



**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)



2021  
Annual Report

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LUZHENG FUTURES Company Limited  
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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 directors of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“China”, “PRC” 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 reorganized in the PRC on 10 December 2012 with limited liability (previously known as Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), renamed as Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司), and then renamed as LUZHENG FUTURES CORPORATION LIMITED (魯証期貨有限公司)), and its H Shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01461)
“Controlling Shareholder(s)”	Zhongtai Securities, Laiwu Steel and Shandong Steel
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, subscribed for or credited as fully paid in Renminbi
“Group”, or “we” or “us”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK\$ and listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	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, 100.00% of which is owned by Shandong Steel and being one of the Controlling Shareholders of the Company

“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), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 15 February 2015
“Luzheng Capital”	Luzheng Capital Management Co., Ltd. (魯証資本管理有限公司), previously known as Luzheng Trading Co., Ltd. (魯証經貿有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 24 April 2013
“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”	a non-standardized trading of option contracts on a non-centralized trading places
“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), Shanghai Futures Exchange (上海期貨交易所), and Shanghai International Energy Exchange (上海國際能源交易中心)
“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 2021
“Risk Control Committee”	the Risk Control Committee of the Board of Directors
“RMB” or “Renminbi”	the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a company established in the PRC on 17 March 2008 with limited liability, 70% of which is owned by the State-owned Assets Supervision and Administration Commission of the Shandong Provincial Government (山東省人民政府國有資產監督管理委員會) and being one of the Controlling Shareholders of the Company

## Definition

“Share(s)”	the ordinary share(s) of the Company with a nominal nature of RMB1.00 each, including 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, and listed in Shanghai Stock Exchange on 3 June 2020 (Stock code: 600918), 46.37% of which is owned by Laiwu Steel, and being 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 the 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 securities and futures as well as bulk commodity, etc.

The Company may be exposed to major risks as follows:

1. Strategic planning risks arising in determining the major development strategy of the Company due to changing conditions in and outside of China.
2. Market risks arising from continuously dramatic change in market conditions which is beyond its expectation.
3. Credit risks resulting from debtors or counterparties' failure to perform their contractual obligation.
4. Liquidity risks arising from insufficiency of capital to settle its payment obligations during the normal operation.
5. Operational risks arising from system failure, procedure flaw or human factors.
6. Compliance risks arising from legal sanction, regulatory measures and self-disciplinary punishment and economic losses and reputation harm that the Group or its staff may suffer due to violation of laws, regulations and rules on the part of our business activities or our staff.
7. Reputational risks due to negative publicity on the Company in the course of operation.
8. Risks arising from any force majeure events, including political crisis, outbreak of war, terrorism, major pandemics or natural disasters.

With respect to the above potential risks, the Company manages to prevent such risks by optimizing organization structure, establishing and improving systems and taking effective measures, etc. Please refer to pages 54 to 57 of this Report for the possible risks, uncertainties that the Company may face, and the countering measures taken.

# Company Profile

## (1) 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, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, 250001, the PRC

### 3. Head office in the PRC

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

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

40th Floor, Dah Sing Financial Centre, No. 248, Queen's Road East, Wanchai, Hong Kong

### 5. Board of Directors

Executive Directors:

Mr. Zhong Jinlong (*Chairman of the Board*)  
Mr. Liang Zhongwei

Non-executive Directors <sup>Note 1:</sup>

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

Independent Non-executive Directors <sup>Note 2:</sup>

Mr. Zheng Jianping  
Mr. Chen Hua

Note 1: Mr. Liu Hongsong resigned as a non-executive Director of the Company on 10 March 2021, and Mr. Liu Xinyi was appointed as an independent non-executive Director of the Company on 17 June 2021.

Note 2: Mr. Li Dapeng resigned as an independent non-executive Director of the Company on 7 October 2021. Mr. Gao Zhu and Wang Chuanshun resigned as independent non-executive Directors of the Company on 10 March 2022. Mr. Chen Hua was appointed as an independent non-executive Director of the Company on 10 March 2022. Mr. Wang Xinyu was appointed as an independent non-executive Director of the Company on 10 March 2022, and resigned as an independent non-executive Director of the Company on 14 March 2022.

### 6 Authorized representatives

Mr. Zhong Jinlong  
Room 602, Unit 1, Building 13, 2nd East Area of Ming Hu Village, Lixia 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. Liang Zhongwei  
Dr. Ngai Wai Fung <sup>Note 3</sup>

### 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

Note 3: On 10 March 2022, Ms. Ng Wing Shan resigned as the joint company secretary of the Company. On the same day, Dr. Ngai Wai Fung was appointed as the joint company secretary of the Company.



## 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 (Jinan 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  
Wanchai, Hong Kong

### 12 Stock code

HK.01461

### 13 Investor enquiries

Investors' Service Line: +86-531-81678006  
Fax: +86-531-81678629  
Website: <http://www.luzhengqh.com>  
E-mail: [investors@luzhengqh.com](mailto:investors@luzhengqh.com)

## (2) 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 the CSRC and registered with the State Administration for Industry & Commerce of the PRC. Its initial registered capital of RMB10.2 million was jointly contributed by Jinan Huaqing Group Corporation (濟南化輕集團總公司), Jinan Economic Development Corporation (濟南經濟發展總公司), Shandong Province Resources Development Corporation (山東省資源開發總公司) and Jinan Shizhong Food & Oil Trading Company (濟南市市中糧油貿易公司).

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

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

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

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

On 22 August 2007, Zhongtai Securities 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 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 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 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 restructuring 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, 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, 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.

**(3) STAFF PROFILE**

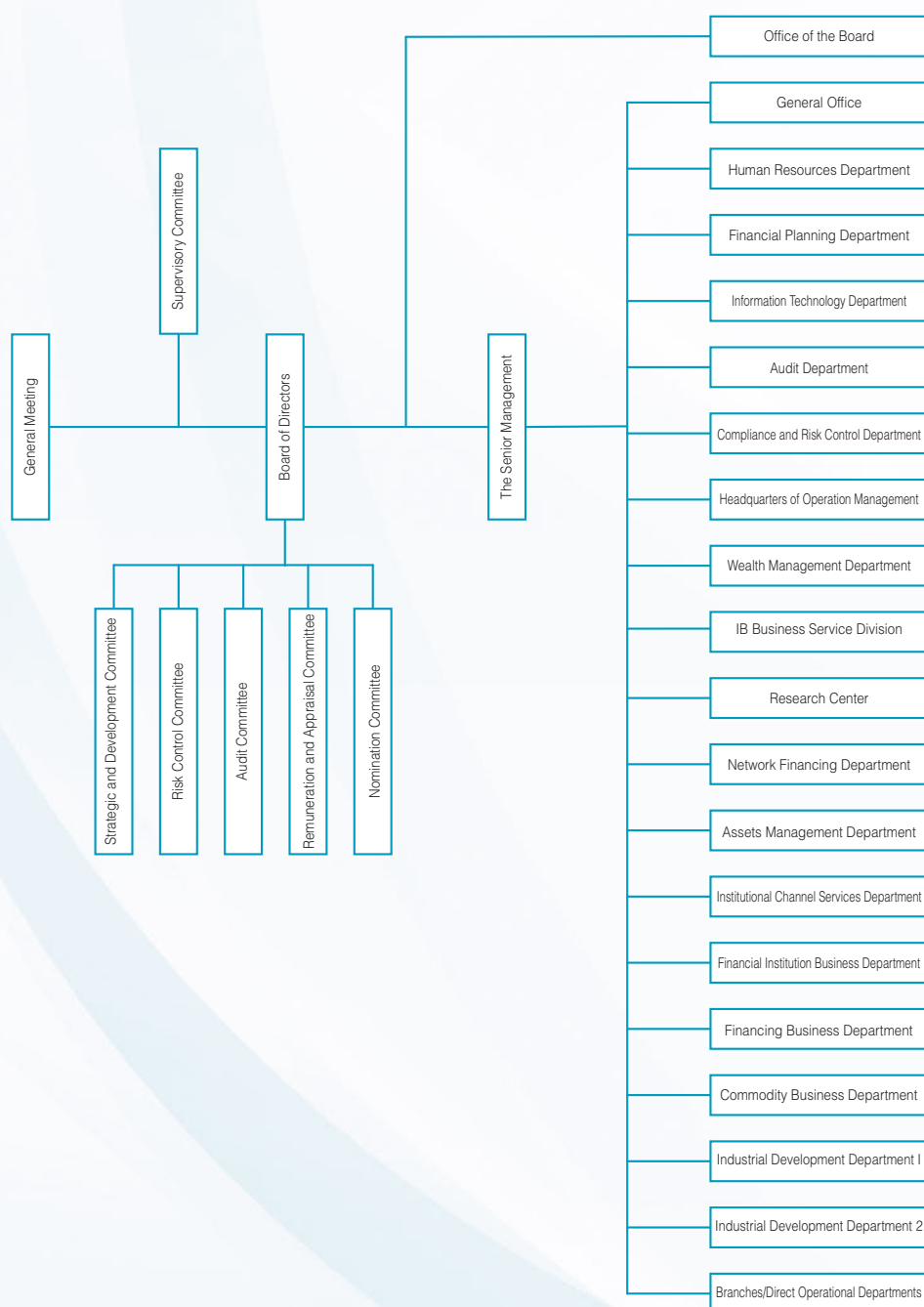
As at the end of the Reporting Period, the Group had 625 employees in total, and the breakdown of the composition of the employees is as follows:

