains an ECL model to recognize a loss allowance for debt instrument assets carried at amortized cost. The Group assesses whether or not the credit risk of relevant instrument has increased significantly since the initial recognition and measures their impairment allowance, ECL and future variance in ECL under the “three stage” impairment model (Note 4.6(4)).

(1) Impairment of financial assets and contract assets

The Group's bank balances, bank balances held for clients, deposits with exchange-clearing organizations and refundable deposits are all deposited in banks and exchange-clearing organizations which have decent credit rating and no history of default. There is no unfavourable current conditions and forecast of future economic conditions for these assets at 31 December 2019. Therefore, their credit risk is considered low. All of these assets are classified under stage 1 and the expected credit loss is limited.

The Group's contract assets related to service provided to a future exchange so that the credit risk is considered low. The Group considers that the impairment loss is immaterial.

(2) Maximum exposure to credit risk

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	31 December 2019	31 December 2018
Refundable deposits	31,170	25,683
Other current assets	79,117	53,370
Contract assets	12,371	13,895
Derivative financial assets	53,628	37,930
Financial assets at fair value through profit or loss	270,364	637,488
Financial assets held under resale agreements	30,256	337,318
Deposits with exchange-clearing organizations	3,735,024	2,387,336
Bank balances held for clients	3,600,073	3,256,333
Bank balances	576,807	808,377
	8,388,810	7,557,730

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45 Financial risk management (Continued)

45.2 Credit risk (Continued)

(3) Credit risk from brokerage service

Client Risk Ratio	31 December 2019		31 December 2018	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	2,232,964	5,836,032	1,321,416	5,060,528
80%-100%	272,467	547,298	187,774	190,621
Above 100%	6,917	5,928	54,361	41,179
	2,512,348	6,389,258	1,563,551	5,292,328
Coverage ratio		254%		338%

45.3 Market risk

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

45.3.1 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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45 Financial risk management (Continued)

45.3 Market risk (Continued)

45.3.1 Price risk (Continued)

The Group's price risk exposure mainly relates to investments in equity securities, derivatives, asset management schemes, private securities investment funds and trust schemes with the underlying investments mainly in listed equities and futures. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

Price risk in connection with futures contracts arising from the Group's cooperative hedging business is mostly offset by the financial liabilities payable to clients for that business, as the investment gain or loss on those derivatives are largely borne by clients.

As at 31 December 2019, the financial instruments held by the Group subject to price risk mainly comprised asset management schemes, derivatives, private securities investment funds, trust schemes with the underlying investments mainly in listed equities and futures, payable to clients for cooperative hedging business.

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45 Financial risk management (Continued)

45.3 Market risk (Continued)

45.3.1 Price risk (Continued)

Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity instruments and derivatives by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2019	2018
Profit before income tax		
Increase by 5%	14,732	13,133
Decrease by 5%	(6,427)	(13,133)

	Year ended 31 December	
	2019	2018
Other comprehensive income before income tax		
Increase by 5%	-	-
Decrease by 5%	-	-

45.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for clients, deposits with exchange-clearing organizations and investment in trust schemes with the underlying investments mainly in loans and receivables. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

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45 Financial risk management (Continued)

45.3 Market risk (Continued)

45.3.2 Interest rate risk (Continued)

Finance departments of the Company and its subsidiary monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Non-interest bearing	Total
As at 31 December 2019							
Refundable deposits	31,170	-	-	-	-	-	31,170
Other current assets	-	-	-	-	-	52,149	52,149
Contract assets	-	-	-	-	-	12,371	12,371
Derivative financial assets	-	-	-	-	-	53,628	53,628
Financial assets at fair value through other comprehensive income	-	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	-	-	76,669	-	-	193,700	270,369
Financial assets held under resale agreements	-	30,256	-	-	-	-	30,256
Deposits with exchange-clearing organizations	1,222,676	-	-	-	-	2,512,348	3,735,024
Bank balances held for clients	3,600,073	-	-	-	-	-	3,600,073
Cash and bank balances	288,931	4,799	3,135	280,000	-	-	576,865
Sub-total	5,142,850	35,055	79,804	280,000	-	2,825,596	8,363,305
Other current liabilities	(113)	(84)	(7,980)	-	-	(201,918)	(210,095)
Accounts payable to brokerage clients	(3,103,102)	-	-	-	-	(3,286,156)	(6,389,258)
Derivative financial liabilities	-	-	-	-	-	(44,600)	(44,600)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(24,562)	(24,562)
Other non-current liabilities	-	-	-	(7,833)	(600)	(5,021)	(13,454)
Sub-total	(3,103,215)	(84)	(7,980)	(7,833)	(600)	(3,562,257)	(6,681,969)
Interest rate sensitivity gap	2,039,635	34,971	71,824	272,167	(600)	(736,661)	1,681,336