	Category	Number	Proportion (%)
By profession	Administrative management	39	6.24
	Financial planning	16	2.56
	Management of brokerage business	52	8.32
	Information technology	26	4.16
	Risk control & Clearing	16	2.56
	Compliance and audit	40	6.40
	Research and development	29	4.64
	Customer services	42	6.72
	Assets management	6	0.96
	Marketing	251	40.16
	Luzheng Capital	99	15.84
	Luzheng Information Technology	9	1.44
		<b>Total</b>	<b>625</b>
By age	30 and Below	196	31.36
	31-35	188	30.08
	36-40	126	20.16
	41-45	57	9.12
	Above 45	58	9.28
	<b>Total</b>	<b>625</b>	<b>100.00</b>
By education background	Post-graduate and above	155	24.80
	Bachelor degree	412	65.92
	College degree and below	58	9.28
	<b>Total</b>	<b>625</b>	<b>100.00</b>

## Company Profile

### (4) BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES

According to the Company Law of the PRC (《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》), the Listing Rules and the laws and regulations of Hong Kong, as well as the relevant provisions under the Articles of Association, the Company has established the corporate governance structure of “the General Meeting, the Board of Directors and the Supervisory Committee, and the Senior Management”. The General Meeting serves as the highest authority of the Company, with the Board of Directors, the Supervisory Committee and the Senior Management serving as the decision-making organ, supervision organ and execution organ, respectively. As at the end of the Reporting Period, the Company has set 13 functional departments, 5 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, with details as follows:

<b>Name of branch/sales office</b>	<b>Date of opening</b>	<b>Address of branch/sales office (China)</b>	<b>Contact telephone number</b>
Jinan Sales Office	18 October 2007	Zone B, 4/F, Main Building of Jihua Building, No. 19, Yingxian Street, Tianqiao District, Jinan	+86-531-81916261
Beijing Sales Office	16 April 2007	Rooms 301-L304, 3/F, No. 3, Xijiekou North Street, Xicheng District, Beijing	+86-10-82194010
Shanghai Sales Office	13 October 2008	Room 1502A (normal floor, Room 1802A), No. 438, Pudian Road, China (Shanghai) Pilot Free Trade Zone	+86-21-61049968
Tianjin Sales Office	10 April 2007	Units 2-05, Building 2-2-101, No. 11, Olympic Road, Economy and Technology Development Zone, Tianjin	+86-22-66283471
Dalian Sales Office	11 February 2003	Rooms 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No. 129, Huizhan Road, Shahekou District, Dalian, Liaoning Province	+86-411-84807388
Shenyang Sales Office	6 November 2007	Unit 02, 18/F (21/F in lift), Area I of Northeast World Trade Plaza (Building 1, Sunland Centre), No. 10, Youhao Street, Shenhe District, Shenyang, Liaoning Province	+86-24-23259108

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<b>Name of branch/sales office</b>	<b>Date of opening</b>	<b>Address of branch/sales office (China)</b>	<b>Contact telephone number</b>
Hangzhou Branch	31 July 2008	Unit 4001, Yueming Building, No. 231, Moganshan Road, Xihu District, Hangzhou	+86-571-28118966
Zhengzhou Sales Office	11 June 2009	Rooms 1705 and 1706, 17/F, Weilai Building, No. 69, Weilai Road, Jinshui District, Zhengzhou	+86-371-65629609
Ningbo Sales Office	8 June 2010	Room (9-1)905-1, Block 004, No. 475, Jiangdongbei Road, Yinzhou District, Ningbo, Zhejiang Province	+86-574-27893883
Qingdao Sales Office	4 November 2008	Room 505-1, Building 5, No. 195, Hong Kong East Road, Laoshan District, Qingdao, Shandong Province	+86-532-80776050
Yantai Sales Office	27 May 2002	4/F, Block B, Guanhai Building, No. 267, Guanhai Road, Laishan District, Yantai	+86-535-6605095
Zibo Sales Office	25 July 2008	West section, 9/F, No. 66, Renmin West Road, Zhangdian District, Zibo, Shandong Province	+86-533-2770098
Linyi Sales Office	29 October 2007	Unit 602, IFC International Financial Center, Intersection of Yimeng Road and Zhisheng Road, Liuqing Street, Lanshan District, Linyi	+86-539-8055816
Jining Sales Office	16 May 2008	Unit 807, Xingtang Jinmao Building, No. 123, Guanghe Road, Jining	+86-537-2715707
Weifang Sales Office	30 October 2008	Room 001, Building 1, No. 277, Dongfeng West Street, Weicheng District, Weifang, Shandong Province	+86-536-8232653

Name of branch/sales office	Date of opening	Address of branch/sales office (China)	Contact telephone number
Dongying Sales Office	11 November 2008	Rooms 417, 419, 420 and 422, No. 787, North 1st Road, Dongying District, Dongying, Shandong Province	+86-546-8279996
Dezhou Sales Office	29 January 2010	3/F, No. 1186, Hubin Central Road, Decheng District, Dezhou, Shandong Province	+86-534-2617088
Wenzhou Sales Office	12 August 2011	Room 103, Block 1-2, Renhe Jiayuan, Station Avenue, Lucheng District, Wenzhou, Zhejiang Province	+86-577-85552188
Shenzhen Sales Office	27 December 2011	Unit 03, 25th Floor, Zhaobangji Building, No. 319, Fuhua Road, Gangxia Community, Futian Avenue, Futian District, Shenzhen	+86-755-83509686
Guangzhou Sales Office	22 October 2012	Room 3001 (called Room 3008 by us), No. 230, Tianhe Road, Tianhe District, Guangzhou	+86-20-38838558
Changsha Sales Office	12 March 2013	Room 706, Kairui Building, No. 245, Laodong Road West, Tianxin District, Changsha, Hunan Province	+86-731-89737711
Rizhao Sales Office	26 December 2014	Room 1203, Block 001, Hangmao Center, No. 277, Beijing Road, Rizhao Economy and Technology Development Zone, Rizhao, Shandong Province	+86-633-8088158
Shanghai Branch	1 February 2016	Units 01 and 02B, 20/F (nominal floor, 18/F actually), No. 759, Yanggao South Road, China (Shanghai) Pilot Free Trade Zone	+86-21-61620325



## Company Profile

Name of branch/sales office	Date of opening	Address of branch/sales office (China)	Contact telephone number
Wuxi Sales Office	26 April 2016	No. 118-3002, Qingyang Road, Liangxi District, Wuxi, Jiangsu Province	+86-510-82728370
Wuhan Branch	8 June 2017	Unit 1009, 10th Floor, No.3 Enterprise World, No.1627, Zhongshan Avenue, Jiang 'an District, Wuhan	+86-27-86681096
Jinan Branch	27 July 2017	Zone A, 4/F, Main Building of Jihua Building, No. 19, Yingxian Street, Tianqiao District, Jinan	+86-531-86113901
Nanjing Branch	3 August 2017	Room 2112, No. 168, Laoshan Road, Jianye District, Nanjing	+86-25-57626667

### (5) BASIC INFORMATION ABOUT THE INDUSTRY IN WHICH THE COMPANY OPERATES

2021 marks the opening of the “14th Five-Year Plan”. Due to the COVID-19 Pandemic, the world was witnessing accelerating evolution which has not been seen for nearly one century, and the external environment became complex and severe. The COVID-19 (especially the Delta and Omicron variants) brought head-winds to the economic globalization, while the Sino-US trade friction intensified, deteriorating the international trade environment. The domestic economy was pulled back by three factors, namely demand contraction, supply shock and weakening expectation. Despite all these things, the futures market of China forged ahead with determination. It gave full play to the risk management function in actively maintaining the supply of the bulk commodities for a price stability, getting rid of the hidden dangers associated with the price fluctuations in the bulk commodity market, and improving the scientific pricing ability of bulk commodities, and highlighting futures’ role in stabilizing the production and operation of enterprises.

Firstly, record highs were set for cumulative trading volume and turnover. In 2021, the cumulative trading volume of the futures market of China was approximately 7.514 billion lots, and the cumulative turnover amounted to RMB581.20 trillion, representing a year-on-year increase of 22.13% and 32.84%, respectively. Secondly, the varieties of futures and options were constantly increased. With addition of four new varieties during the year, total number of listed varieties reached 94, covering nearly all the varieties of futures, except for the foreign exchange futures. Thirdly, Guangzhou Futures Exchange was established with a purpose of serving the green development. Fourthly, the legislation of futures was accelerated in an all-round way, and the legal system became more developed. Fifthly, the futures industry opened its year of cultural construction. The “Outline of the Futures Industry Cultural Construction Work” was released to strengthen the industry’s cultural construction and foster the healthy, standardized and sustainable development of the futures industry. Sixthly, the internationalization of investors was steadily promoted. Palm oil options and crude oil options became available officially for trading, both are open to foreign traders, marking a further step in the opening of China’s financial sector to the outside world.

### **(6) BUSINESS BRIEFINGS OF THE COMPANY**

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

### **(7) BRIEFINGS OF OUR SUBSIDIARIES**

As at the end of the Reporting Period, the Company owns four subsidiaries, namely Luzheng Capital (魯証資本), Luzheng Information Technology (魯証信息技術), ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED (中泰匯融(香港)有限公司), and LUZHENG INTERNATIONAL HOLDING LIMITED (魯証國際控股有限公司).

The business scope of Luzheng Capital includes investment activities and investment planning with self-owned capital, investment planning; enterprise management consulting; sale and wholesale of agricultural products, metal products, metallurgical materials, mineral products (except special provisions of the state), precious metals, chemical products (except hazardous chemicals, monitored chemicals, fireworks, civil explosives, 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); technical consultation; investment consultant (except restricted items); edible oil sales and wholesale (licensed business projects), etc.

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, etc.

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

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

## Company Profile

Details are as follows:

Name of the company	Shareholding percentage (%)	Date of establishment	Registered address	Contact number
Luzheng Capital Management Co., Ltd. (魯証資本管理有限公司), (previously known as Luzheng Trading Co., Ltd. (魯証經貿有限公司))	100	2013.04.24	Room 201, Block A, No. 1 Qianwanyilu, Shenzhen – Hong Kong Cooperation Zone, Qianhai, Shenzhen, Guangdong Province, the PRC (in Shenzhen Qianhai Commercial Secretary Co., Ltd)	+86-531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.02.15	Room 1515, Floor 15, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC	+86-531-81678620
ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED (中泰匯融(香港)有限公司)	100	2013.11.21	40th Floor, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong	+86-531-86161199
LUZHENG INTERNATIONAL HOLDING LIMITED (魯証國際控股有限公司)	100	2018.04.16	40th Floor, Dah Sing Financial Centre 248 Queen's Road East, Wanchai, Hong Kong	+86-531-86910569

## **(8) HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD**

In 2021, the Company was awarded the title of “National Securities and Futures Investor Education Base” by the CSRC;

The Company was honored with China’s Best Futures Company Award, Best Derivatives Comprehensive Service Innovation Award, China’s Futures Company Management Team Gold Award, Best Financial Technology Progress Award, Investor Education Model Innovation of the Year Award, Best corporate Contribution Award for Futures Talent Training, China’s Golden Futures Research Centre, Best Commodity Futures Industry Service Award, Best Financial Futures Service Award, Best Risk Management Subsidiary Service Innovation Award, Best Precision Poverty Alleviation and Public Welfare Award in the 14th selection of best futures operation institutions in China;

The Company was honored with Socially Responsible Financial Organisation of 2021;

The Company was awarded the title of “March 15 Integrity Financial Brand and Socially Responsible Enterprise of Shandong” by Dazhong Daily Newspaper Newspaper;

The Company was honored with titles of Outstanding Member Platinum Award, Risk Management Service Award and Technology Management Award by China Financial Futures Exchange;

The Company was awarded the titles of Excellent Member for Market Growth, Excellent Member for Industrial Service, Talent Training Award, Technical Support Award, Service Award for Agricultural Industry and Service Award for Textile Industry by Zhengzhou Commodity Exchange;

The Company was awarded the titles of Excellent Member Gold Award, Excellent OTC Market Construction Award, Excellent Technical Service Award, Excellent Institution Service Award, Excellent Industrial Service for Agricultural Product Award, Excellent Iron and Steel Raw Material and Fuel Industry Service Award by Dalian Commodity Exchange.

The Company was honored with the title of Outstanding Stock Option Broker by Shenzhen Stock 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.

## (1) MAJOR ACCOUNTING DATA OF THE GROUP

Unit: RMB'000

Item	2021	2020	Increase/ decrease over corresponding period of last year	2019
Operating income	749,418	488,819	53.31%	321,867
Operating profit	273,370	113,197	141.50%	45,286
Profit before income tax	270,494	97,890	176.32%	42,363
Net profit attributable to shareholders of the Company	204,355	56,834	259.56%	29,750
Net cash (outflow)/inflow from operating activities	99,011	(223,450)	144.31%	430,648

Unit: RMB'000

Item	31 December 2021	31 December 2020	Increase/ decrease over corresponding period of last year	31 December 2019
Total assets	20,500,658	12,925,647	58.60%	8,928,814
Total liabilities	18,081,062	10,686,253	69.20%	6,744,152
Total equity	2,419,596	2,239,394	8.05%	2,184,201
Total share capital	1,001,900	1,001,900	0.00%	1,001,900

## (2) MAJOR FINANCIAL INDICATORS OF THE GROUP

Item	2021	2020	Increase/ decrease over corresponding period of last year	2019
Basic earnings per Share (RMB)	0.2	0.06	233.33%	0.03
Diluted earnings per Share (RMB)	0.2	0.06	233.33%	0.03
Weighted average return on net asset	8.77%	2.57%	increased by 6.2 percentage points	1.33%

Item	31 December 2021	31 December 2020	Increase/ decrease over corresponding period of last year	31 December 2019
Net asset per Share attributable to shareholders of the Company (RMB)	2.42	2.24	8.04%	2.18
Gearing ratio	29.86%	18.69%	11.17 percentage points increased by	13.97%

Note: The formula for calculating the gearing ratio is "total assets" divided by "total liabilities". For the purpose of calculating the gearing ratios for the respective reporting periods as set out in the above table, all the assets and liabilities are stated after excluding accounts payable to brokerage clients.

### (3) NET CAPITAL OF THE COMPANY AND RELEVANT RISK CONTROL INDICATORS

Indicators	31 December 2021	31 December 2020	Regulatory standard
Net capital (RMB)	1,047,365,264.74	967,024,667.25	30,000,000.00
Net capital/total risk capital reserves	181.18%	279.89%	100.00%
Net capital/net assets	45.73%	44.88%	20.00%
Current assets/current liabilities	530.65%	659.46%	100.00%
Liabilities/net assets	15.39%	12.88%	150.00%
Settlement reserve funds (RMB)	235,418,277.97	420,410,762.68	14,000,000.00

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

### (4) FINANCIAL CONDITIONS OF THE GROUP OF THE LATEST FIVE YEARS

#### 1. Profitability

Unit: RMB'000

Item	2021	2020	2019	2018	2017
Operating income	749,418	488,819	321,867	423,148	465,865
Operating expenses	476,048	375,622	276,581	275,736	258,377
Profit before income tax	270,494	97,890	42,363	152,745	206,568
Net profit attributable to shareholders of the Company	204,355	56,834	29,750	117,719	158,631

#### 2. Assets Condition

Unit: RMB'000

Item	31 December 2021	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Total assets	20,500,658	12,925,647	8,928,814	7,900,430	8,828,934
Total liabilities	18,081,062	10,686,253	6,744,152	5,667,104	6,644,231
Total equity	2,419,596	2,239,394	2,184,201	2,208,442	2,156,571
Total Share capital	1,001,900	1,001,900	1,001,900	1,001,900	1,001,900

#### 3. Key financial indicators

Item	2021	2020	2019	2018	2017
Basic earnings per Share (RMB)	0.2	0.06	0.03	0.12	0.16
Diluted earnings per Share (RMB)	0.2	0.06	0.03	0.12	0.16
Weighted average return on net asset	8.77%	2.57%	1.33%	5.14%	7.36%
Net asset per Share attributable to shareholders of the Company (RMB)	2.42	2.24	2.18	2.2	2.15
Gearing ratio	29.86%	18.69%	13.97%	13.72%	19.98%

# Chairman Statement

Dear Shareholders,

2021 marks the opening of the “14th Five-Year Plan” and the first year of a new journey of building a socialist modern country in an all-round way, and the first year for the futures market to pioneer again following exciting accomplishments over the past 30 years. In 2021, China’s futures market forged ahead forcefully. Leveraging on the function of futures, the market played an active role in securing the supply and price stability of bulk commodities, and stabilizing the production and operation of enterprises, highlighting its increasingly important role in the new journey of building a modern socialist country in an all-round way.

With the good development momentum of the futures market, the Company also entered a critical period of transformation to wealth management and high-quality development. In 2021, thanks to the support from all Shareholders and the correct leadership of the Board of Directors, and adhering to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics in a New Era, the Company implemented the overall development ideas called “1142” (ie, one guidance – guided by the party building, one center – centering around the customers, four major strategies – regional breakthrough strategy, talent-aided empowering strategy, financial technology strategy, business transformation and upgrading strategy, two pillars – reform and innovation, compliance and risk control), continued to build up the marketing and service teams, and constantly optimized business layout, improve the research level, optimize the customer service model, and build a professional customer service system, and promote the Company’s high-quality development. There is significant improvement in the ecological environment for the entrepreneurship of the Company, and in the quality and efficiency of operation and management, the ability to serve the real economy, and market competitiveness. The Company achieved substantial growth in main operating indicators, all of which outperformed the market peers. It attained the goal of advancing in rankings, and achieved the best operating performance in history. The net profit attributable to Shareholders was RMB204,355,388, representing an increase of 259.56% as compared with last year. On behalf of the Board of Directors, I hereby thank all Shareholders for their consistent trust in and support of the Company, and thank the community for their care and help to the Company.

While striving to create economic benefits, the Company was committed to fulfilling its social responsibilities and repaying the community. The Company leveraged on its professionalism in providing financial service support to rural revitalization. In 2021, the Company operated more than 90 “insurance + futures” projects, which covered approximately 700,000 mu agricultural plantations and served approximately 60,000 farmers. The Company has always been at the forefront of the industry in terms of the number of projects, scale and innovative models. While continuously increasing risk management capabilities, it has created a “Luzheng Brand” in serving agriculture, farmer and rural area with financial tools.