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45 Financial risk management (Continued)

45.3 Market risk (Continued)

45.3.2 Interest rate risk (Continued)

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Non-interest bearing	Total
As at 31 December 2018						
Refundable deposits	25,683	-	-	-	-	25,683
Other current assets	-	-	-	-	53,273	53,273
Contract assets	-	-	-	-	13,895	13,895
Derivative financial assets	-	-	-	-	37,930	37,930
Financial assets at fair value through other comprehensive income	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	50,000	-	254,469	52,713	280,310	637,492
Financial assets held under resale agreements	277,445	57,473	2,400	-	-	337,318
Deposits with exchange-clearing organizations	614,106	-	-	-	1,773,230	2,387,336
Bank balances held for clients	3,256,333	-	-	-	-	3,256,333
Cash and bank balances	528,390	-	-	280,000	-	808,390
Sub-total	4,751,957	57,473	256,869	332,713	2,160,038	7,559,050
Borrowings	(1,678)	(8,650)	-	-	-	(10,328)
Financial assets sold under repurchase agreements	-	(32,346)	-	-	-	(32,346)
Other current liabilities	-	-	-	-	(102,172)	(102,172)
Accounts payable to brokerage clients	(1,743,254)	-	-	-	(3,568,822)	(5,312,076)
Derivative financial liabilities	-	-	-	-	(62,506)	(62,506)
Financial liabilities at fair value through profit or loss	-	-	-	-	(39,110)	(39,110)
Other non-current liabilities	-	-	-	-	(5,983)	(5,983)
Sub-total	(1,744,932)	(40,996)	-	-	(3,778,593)	(5,564,521)
Interest rate sensitivity gap	3,007,025	16,477	256,869	332,713	(1,618,555)	1,994,529

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45 Financial risk management (Continued)

45.3 Market risk (Continued)

45.3.2 Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 25 basis points increase or decreases in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2019	2018
Net interest income		
Increases by 25bps	5,027	7,480
Decreases by 25bps	(5,027)	(7,480)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

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45 Financial risk management (Continued)

45.3 Market risk (Continued)

45.3.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, with only insignificant revenue from foreign currency transactions. The Group considers that its currency risk is immaterial.

45.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading position, or an excessive high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be faced with penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause bad effects on the Group's operations and reputation.

The Group manages and controls its funds in a centralized manner. The Group's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity could be met timely with an appropriate cost.

The Group's finance department organizes the cash budget annually and sets up the fund plan based on it. Under the approval of the Company, the funds will be scheduled and arranged uniformly in order to ensure the consistence of funds demand and cost of the capital control.

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45 Financial risk management (Continued)

45.4 Liquidity risk (Continued)

After approved by the Board of Directors, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at 31 December 2019, the Group held cash and cash equivalents of approximately RMB1,036 million that are expected to readily generate cash inflows for managing liquidity risk (2018: RMB698 million).

The tables below present the cash flows payable by the Group for financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for clients.

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2019						
Non-derivative cash flow						
Other non-current liabilities	–	–	–	–	16,326	16,326
Other current liabilities	191,573	10,479	123	8,428	–	210,603
Financial liabilities at fair value through profit or loss	257	–	–	24,305	–	24,562
Accounts payable to brokerage clients	6,389,258	–	–	–	–	6,389,258
	6,581,088	10,479	123	32,733	16,326	6,640,749
Derivative cash flow						
(a) total inflow	–	22,102	10,017	31,030	–	63,149
(b) total outflow	–	(165,251)	(29,968)	(17,569)	(29)	(212,817)

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45 Financial risk management (Continued)

45.4 Liquidity risk (Continued)

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2018						
Non-derivative cash flow						
Borrowings	-	1,711	8,817	-	-	10,528
Accounts payable to brokerage clients	5,312,076	-	-	-	-	5,312,076
Other current liabilities	94,052	8,120	-	-	-	102,172
Financial assets sold under repurchase agreements	-	-	33,604	-	-	33,604
Financial liabilities at fair value through profit or loss	-	-	1,914	37,196	-	39,110
Other non-current liabilities	-	-	-	-	5,983	5,983
	5,406,128	9,831	44,335	37,196	5,983	5,503,473
Derivative cash flow						
(a) total inflow	-	5,628	10,882	4,019	-	20,529
(b) total outflow	-	(29,504)	(26,237)	(10,849)	-	(66,590)