In 2022, the competition in the futures industry will intensify, and futures companies will find it more difficult to transform. It will become critical for futures companies to improve their professional service capabilities if they want to be competitive. The Company will adhere to the regional development strategy of “deeply exploring the potential in Shandong, establishing strong presence in Southern China and expanding our footprints in Beijing”. It will carry out work in accordance with the twin-wing development idea of “organic growth + epitaxial growth”. That is to achieve organic growth by improving the quality of employees and customer service capabilities, and achieve epitaxial growth by recruiting talents and setting up business entities. We are determined to achieve “five breakthroughs” in business development, namely strong breakthroughs in five aspects: talent development, regional coverage, research services, business transformation, and business collaboration; achieve “three major improvements” in basic service capabilities, namely to achieve effective improvement of customer service capabilities, mid-and back-office service capabilities, and executive capabilities. While strictly abiding by the bottom line of operating lawfully and controlling business risks, we will continue to promote the Company’s high-quality development and the advance in rankings of the Company, so as to lay a solid foundation for realizing the development goals in the Company’s “14th Five-Year Plan”.



## Chairman Statement

We must struggle bravely and improve ourselves constantly to confront the challenges and uncertainties ahead. In the face of the fierce competition and severe challenges on the market, in 2022, the Company will continue to implement the “1142” overall development idea, adhere to the goal of advancing in rankings, and insist on promoting the Company’s high-quality development. We will hold on to our bottom lines while working hard. We will align ourselves to the outstanding peers in the industry, determined to reform and innovate, and give back to Shareholders with excellent results!

**LUZHENG FUTURES Company Limited**

**ZHONG Jinlong**

*Chairman*

24 March 2022

# Management Discussion and Analysis

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

### (1) Economic Conditions

During the Reporting Period, facing the complex domestic and international situations and various risks and challenges, China maintained global leadership in terms of economic development and the COVID-19 Pandemic prevention and control. The general national economy ran within a reasonable range, and all major economic development goals were achieved. On one hand, China led the world in economic growth, and its economic strength increased significantly. In 2021, China's GDP increased by 8.1% as compared with the previous year, among the world's leading powers in terms of economic growth rate. The total nominal GDP exceeded RMB110 trillion; on the other hand, the national economy continued recovery, and the major expected goals were fully accomplished. The economic growth rate of 2021 was 8.1%, higher than the expected target of more than 6% and the overall employment was stable. During the Reporting Period, 12.69 million urban jobs were created, reaching the expected target of more than 11 million jobs; the average surveyed urban unemployment rate across the country was 5.1%, lower than the expected target of approximately 5.5%. Consumer prices rose by a moderate margin. Consumer price increased 0.9% in 2021 as compared with the previous year, which is lower than the expected target of approximately 3%. The growth of residents' income is basically consistent with economic growth. In 2021, the national per capita disposable income increased by 8.1% year-on-year in real terms, and the two-year average growth rate was 5.1%, basically in line with economic growth. The energy consumption per unit of GDP decreased. In 2021, the energy consumption per unit of GDP reduced by 2.7% as compared with the previous year, which is close to the expected target of a reduction of approximately 3%.

During the Reporting Period, from the perspective of supply, the agriculture maintained rapid growth, while the industry and service sectors recovered steadily. Firstly, a new high was set in grain production, animal husbandry production grew steadily, and the added value of agriculture, forestry, animal husbandry and fishery increased by 7.1% as compared with the previous year, driving economic growth by 0.6 percentage points. In particular, animal husbandry drove the added value of agriculture, forestry, animal husbandry and fishery to increase by 3.8 percentage points, with a contribution rate of 53.9%; secondly, the industrial production continued recovery, and the industrial added value increased by 9.6% as compared with the previous year, driving economic growth by 3.0 percentage points, of which the added value of manufacturing increased by 9.8% as compared with the previous year, accounting for 27.4% of GDP, representing an increase of 1.1 percentage points as compared with the previous year. Thirdly, the overall service industry continued recovery. The added value of the wholesale and retail industry, transportation, warehousing and postal industry, and accommodation and catering industry increased by 11.3%, 12.1% and 14.5%, respectively as compared with the previous year, driving the recovery growth of the service industry. The information transmission, software and information technology service industries continued rapid growth, with the added value increasing by 17.2% as compared with the previous year, driving economic growth by 0.7 percentage points.

## Management Discussion and Analysis

During the Reporting Period, from the perspective of demand, consumption played an important role in stabilizing recovery of the economy, driven by external demand. Firstly, consumer demand was further freed up, sustaining the stable recovery of the national economy. The policy of expanding domestic demand and promoting consumption continued to take effect, and steadily increased the contribution of consumption to the economic growth, making it the main driver in the stable recovery of the national economy. In 2021, end-user consumption expenditure contributed 65.4% to economic growth, driving GDP growth by 5.3 percentage points. Secondly, investment stabilized in slowing down and, increasing development resilience. One and another major projects planned under the “14th Five-Year Plan” commenced construction, infrastructure under new infrastructure and new urbanization initiatives and major projects (兩新一重) were promoted steadily, recovering investment steadily. In 2021, gross capital formation contributed 13.7% to economic growth, driving GDP growth by 1.1 percentage points. Thirdly, net exports showed a good growth momentum, highlighting greater contribution to the economic growth. The high-level opening up to the outside world continued to advance, and remarkable results were achieved in stabilizing foreign trade and foreign investment. In 2021, net exports of goods and services contributed 20.9% to the economic growth, driving GDP growth by 1.7 percentage points.

In conclusion, although the COVID-19 Pandemic continued to spread and flare-up repeatedly around the world in 2021, and the inflation of bulk commodity raw materials had a certain negative impact on the production and operation of real enterprises, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at the core, the COVID-19 Pandemic prevention and control and the economic and social development were scientifically planned, ensuing continued steady recovery of China’s national economy. New achievements were made in high-quality development, marking new steps towards building a new development pattern, and a good start to the “14th Five-Year Plan”.

### (2) Futures Market Analysis

#### 1. The size of the futures market

According to statistics from the China Futures Association, the total trading volume in the futures market of China from January to December of 2021 was 7.514 billion board lots, representing a year-on-year increase of 22.13%, with a total turnover of RMB581.20 trillion, representing a year-on-year increase of 32.84%. As at the end of December 2021, the equity of customers in the futures market was RMB1,184.734 billion, representing a year-on-year increase of 43.65% and a new record high for the same period.

#### 2. Volatility in the futures market

During the Reporting Period, thanks to the general recovery of global economy amid the COVID-19 Pandemic, as well as the loosening monetary policies in place, the bulk commodities extended its upward trend of 2020. In the second quarter of 2021, the government introduced a number of measures to “stabilize prices and ensure supply” and the sharp rises in bulk commodities were curbed. In the second half of the year 2021, due to the natural gas crisis in Europe and the impact of the dual-control policy on domestic energy consumption, prices of coal and natural gas-related commodities rose sharply. The production and operation of mid- and downstream enterprises were much disrupted by the rise in prices of bulk commodities. Against this background, in the fourth quarter of 2021, the government once again introduced a number of measures to “stabilize prices and ensure supply” to ensure coal supply and electricity supply. At the same time, the exchanges strengthened control measures such as limiting positions, increasing margins and handling fees for much-wanted products, which hit the market speculation sentiment, and returned the futures market to a stable status. In 2021, the cultural commodity index rose by 15.29% over the previous year. In particular, the industrial products rose by 17.10% and the agricultural products rose by 10.28%.

### **3. Development of futures industry**

#### **(1) *The futures market variety system was further expanded***

During the Reporting Period, a total of two futures and two options varieties were launched onto the futures markets of China. Among them, hog futures were listed, and became the first live delivery variety in China; the listing of peanut futures further diversified the risk management tools for the oil and seed industry in China; palm oil options and crude oil options were the first options in China open to the foreign investors. As at the end of 2021, the total number of futures and options varieties in the futures market of China reached 94, covering agricultural products, non-ferrous metals, steel, energy, chemicals, finance and other fields, and the variety system was further expanded.

#### **(2) *Futures market laws and regulations were further improved***

The “Futures and Derivatives Law” was reviewed for the second time. In April 2021, the Futures Law was first reviewed at the 28th meeting of the 13th session of the Standing Committee of the National People’s Congress; On 23 October 2021, the Standing Committee of the National People’s Congress announced the second version (draft) for public comments, and renamed the “Futures Law” as “Futures and Derivatives Law”. In addition, in February 2021, the “Administrative Measures for Intermediaries of Futures Companies” was officially implemented, which clarified the boundaries of intermediary cooperation by regulating the relationship among futures companies, intermediaries and investors, and ensuring an open, fair and just market environment in terms of systems.

#### **(3) *Further exercising of futures market’s functions***

During the Reporting Period, against the backdrop of drastic fluctuation in the bulk commodity and securities markets, market players had a strong demand for futures and options in order to manage risks associated with spot prices. According to statistics released by bixian.com (避險網), as at the end of 2021, 891 A-share listed companies in the non-financial sector issued announcements regarding hedging or participating in the derivatives market. Among them, 726 listed companies used OTC hedging tools, and 417 listed companies used on-exchange hedging tools.

#### **(4) *Guangzhou Futures Exchange was established***

In January 2021, the CSRC sanctioned the establishment of Guangzhou Futures Exchange. On 19 April of the same year, Guangzhou Futures Exchange was officially open for business, becoming the fifth futures exchange in Mainland China after Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange and China Financial Futures Exchange. In the future, Guangzhou Futures Exchange will make innovation on the futures and derivatives markets for the purpose of serving the green development-related industries, bulk commodity index, inter-linked international markets, and bulk commodities with national characteristics along the “Belt and Road”. The futures market of China boasts of a huge development potential.

## Management Discussion and Analysis

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

During the Reporting Period, while doing a good job in the COVID-19 Pandemic prevention and control, LUZHENG FUTURES continued to deepen internal reforms, seized market opportunities to increase business development, further explored basic futures brokerage business and conducted risk management business in a sound manner, with a focus on building professional research capabilities. As a result, its major operating indicators were improved significantly, delivering the best operating performance in history.