45.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiary to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiary;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

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45 Financial risk management (Continued)

45.5 Capital management (Continued)

According to the “Administrative Measures Concerning Risk Control Indicators for Future Companies” (《期貨公司風險監管指標管理辦法》) issued by the CSRC on 18 April 2017, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB30,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 20%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB14,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

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(All amounts in RMB'000 unless otherwise stated)

46 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

46.1 Financial instruments not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, bank balances held for clients, financial assets held under resale agreements, deposits with exchange-clearing organizations, refundable deposits, contract assets, accounts payable to brokerage clients, financial assets sold under repurchase agreements their fair values approximate their carrying amounts.

46.2 Financial instrument measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

- Level I** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II** – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level III** – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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46 Fair value of financial assets and liabilities (Continued)

46.2 Financial instrument measured at fair value (Continued)

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2019 and 2018.

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Asset management schemes	–	66,250	–	66,250
– Trust schemes	–	67,636	76,669	144,305
– Private securities investment funds	–	59,809	–	59,809
– Listed equity securities	5	–	–	5
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	23,610	–	23,610
– Exchange Traded options	21,840	–	–	21,840
– Forward contracts	–	8,178	–	8,178
	21,845	225,483	78,069	325,397
Financial liabilities at fair value through profit or loss				
– Payable to a holder of a consolidated SE	–	–	(24,305)	(24,305)
– Others	–	(257)	–	(257)
Derivative financial liabilities				
– OTC options	–	(27,154)	–	(27,154)
– Exchange Traded options	(16,680)	–	–	(16,680)
– Forward contracts	–	(766)	–	(766)
	(16,680)	(28,177)	(24,305)	(69,162)

Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

46 Fair value of financial assets and liabilities (Continued)

46.2 Financial instrument measured at fair value (Continued)

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Asset management schemes	–	98,325	–	98,325
– Trust schemes	–	79,957	357,182	437,139
– Private securities investment funds	–	96,896	–	96,896
– Listed equity securities	4	–	–	4
– Bank wealth management products	–	–	5,128	5,128
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	36,545	–	36,545
– Exchange Traded options	1,385	–	–	1,385
	1,389	311,723	363,710	676,822
Financial liabilities at fair value through profit or loss				
– Payable to a holder of a consolidated SE	–	–	(29,841)	(29,841)
– Others	–	(9,269)	–	(9,269)
Derivative financial liabilities				
– OTC options	–	(60,465)	–	(60,465)
– Exchange Traded options	(2,041)	–	–	(2,041)
	(2,041)	(69,734)	(29,841)	(101,616)

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46 Fair value of financial assets and liabilities (Continued)

46.2 Financial instrument measured at fair value (Continued)

(1) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in level 1.

(2) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

As at 31 December 2019, asset management schemes, trust schemes and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by Zhongtai Asset Management, non-related financial institutions, as well as unregulated private fund managers. Underlying investments of these SEs are mainly in exchange traded securities and derivatives in the PRC. Their fair value are determined based on their net asset value as at the reporting date, which are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 45.3.1.

For OTC options, fair value is determined based on the Black-Scholes (BS) Model and Monte Carlo Simulation. The key parameters are obtained through the observable market data.

For forward contracts, the fair value is measured by discounting the differences between the contract prices and market prices of the underlying financial instruments.

For the year ended 31 December 2019, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2018: same).

(3) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As at 31 December 2019, trust schemes that are classified as level 3 in fair value hierarchy are issued by non-related financial institutions. Such schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within the schemes where principal and return of senior tranche is guaranteed by junior tranche investors. The discounted cash flow model is used to determine the fair value of those schemes, where the expected future cash flows are discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and market risk as disclosed in Note 45.

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46 Fair value of financial assets and liabilities (Continued)

46.2 Financial instrument measured at fair value (Continued)

(3) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 instruments for the years ended 31 December 2019 and 2018.

	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Financial liabilities at fair value through profit or loss
Balance at 1 January 2019	1,400	362,310	N/A	(29,841)
Acquisition	-	-	N/A	-
Disposal	-	(279,419)	N/A	-
Unrealized (losses)/gains recognized in net investment (losses)/gains	-	(6,222)	N/A	5,536
Balance at 31 December 2019	1,400	76,669	N/A	(24,305)
Including: unrealized (losses)/ gains recognized in profit or loss attributable to balances held at end of year	-	(6,222)	N/A	(24,305)

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46 Fair value of financial assets and liabilities (Continued)

46.2 Financial instrument measured at fair value (Continued)

(3) Financial instruments in level 3 (Continued)

	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Financial liabilities at fair value through profit or loss
Balance at 1 January 2018	–	11,037	398,016	–
Changes on initial application of IFRS 9	1,400	387,993	(398,016)	–
Restated balance at 1 January 2018	1,400	399,030	–	–
Acquisition	–	223,431	–	–
Disposal	–	(265,875)	–	–
Unrealized gains/(losses) recognized in net investment (losses)/gains	–	5,724	–	(29,841)
Balance at 31 December 2018	1,400	362,310	–	(29,841)
Including: unrealized gains/(losses) recognized in profit or loss attributable to balances held at end of year	–	5,724	–	(29,841)

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46 Fair value of financial assets and liabilities (Continued)

46.2 Financial instrument measured at fair value (Continued)

(3) Financial instruments in level 3 (Continued)

Financial instruments	Fair value at 31 December 2019	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – trust schemes	76,669	Expected rate of return	7.00%-8.50%	The higher the expected rate of return, the higher the fair value
		Expected recovery date	19 April 2020-30 June 2021	The earlier the recovery date, the higher the fair value
		Discount rates that correspond to the expected risk level	5.53%-7.74%	The lower the discount rate, the higher the fair value
Financial liabilities at fair value through profit or loss – Payable to a holder of a consolidated SE	(24,305)	Expected payment date	15 June 2020	The earlier the payment date, the higher the fair value
		Discount rates that correspond to the expected risk level	1.35%	The lower the discount rate, the higher the fair value

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47 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2019					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	–	(10,974)	(10,974)	10,974	–

As at 31 December 2018					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	3,573	–	3,573	(3,573)	–

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing organizations for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

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48 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include asset management schemes, private securities investment funds, and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 31 December 2019, the interests in unconsolidated structured entities held by the Group included investment recognized as financial assets at fair value through profit or loss (31 December 2018: same). The related carrying amount and the maximum exposure were as follows:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	270,364	637,488

For the years ended 31 December 2019 and 2018, the income from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December	
	2019	2018
Net investment gains	7,230	26,882

As at 31 December 2019, the Group had no financial support provided to these unconsolidated structured entities, and there was no plan of providing financial support by the Group to these unconsolidated structured entities (31 December 2018: same).

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49 Statement of financial position and reserve movement of the Company

Notes	31 December 2019	31 December 2018
Assets		
Non-current assets		
Property, plant and equipment	42,171	43,224
Intangible assets	6,013	7,302
Investment in subsidiaries	797,635	427,635
Other non-current assets	12,658	1,203
Deferred income tax assets	8,106	6,842
Refundable deposits	31,170	25,683
Financial assets at fair value through other comprehensive income	1,400	1,400
Financial assets at fair value through profit or loss	–	61,280
Total non-current assets	899,153	574,569
Current assets		
Other current assets	20,245	21,615
Contract assets	12,371	13,895
Financial assets at fair value through profit or loss	264,119	534,637
Financial assets held under resale agreements	–	260,000
Deposits with exchange-clearing organizations	3,735,024	2,387,336
Bank balances held for clients	3,600,073	3,236,667
Cash and bank balances	324,528	684,742
Total current assets	7,956,360	7,138,892
Total assets	8,855,513	7,713,461

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49 Statement of financial position and reserve movement of the Company (Continued)

	Notes	31 December 2019	31 December 2018
Equity and liabilities			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Other reserves	Note (a)	255,968	239,785
Retained earnings	Note (a)	283,586	297,996
Total equity		2,192,084	2,190,311
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		–	–
Other non-current liabilities		10,416	5,983
Total non-current liabilities		10,416	5,983
Current liabilities			
Other current liabilities		64,082	56,951
Current income tax liabilities		2,320	19,424
Derivative financial liabilities		24,304	29,841
Accounts payable to brokerage clients		6,562,307	5,410,951
Total current liabilities		6,653,013	5,517,167
Total liabilities		6,663,429	5,523,150
Total equity and liabilities		8,855,513	7,713,461

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49 Statement of financial position and reserve movement of the Company (Continued)