#### (1) Futures Brokerage Business

##### **Market Analysis:**

During the Reporting Period, the number of listed varieties of futures and options in China steadily increased, with addition of 4 new derivatives, including two futures varieties such as hogs and peanuts, and two option products such as palm oil options and crude oil options. As at the end of the Reporting Period, there were a total of 94 varieties of listed derivatives in China, including 24 options, which further expanded the breadth and depth of the futures market in serving the real economy.

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

During the Reporting Period, centring on its goal of advancing in ranking and serving the development of the real economy, the Company took a series of initiatives to make accomplishments for expediting the high-quality development of the Company. Firstly, with sustainable human resources policies, the Company made constant optimization of the organization, cadre team structure, and the employee rank system, and increased efforts in introducing high-end talent teams and the assessing of personnel at all levels, and thus formed a business culture for the Company and employees to grow together, bringing further vitality to our operation. Secondly, with the core service concept of "customer-centric" on mind, the Company formulated precise and market-competitive incentive and restraint policies, to strengthen performance assessment and supervision, which further enhanced our research team, provided greater support to basic operation and services, improved our service efficiency and experience, and increased our professional service capabilities in the middle and back offices. Thirdly, the Company increased business synergy with Zhongtai Securities and Luzheng Capital, optimized the layout of business outlets, improved the synergy efficiency within the Company and between the parent and subsidiaries, and putting the Company in a better place to integrate and utilize its resources. Fourthly, the Company never stopped in innovation of its business models, and launched "Research+", "1+N" and other institutional customer development service mechanisms to expand its service scope, explore the potential service needs, increase the proportion of institutional customers, and serve the real economy. Fifthly, the Company gave full play to the Company's advantages in Internet-based operation and business development, and realized steady development of the brokerage business. Sixthly, the Company attaches great importance to investor education. Focusing on serving the real economy with futures, it carried out market cultivation, enhanced the influence and coverage of investment education propaganda, helping companies to avoid risks and operate prudently, and use futures tools to improve their risk management capabilities, and created a good ecology to protect the legitimate rights and interests of investors, demonstrating our commitment towards social responsibility. In September 2021, the Company's "Investor Education Base" was awarded the "National Securities and Futures Investor Education Base" by the CSRC. It is the first and only national investment and education base independently operated by futures companies in the industry.

During the Reporting Period, the Group's main business indicators (such as income from brokerage business, client's equity, trading turnover) continued to rise. Among them, income from brokerage business was RMB574 million, representing a year-on-year increase of 64.12%. The Company's end-of-period futures client equity amounted to RMB16.958 billion, representing a year-on-year increase of 67.82%. The stock option business (including shares) had an end-of-period client equity of RMB727 million, representing a year-on-year increase of 92.84%. The Company's cumulative trading volume of futures was 182 million lots, representing a year-on-year increase of 70.87% with a market share of 1.21%. The Company's accumulative trading volume of stock options in 2021 was 117 million lots, representing a year-on-year increase of 50.18%

### (ii) Futures Investment Consulting Business

#### Market Analysis:

With the gradual expansion of the futures market and the further improvement of its functions, investors and industrial customers have increasing demands for information, risk management and investment consulting. However, in the pattern of the industry dominated by brokerage business where the investment consulting is only auxiliary, the futures investment consulting business has not yet take shape. In the future, with the increasing specialization in the domestic futures market, the futures investment consulting business has great potential for development.

#### Development Plans and Results:

The Company has taken the following measures in 2021 to develop the investment consulting business. Firstly, it optimized the internal assessment system for researchers by stressing assessment indicators such as income from research results, external road-shows and industry research, and encouraged researchers to produce results based on practical experiences in the relevant industry and apply those results to those industrial users, for continuous improvement of their research capability. Secondly, it re-engineered the content of research products, the presentation form, delivery method, etc., so as to provide improved services to different customers according to their levels. Thirdly, it pushed the construction of the Company's "one platform with two APPs" to empower research services with financial technology. Fourthly, leveraging the consumption coupons and business coordination system, it promoted the close cooperation between research divisions and branches to improve the Company's overall customer service level. Fifthly, it continued to intensify cooperation with the exchanges in the research and development preparation and marketing of new varieties and attained its strength in the research and development of new varieties.

### (3) Risk Management Business

#### Market Analysis:

During the Reporting Period, the international situation was complex and changeable. Due to multiple factors such as the Pandemic, disruption of supply chains, and ample liquidity, the prices of bulk commodities moved more violently, leading to significant increase in industrial demand for risk management, and growing volume of the risk management market. Benefiting from the improvement of the market environment, the Group's risk management business saw a substantial increase in scale and income as compared with last year.

## Management Discussion and Analysis

### Development Plans and Results:

During the Reporting Period, Profit before income tax of the Group's commodity trading and risk management business amounted to RMB39,724,700, representing an increase of 566.67% as compared with RMB5,958,700 in 2020.

In terms of OTC derivatives business. By taking measures such as strengthening product sales, pricing and human resource allocation of the transaction team, the Company improved its business systemization, and made great progress in acquiring customers, research and development of complex structured products, business model innovation and etc. The Group's OTC derivatives business saw a year-on-year growth of 84.23% in cumulative notional principal, and provided a full range of risk management services for industrial customers and financial institution customers such as banks and funds in real terms. The Group made full use of the advantages of the OTC derivatives business to aggressively fulfill its social responsibilities, protect the income of farmers, and contribute to the revitalization of rural areas.

In terms of market making business. The Company actively applied for market-making business varieties, and provided market-making services for more than 20 futures and options varieties of 4 futures exchanges, covering agricultural products, energy and chemical industries, precious metals and other industries, providing ample liquidity for various types of investors to participate in the market. The annual market-making business turnover increased by 56.01% as compared with same period of last year. By upgrading the market-making trading system, it increased the efficiency of market-making, improved the automated trading strategy of market-making, and further boosted the trading ability and profitability of the market-making business.

In terms of warehouse receipt service business. In order to cater to the needs of customers, it diversified the warehouse receipt service business model, and innovated traditional models such as warehouse receipt pledge and agreed repurchase into warehouse receipt service business with rights, to reduce customers' transaction costs, and increase the scale and income of warehouse receipt service business. Leveraging on the Group's customer resources, it carried out targeted marketing services. The varieties of warehouse receipt services increased from 7 (including corn and soybeans) to 18 (including copper, aluminum and silver), and the service scale was further expanded.

In terms of basis trading business. The Company optimized the structure of the basis trading business team, by setting up three new business teams who focus on the ferrous metal industry chain, apple and peanut varieties, and the annual volume of basis trading increased by 70.05% as compared with same period of last year. It upgraded and adjusted the customer mix, giving priority to cooperation with large central enterprises and state-owned enterprises, ensuring the safe and stable operation of basis trading business while effectively reducing the risk of basis trading business and better serving the real economy.

### (4) Information Technology

#### Market Analysis:

The digital transformation of the financial industry is experiencing rapid growth. China's "14th Five-Year Plan" emphasizes on accelerating digital development; developing the digital economy, promoting digital industrialization and industrial digitization, and promoting the deep integration of the digital economy with the real economy. The Fintech Development Plan (2022-2025) further recognized the positive significance of Fintech, which is becoming an important engine in financial reform. With the promotion and implementation of fintech applications, the industry's leading futures companies gradually increased their investment in application of the Fintech, mainly covering the Fintech's use for business empowerment, management efficiency improvement, and contribution to decision-making.

#### Development Plans and Results:

The Group firmly believes that IT infrastructure and information systems are essential to the effective management and successful development of the business, and it makes on-going investment in IT.

In 2021, the Company strengthened information technology operation and maintenance management. Firstly, it reviewed and completed the construction of information security related systems, and further fortified information technology security and compliance management; secondly, it perfected the operation and maintenance management mechanism, and launched an automated operation and maintenance management system to improve the operation and maintenance support, ensure the stable operation of the Company's information technology system, and provide system support for the orderly development of business.

In addition, the Company attaches great importance to the implementation of financial technology application. Firstly, it increased application of financial technology to empower business development, so as to create a "one platform with two APPs" system comprising the operation middle office, employee APP, and customer APP, making online marketing, operation, and service available to our customers, and improved our customer service levels; through optimized deployment of computer room resources and system migration, continuous optimization of the quantitative business speed system, it established a quantitative customer life cycle management system to provide system service support for quantitative business development; secondly, through application of RPA technology, it realized multi-scenario automatic operation of middle-office services, with greater business and management efficiency; thirdly, through application of the big data platform, it realized the centralized governance, exploring and analysis of the Company's business data, and provided data support for the Company's operating decisions.

Luzheng Information Technology established by the Company is still the only IT subsidiary in the futures industry. Luzheng Information Technology has built a software development business platform and team. As regards the Group's risk management business, it independently developed an OTC Option business management system (which won 2020 Fintech Development Award – third place from People's Bank of China) and a futures risk control management system, providing a solid technical guarantee for the daily business development of Luzheng Capital and serving the real economy; In terms of internal management of the Group, it independently developed the futures companies' unified risk control platform, built investment research management center, which contributed to the Group's digital transformation and management efficiency. In addition; Luzheng Information Technology has made certain progress in the development of trading clients' terminal software, mobile service platform and futures information release platform.