Note (a) Reserve movement of the Company

	Retained earnings	Other reserves
Balance at 31 December 2017	271,875	209,104
Changes on initial adoption of IFRS 9	84	(84)
Balance at 1 January 2018	271,959	209,020
Profit for the year	123,929	–
Other comprehensive income for the year	–	–
Total comprehensive income	123,929	–
Net appropriation to reserves	(30,765)	30,765
Dividends recognized as distribution	(67,127)	–
Balance at 31 December 2018	297,996	239,785
Profit for the year	56,874	–
Other comprehensive income for the year	–	–
Total comprehensive income	56,874	–
Net appropriation to reserves	(16,183)	16,183
Dividends recognized as distribution	(55,101)	–
Balance at 31 December 2019	283,586	255,968

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50 Benefits and interests of directors, supervisors and chief executive

The emoluments of the directors, supervisors and chief executive of the Company paid by the Group for the years ended 31 December 2019 and 2018 are set out below:

Name	Year ended 31 December 2019				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Zhong Jinlong ⁽¹⁾	–	–	–	–	–
Chen Fang ⁽¹⁾⁽⁴⁾	–	–	–	–	–
Liang Zhongwei	532	49	59	133	773
Chief Executive					
Liu Qingbin	1,100	73	51	–	1,224
Non-executive Directors					
Liu Hongsong ⁽²⁾	–	–	–	–	–
Yin Ge ⁽²⁾⁽⁵⁾	–	–	–	–	–
Li Chuanyong ⁽²⁾⁽⁵⁾	–	–	–	–	–
Liu Feng	3	–	–	–	3
Yu Xuehui ⁽⁶⁾	116	–	–	–	116
Hu Kainan ⁽²⁾	–	–	–	–	–
Ming Gang	3	–	–	–	3
Wang Chuanshun	119	–	–	–	119
Gao Zhu	119	–	–	–	119
Li Dapeng	119	–	–	–	119
Zheng Jianping ⁽³⁾	–	–	–	–	–
Supervisors					
Li Xuekui	–	–	–	–	–
Ding Mei ⁽²⁾	–	–	–	–	–
Hu Yuyue	71	–	–	–	71
Mou Yong	71	–	–	–	71
Wang Hairan ⁽⁷⁾	35	11	9	–	55
Yu Zhanyong ⁽⁷⁾	32	10	9	–	51
Tan Saojie ⁽²⁾	–	–	–	–	–
Yu Xuehui ⁽⁶⁾	116	–	–	–	116
Lin Zongheng	227	30	24	89	370
Liu Pu	221	29	26	56	332
	2,884	202	178	278	3,542

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50 Benefits and interests of directors, supervisors and chief executive (Continued)

Name	Year ended 31 December 2018				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Chen Fang ⁽¹⁾	–	–	–	–	–
Liang Zhongwei	244	47	70	133	494
Chief Executive					
Liu Qingbin	1,100	69	55	–	1,224
Non-executive Directors					
Lv Xiangyou ⁽²⁾⁽⁸⁾	–	–	–	–	–
Yin Ge ⁽²⁾⁽⁵⁾	–	–	–	–	–
Li Chuanyong ⁽²⁾⁽⁵⁾	–	–	–	–	–
Liu Feng	–	–	–	–	–
Yu Xuehui ⁽⁶⁾	119	–	–	–	119
Wang Chuanshun	119	–	–	–	119
Gao Zhu	119	–	–	–	119
Li Dapeng	119	–	–	–	119
Supervisors					
Li Xuekui	1,100	49	90	–	1,239
Ding Mei ⁽²⁾	–	–	–	–	–
Hu Yuyue	71	–	–	–	71
Mou Yong	71	–	–	–	71
Wang Hairan ⁽⁷⁾	156	42	36	109	343
Yu Zhanyong ⁽⁷⁾	163	33	31	88	315
	3,381	240	282	330	4,233

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50 Benefits and interests of directors, supervisors and chief executive (Continued)

- (1) Chen Fang and Zhong Jinlong were appointed by Zhongtai Securities and his emolument was paid by Zhongtai Securities, and no allocation of the emoluments between the shareholder and the Group has been made during the year.
- (2) These non-executive directors and supervisors were appointed by shareholders and their emoluments were paid by shareholders for the years ended 31 December 2019 and 2018.
- (3) Zheng Jianping has not paid salary due to his short term in 2019.
- (4) Chen Fang ceased to be executive director effective from December 2019.
- (5) Yin Ge and Li Chuanyong ceased to be non-executive director effective from December 2019.
- (6) Yu Xuehui ceased to be non-executive director and was transferred to be supervisor effective from December 2019.
- (7) Wang Hairan and Yu Zhanyong ceased to be supervisor effective from April 2019.
- (8) Lv XiangYou ceased to be non-executive director effective from August 2018.