## Management Discussion and Analysis

### (5) Major Work Plans for 2022

In 2022, the Group will vigorously promote business transformation and upgrading, make more efforts in building a marketing and service team, enhance its ability to serve corporate clients, foster wealth management transformation, and optimize business collaboration structure and mechanism, constantly improve the compliance and risk control capabilities, further enhancing its ability to serve the real economy.

By business lines, the main work plans of the Group in 2022 are as follows:

#### **Futures Brokerage Business**

Firstly, adhering to the regional breakthrough strategy of “deeply exploring the potential in Shandong, establishing strong presence in Southern China and expanding our footprints in Beijing”, the Group will continue to optimize business layout, set up business entities, so as to achieve a strong strategic breakthroughs in regional presence. Secondly, it will strengthen the marketing and service team by vigorously introducing high-end talents, establishing a market-oriented and competitive salary assessment system, so as to achieve a strong breakthrough in talent staffing. Thirdly, adhering to the approach of focusing on customers and satisfying customers' needs, it will achieve strong breakthroughs in improving research service capabilities, to build the Company's research brand, promote the Company's business transformation, and increase the comprehensive competitiveness. Fourthly, starting from key projects, the Company will adopt various means such as enhancing research capabilities and professional services to improve customer mix, increase the stickiness of high-quality customers, consolidate the foundation of brokerage business, and increase the competitiveness and profitability of brokerage business. It will comprehensively improve the risk management capabilities, and promote the transformation of brokerage business to wealth management and risk management. Fifthly, it will make full use of the great coordinated development opportunity of Zhongtai Securities to increase coordination and cooperation, and make strong breakthroughs in the business synergy. Sixthly, it will formulate the Company's “Cultural Construction Improvement Plan”, to establish the Company as “sound and lawful”, “serving the real economy” and “professionalized service”. It will incorporate the industry cultural concept into the management to advance the Company in ranking. Seventhly, it will adhere to the strategy of development through technology empowerment and innovation and transformation, and give full play to the advantages of Internet operation and business development, to further expand Internet business and improve service capabilities. It will continuously optimize operation through repeated optimization of the Internet platform, constantly facilitating transformation towards Internet-based business form and the steady development of the brokerage business. Eighthly, it will build the core competitiveness in quantitative services with reference to the advanced experience of quantitative business in the industry by developing competitive policies that benefit both the Company and customers, and forming a healthy quantitative system. Meanwhile, the Company will recommend itself to high-quality customers leveraging on its invisible influence. It has the largest stock option transaction volume on the Shanghai Stock Exchange, and its ranking rises rapidly in terms of transaction volume on Shanghai Futures Exchange. It will keep a closer eye on the service support to quantitative business customers in key areas, and turn the Company's strength in quantitative technical service into accomplished sales. Ninthly, it will give full play to the role of the national investment education base, to implement the regulatory requirements for investor education protection and publicity work in a more stringent manner, increase innovation of investment education products, expand the coverage and influence of investment education in citizen education, and truly make futures knowledge into rational investment ideas and capabilities to help the sustainable and healthy development of the futures market.

### **Futures Investment Consulting Business**

The Company will continue to improve the “Three In One” research and service support system. Firstly, it will build up its talent team through development within the organization and recruitment from the public, and expand the investment research team. Secondly, it will steadily advance the construction of the research branch in Shanghai, which will take advantage of the abundant financial talents and customer resources in the Yangtze River Delta region to better respond to and meet the needs of each branch in acquiring customers and rendering services. Thirdly, it will continue to optimize the internal assessment mechanism of researchers by increasing the quantitative assessment indicators that reflect the research level, and force researchers to go deep into the relevant sectors and continuously improve their research level and customer service capabilities. Fourthly, it will explore how to promote online investment consulting business through the APP of Luzheng Futures to improve customer service efficiency. Fifthly, it will intensify cooperation with exchanges in product research and development and gain greater R&D advantages.

### **Futures Asset Management Business**

Firstly, in order to highlight the talent-driven strategy, it will expand its professional talent team in asset management business by developing a highly market-oriented and competitive assessment, promotion and remuneration system to appeal high-end investment and research talents. Secondly, it will improve the active management ability and return to the origin of asset management business. To this end, it will shape the core competitiveness with a close eye on the management professionalism, management responsibility and management level of asset management product managers. Thirdly, it will give full play to the professional advantages of futures companies in the field of futures derivatives. Its product development and product creation will focus on the underlying asset management products primarily investing in futures and options, which will highlight the characteristics of futures. It will adopt dislocation competition approach to create differentiated advantages. Fourthly, it will further enhance the risk control capabilities, insisting on the concept of pushing risk control forward and prudent operation, and ensure that the innovative development of asset management business matches its risk control capabilities.

## Management Discussion and Analysis

### **Risk Management Business**

The Group will further improve the human resources system, build up the investment and research capabilities, rationally adjust and allocate resources in various varieties and lines, so as to increase the volume and profitability of the risk management business. Firstly, by learning from the previous experiences in the OTC derivatives business, it will make more efforts in selling products, recruiting transaction personnel and developing systems for the OTC derivatives business, push forward the structural reform of income from the OTC derivatives business, and gradually achieving the coordinated development of the commodity and financial OTC derivatives business. Meanwhile, it will launch more “insurance + futures” projects and conduct more collaborative activities for intra-group projects, to help rural revitalization and enhance the Group’s influence in the futures industry. Secondly, it will make more efforts in pooling up the talent to increase the width and depth of the market-making business research, allow constant improvement of the full-process automation of market-making strategies, create a multi-strategy toolkit with stable returns and lower risks, and lay the foundation for upgrading the Group’s future trading model. Thirdly, it will expand the volume of the standard warehouse receipt business by making full use of the synergies from customer resources within the Group. Meanwhile, it will increase the promotion of the warehouse receipt business with rights, and improve the high-quality development of the warehouse receipt service business. Fourthly, it will give full play to the Group’s advantages in regional coverage, capital, talent and other resources to attend different individual needs with quality services in the varieties in which the Group has an edge, establish a strategic customer base. It will go deep into the physical industry chain and use new trade models such as rights-based trade to improve the Group’s service capabilities, so as to increase the size and profitability of the basis trading business.

### **Information Technology**

The Group will make full use of the professional advantages of Information Technology and form core competitiveness, and quickly occupy the market. Firstly, it will improve the operation and maintenance system, increase personnel management and training to enhance the operation and maintenance management level; secondly, it will actively promote the application of fintech, give full play to the advantages of Internet + financial technology, speed up the digital transformation of the Company, promote the construction of “one platform with two APPs” to empower the Company’s business and further improve service efficiency and quality; thirdly, it will continue improvement of the quantitative service system, enhancing the service level of quantitative business, and ensure that the operating speed of the Company’s quantitative business system is in the first echelon; fourthly, it will further strengthen the information security, and thoroughly implement the requirement under the “14th Five-Year Plan” on creating a good digital ecology and strengthening network security.

### III. FINANCIAL STATEMENT ANALYSIS

#### (1) Profitability Analysis

During the Reporting Period, the futures market of China maintained a good development momentum. Prices of bulk commodities fluctuated wildly, and investors became more active in trading. Adhering to the direction and policies set at the beginning of the year, the Group seized market opportunities to expand its network of outlets and accelerated the building of a marketing and service team so as to improve its various service capabilities, stimulate the business synergy potential and vitality. It made proactive efforts in acquiring corporate customers and industrial customers, leading to significant increase in income from brokerage services and risk management services. The Group's net profit attributable to Shareholders for the year ended 31 December 2021 achieved a substantial increase.

During the Reporting Period, the Group achieved operating income of RMB749.418 million, representing an increase of 53.31% as compared with RMB488.819 million in 2020; total operating expense of RMB476.048 million, representing an increase of 26.74% as compared with RMB375.622 million in 2020; and profit attributable to Shareholders amounted to RMB204.355 million, representing an increase of 259.56% as compared with RMB56.834 million in 2020. Earnings per Share attributable to Shareholders were RMB0.2, representing an increase of 233.33% as compared with RMB0.06 in 2020.

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

As at the end of the Reporting Period, both total assets and total liabilities of the Group grew significantly due to the increase in customers' equity.

As at the end of the Reporting Period, the Group's total assets amounted to RMB20.501 billion, representing an increase of 58.60% as compared with RMB12.926 billion as at the end of 2020. The Group's liabilities totalled RMB18.081 billion, representing an increase of 69.20% as compared with RMB10.686 billion as at the end of 2020. Net assets attributable to Shareholders were RMB2.420 billion, representing an increase of 8.08% as compared with RMB2.239 billion as at the end of 2020.

As at the end of the Reporting Period, the Group's total assets were as follows: non-current assets were RMB255 million, representing a decrease of 16.67% as compared with RMB306 million as at the end of 2020, and current assets were RMB20.245 billion, representing an increase of 60.42% as compared with RMB12.620 billion as at the end of 2020. The decrease in the non-current assets was mainly due to the decrease in the financial assets at FVPL. The increase in current assets was mainly due to the increase in bank balances held for clients. During the Reporting Period, there was no indication of material impairment of assets of the Group.

## Management Discussion and Analysis

As at the end of the Reporting Period, liabilities excluding accounts payable to brokerage clients were RMB1.03 billion, representing an increase of 100% as compared with RMB515 million as at the end of 2020. The Group's gearing ratio was 29.86%, representing an increase of 11.17 percentage points as compared with 18.69% as at the end of 2020. During the Reporting Period, asset and liability levels were relatively stable, and there was no liquidity pressure due to the COVID-19 Pandemic.

### **(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 2021 complied with the regulatory requirements of the CSRC.

## (5) Items of Income Statement

During the Reporting Period, the Group's profit before income tax amounted to RMB270,494 thousand, representing a year-on-year increase of RMB172,604 thousand or 176.32%. The summary of the financial results is as follows:

Stated in RMB'000	Year ended 31 December	
	2021	2020
Revenue	595,492	376,485
Gains/(losses) on physical commodities trading	21,756	(34,747)
Net investment gains	108,715	112,582
Other income	23,455	34,499
<b>Operating income</b>	<b>749,418</b>	488,819
Staff costs	(277,769)	(185,584)
Commission to brokerage agents	(33,128)	(12,936)
Introducing broker commission	(13,532)	(10,247)
Depreciation and amortization	(17,407)	(19,206)
Credit impairment losses	(656)	(619)
Other operating expenses	(133,556)	(147,030)
<b>Operating expenses</b>	<b>(476,048)</b>	(375,622)
<b>Operating profit</b>	<b>273,370</b>	113,197
Share of losses of investments in associates	(2,771)	(16,555)
Other (losses)/gains, net	(105)	1,248
<b>Profit before income tax</b>	<b>270,494</b>	97,890
Income tax expense	(66,139)	(41,117)
<b>Profit for the year</b>	<b>204,355</b>	56,773

## Management Discussion and Analysis

Stated in RMB'000	Year ended 31 December	
	2021	2020
<b>Other comprehensive income</b>		
Currency translation differences	(1,520)	(1,689)
<b>Other comprehensive income for the year, net of income tax</b>	<b>(1,520)</b>	(1,689)
<b>Total comprehensive income</b>	<b>202,835</b>	55,084
Profit attributable to:		
– Shareholders of the Company	204,355	56,834
– Non-controlling interests	0	(61)
	<b>204,355</b>	56,773
Total comprehensive income attributable to:		
– Shareholders of the Company	202,835	55,193
– Non-controlling interests	0	(109)
	<b>202,835</b>	55,084
<b>Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)</b>		
<b>Basic/Diluted</b>	<b>0.2</b>	0.06

## Management Discussion and Analysis

### 1. Operating Income

During 2021, the Group achieved total operating income of RMB749,418 thousand, representing a year-on-year increase of 53.31%, among which, revenue amounted to RMB595,492 thousand, gains on trading of physical commodities amounted to RMB21,756 thousand, and net investment gains amounted to RMB108,715 thousand. The income structure of the Group is as follows:

Stated in RMB'000	Year ended 31 December		Change in 2021 as compared with 2020			
	2021 Amount	2021 Proportion	2020 Amount	2020 Proportion	Amount	Rate
Revenue <sup>(1)</sup>	595,492	79.46%	376,485	77.02%	219,007	58.17%
Gains/(losses) on physical commodities trading	21,756	2.9%	(34,747)	(7.11%)	56,503	(162.61%)
Net investment gains/(losses) <sup>(2)</sup>	108,715	14.51%	112,582	23.03%	(3,867)	(3.43%)
Other income <sup>(3)</sup>	23,455	3.13%	34,499	7.06%	(11,044)	(32.01%)
<b>Total operating income</b>	<b>749,418</b>	<b>100.00%</b>	<b>488,819</b>	<b>100.00%</b>	<b>260,599</b>	<b>53.31%</b>

#### (1) Revenue

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

Stated in RMB'000	Year ended 31 December	
	2021	2020
Net commission and fee income <sup>1</sup>	75,459	70,890
Net interest income <sup>2</sup>	196,488	145,490
Net refunds of trading fees <sup>3</sup>	323,545	160,105
<b>Total revenue</b>	<b>595,492</b>	<b>376,485</b>



## Management Discussion and Analysis

Notes:

### 1 Net commission and handling fee income

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

Stated in RMB'000	Year ended 31 December	
	2021	2020
<b>Commission and handling fee income</b>		
Futures and options brokerage services	451,590	314,752
Settlement and clearing service income from other futures firms	21,792	30,553
Investment consultancy service	307	208
Asset management service	0	37
	<b>473,689</b>	345,550
<b>Commission and handling fee expense</b>		
Trading and clearing fees to futures exchanges	376,438	244,107
Settlement and clearing service expense to futures exchanges	21,792	30,553
	<b>398,230</b>	274,660

During the Reporting Period, the Group achieved net commission and handling fee income of RMB75,459 thousand, representing a year-on-year increase of 6.45%.

Commission and handling fee income increased by RMB128,139 thousand, representing a year-on-year increase of 37.08%, while commission and handling fee expense increased by RMB123,570 thousand, representing an increase of 44.99%. Therefore, after consolidating income and expense factors, net commission and handling fee income increased by 6.45% as compared with the previous year.

## 2 Net interest income

During the Reporting Period, the Group achieved net interest income of RMB196,488 thousand, representing a year-on-year increase of 35.05%. The composition of the Group's net interest income in 2021 is as follows:

Stated in RMB'000	Year ended 31 December	
	2021	2020
<b>Interest income</b>		
Interest income from deposits with banks	231,521	148,184
Interest income from deposits with exchange-clearing organizations	57,456	46,002
Interest income from financial assets held under resale agreements	1,565	2,480
	<b>290,542</b>	196,666
<b>Interest expense</b>		
Interest expense to brokerage clients	91,325	48,438
Interest expense on lease liabilities	2,105	1,659
Interest expense on settlement and clearing services to other futures companies	624	1,079
	<b>94,054</b>	51,176

Interest income was mainly derived from interest from demand and term deposits of the Group's own capital and interest from demand deposits of the client margin deposits. Interest income increased by RMB93,876 thousand, representing a year-on-year increase of 47.73%, which was primarily due to an increase in the client margin deposits.

Interest expense increased by RMB42,878 thousand, representing a year-on-year increase of 83.79%, which was primarily due to an increase in interests payable to clients.

## 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 subsequent return by 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.

## Management Discussion and Analysis

### (2) Net investment gains/(losses)

During the Reporting Period, the Group achieved net investment gains of RMB108,715 thousand. The composition of the Group's investment gains in 2021 is as follows:

Stated in RMB'000	Year ended 31 December	
	2021	2020
Realized gain/(losses) of:		
– Financial assets at fair value through profit or loss	12,989	(14,998)
– Financial liabilities at fair value through profit or loss	0	(23,360)
– Derivative financial instruments	33,805	69,261
Unrealized fair value changes of:		
– Financial assets at fair value through profit or loss	719	17,581
– Financial liabilities at fair value through profit or loss	0	24,304
– Derivative financial instruments	60,126	21,761
– Physical commodities	(6,256)	5,094
Dividends from financial assets at fair value through profit or loss	7,332	12,939
	<b>108,715</b>	112,582

### (3) Other income

Stated in RMB'000	Year ended 31 December	
	2021	2020
Exchange service fee income	21,212	32,326
Software service fee income	366	28
Other income	1,877	2,145
	<b>23,455</b>	34,499

## Management Discussion and Analysis

### 2. Operating expenses

During 2021, the Group's operating expenses amounted to RMB476,048 thousand, representing a year-on-year increase of RMB100,426 thousand or 26.74%. The breakdown is as follows:

Stated in RMB'000	Year ended 31 December		2020		Change in 2021 as compared with 2020	
	2021 Amount	Proportion	Amount	Proportion	Amount	Rate
Staff costs <sup>(1)</sup>	277,769	58.35%	185,584	49.41%	92,185	49.67%
Commission to brokerage agents	33,128	6.96%	12,936	3.44%	20,192	156.09%
Introducing broker commission	13,532	2.84%	10,247	2.73%	3,285	32.06%
Depreciation and amortization <sup>(2)</sup>	17,407	3.66%	19,206	5.11%	(1,799)	(9.37%)
Credit impairment losses <sup>(3)</sup>	656	0.14%	619	0.16%	37	5.98%
Other operating expenses <sup>(4)</sup>	133,556	28.06%	147,030	39.14%	(13,474)	(9.16%)
<b>Total operating expenses</b>	<b>476,048</b>	<b>100.00%</b>	<b>375,622</b>	<b>100.00%</b>	<b>100,426</b>	<b>26.74%</b>

#### (1) Staff costs

Stated in RMB'000	Year ended 31 December	
	2021	2020
Salaries and bonus	225,796	154,227
Other social securities	19,731	12,859
Pension	24,235	8,594
Labor union charge and employee education charge	4,512	6,715
Other welfares	3,495	3,189
	<b>277,769</b>	<b>185,584</b>

#### (2) Depreciation and amortization

Stated in RMB'000	Year ended 31 December	
	2021	2020
Depreciation of right-of-use assets	7,631	8,671
Depreciation of property and equipment	6,888	7,609
Amortization of intangible assets	1,521	1,384
Amortization of long-term prepaid expenses	1,367	1,542
	<b>17,407</b>	<b>19,206</b>

## Management Discussion and Analysis

### (3) Credit impairment losses

Stated in RMB'000	Year ended 31 December	
	2021	2020
Net impairment losses on bank balances	504	(499)
Net impairment losses on accounts receivable	100	(847)
Net impairment losses on other receivables	52	1,965
	<b>656</b>	619

### (4) Other operating expenses

Stated in RMB'000	Year ended 31 December	
	2021	2020
Marketing and distribution expenses	35,989	25,716
Information system maintenance fees	23,778	19,438
Office expenses	19,063	14,098
Insurance expenses	17,105	27,340
Consulting expenses	6,568	2,736
Rentals	4,693	3,903
Professional service expenses	4,143	7,000
Property maintenance fee	3,598	3,444
Tax and surcharges	3,095	2,014
Membership fees and annual fees	2,929	1,737
Auditors' remuneration		
– PwC	1,851	1,740
– Other auditors	116	519
Futures Investors Protection Fund	868	503
Provisions	0	29,219
Other expenses	9,760	7,623
	<b>133,556</b>	147,030

Other operating expenses decreased by RMB13,474 thousand, representing a year-on-year decrease of 9.16%, which was primarily due to the decrease in provisions for the year.

## (6) Items of Assets

As at 31 December 2021, the Group's total assets were RMB20,500,658 thousand, representing a year-on-year increase of 58.60%, among which cash assets amounted to RMB18,994,591 thousand, representing a year-on-year increase of 63.68%; financial investment assets amounted to RMB1,024,928 thousand, representing a year-on-year increase of 4.83%; and other assets amounted to RMB481,139 thousand, representing a year-on-year increase of 40.2%. The Group's total assets are as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Cash assets	<b>18,994,591</b>	11,604,724	7,389,867	63.68%
Financial investment assets	<b>1,024,928</b>	977,731	47,197	4.83%
Other assets	<b>481,139</b>	343,192	137,947	40.2%
<b>Total</b>	<b>20,500,658</b>	12,925,647	7,575,011	58.60%

### 1. Cash assets

As at 31 December 2021, the Group's cash assets increased by RMB7,389,867 thousand, representing a year-on-year increase of 63.68%. The composition of the Group's cash assets is as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Deposits with exchange-clearing organizations	<b>8,629,011</b>	6,196,152	2,432,859	39.26%
Bank balances held for clients	<b>9,415,547</b>	4,723,619	4,691,928	99.33%
Cash and bank balances	<b>950,033</b>	684,953	265,080	38.70%
<b>Total cash assets</b>	<b>18,994,591</b>	11,604,724	7,389,867	63.68%

Changes in cash assets are mainly attributable to the deposits placed with exchange settlement institutions and funds held on behalf of clients. The deposits placed with exchange settlement organizations amounted to RMB8,629,011 thousand, accounting for 42.09% of the total assets of the Group, representing an increase of RMB2,432,859 thousand or 39.26% as compared with the previous year; the bank balance held on behalf of clients amounted to RMB9,415,547 thousand, accounting for 45.93% of the total assets of the Group, representing an increase of RMB4,691,928 thousand, or 99.33% as compared with the previous year. Cash and bank deposits amounted to RMB950,033 thousand, accounting for 4.63% of the Group's total assets, representing an increase of RMB265,080 thousand or 38.70% as compared with the previous year.

## Management Discussion and Analysis

### 2. Financial investment assets

As at 31 December 2021, the Group's financial investment assets increased by RMB47,197 thousand, representing a year-on-year increase of 4.83%. The composition of the Group's financial investment assets is as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Financial assets at fair value through profit or loss <sup>(1)</sup>	<b>632,579</b>	539,767	92,812	17.19%
Financial assets at fair value through other comprehensive income	<b>1,400</b>	1,400	–	–
Investments in associates	<b>25,377</b>	41,235	(15,858)	(38.46%)
Derivative financial assets	<b>243,882</b>	90,291	153,591	170.11%
Financial assets held under resale agreements <sup>(2)</sup>	<b>121,690</b>	305,038	(183,348)	(60.11%)
<b>Total financial investment assets</b>	<b>1,024,928</b>	977,731	47,197	4.83%

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

	31 December 2021	31 December 2020
Non-current		
Private securities investment funds	<b>89,176</b>	49,693
Asset management schemes	<b>9,871</b>	–
Trust schemes	<b>6,004</b>	12,914
Income certificates	<b>5,012</b>	101,014
Mutual funds	<b>4,958</b>	–
	<b>115,021</b>	163,621
Current assets		
Income certificates	<b>206,869</b>	113,346
Asset management schemes	<b>136,972</b>	115,636
Private securities investment funds	<b>131,246</b>	60,434
Mutual funds	<b>31,760</b>	–
Trust schemes	<b>7,152</b>	45,892
Bank wealth management products	<b>3,551</b>	40,831
Listed equity securities	<b>8</b>	7
	<b>517,558</b>	376,146
<b>Total</b>	<b>632,579</b>	539,767

### (2) Financial assets held under resale agreements

As at 31 December 2021, the Group's financial assets held under resale agreements was RMB121,690 thousand, representing a decrease of RMB183,348 thousand as compared with last year, primarily due to decrease in the trading of treasury bond reverse repo.

	31 December 2021	31 December 2020
Analysed by asset type:		
– Debt securities	–	222,575
– Warehouse receipts <sup>(1)</sup>	121,690	82,463
	121,690	305,038

Note (1): The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2021, the Group has accepted collateral with a fair value of RMB157,706 thousand (31 December 2020: RMB135,280 thousand). These collaterals are all re-pledged for margin deposits (31 December 2020: no collateral was re-pledged).

### 3. Other assets

As at 31 December 2021, the Group's other assets amounted to RMB481,139 thousand, representing a year-on-year increase of RMB137,947 thousand or 40.20%. The composition of the Group's other assets is as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Property, plant and equipment	41,297	38,245	3,052	7.98%
Intangible assets	7,148	6,768	380	5.61%
Other non-current assets	21,885	22,559	(674)	(2.99%)
Deferred income tax assets	776	856	(80)	(9.35%)
Refundable deposits	40,608	31,346	9,262	29.55%
Contract assets	18,835	6,462	12,373	191.47%
Physical commodities	44,995	114,533	(69,538)	(60.71%)
Other current assets	305,595	122,423	183,172	149.62%
Total other assets	481,139	343,192	137,947	40.20%



## Management Discussion and Analysis

### (7) Items of Liabilities

As at 31 December 2021, the Group's total liabilities amounted to RMB18,081,062 thousand, representing a year-on-year increase of RMB7,394,809 thousand or 69.20%, among which accounts payable to brokerage clients amounted to RMB17,050,860 thousand, representing a year-on-year increase of 67.63%. Key changes in the Group's total liabilities are as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Contract liabilities	12,344	20,446	(8,102)	(39.63%)
Deferred income tax liabilities	24,491	6,242	18,249	292.36%
Other non-current liabilities	25,449	28,615	(3,166)	(11.06%)
Other current liabilities	817,645	312,592	505,053	161.57%
Current income tax liabilities	9,394	6,614	2,780	42.03%
Derivative financial liabilities	140,002	111,073	28,929	26.05%
Accounts payable to brokerage clients	17,050,860	10,171,452	6,879,408	67.63%
Provisions	877	29,219	(28,342)	(97.00%)
<b>Total liabilities</b>	<b>18,081,062</b>	<b>10,686,253</b>	<b>7,394,809</b>	<b>69.20%</b>

#### 1. Accounts payable to brokerage clients

As at 31 December 2021, the Group's accounts payable to brokerage clients amounted to RMB17,050,860 thousand, accounting for 94.3% of the Group's total liabilities, and representing a year-on-year increase of RMB6,879,408 thousand or 67.63%. The composition of the Group's accounts payable to brokerage clients is as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Domestic				
Individual clients	5,545,293	5,197,420	347,873	6.69%
Corporate clients	11,505,567	4,974,032	6,531,535	131.31%
Overseas	—	—	—	—
<b>Total</b>	<b>17,050,860</b>	<b>10,171,452</b>	<b>6,879,408</b>	<b>67.63%</b>

### (8) Items of Equity

As at 31 December 2021, the Group's total equity amounted to RMB2,419,596 thousand, representing a year-on-year increase of 8.05%. The composition of the Group's Equity is as follows:

Stated in RMB'000	As at 31 December 2021	As at 31 December 2020	31 December 2021 compared with 31 December 2020	
			Amount	%
Share capital	1,001,900	1,001,900	–	–
Share premium	650,630	650,630	–	–
Other reserves	334,054	282,453	51,601	18.27%
Retained earnings	433,012	304,411	128,601	42.25%
<b>Total equity</b>	<b>2,419,596</b>	<b>2,239,394</b>	<b>180,202</b>	<b>8.05%</b>

### (9) Charges over Assets

As at 31 December 2021, bulk commodities with carrying amount of RMB4,701 thousand are placed as collateral of margin deposits on futures exchanges (31 December 2020: RMB3,159 thousand).

### (10) Risk of Fluctuation of Exchange Rate and Mitigation Measures

The foreign currency assets and liabilities held by the Group are not material as 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 2021, the Group does not use any derivative financial instruments for hedging the exchange risk.

## Management Discussion and Analysis

### (11) Provisions

The Group acted as the asset manager of five asset management schemes which were established between November 2017 and May 2018, and all were distributed by a joint stock commercial bank. These schemes incurred certain losses, and subsequently commenced their liquidation process in December 2018.

To properly cope with the issue, starting from February 2021, the Group worked with the distributor bank to negotiate with those investors holding the schemes at the liquidation commencement date. By 31 December 2021, the Group had successfully reached agreement with a majority of investors, and paid RMB28,342 thousand accordingly. The remaining balance of RMB877 thousand represents the best estimate of the Group's exposure to the investors who have not reached the agreement. The Group also believes the possibility of further outflow of resources to other parties is very low.

The Group is taking active actions as asset manager including arbitrations and legal actions to further reduce losses.

### (12) Contingencies

One investor of the five asset management schemes mentioned above filed a demand for arbitration to Jinan Arbitration Commission claiming RMB855 thousand against the Group. In addition, as of 31 December 2021, the remaining investors still under negotiation suffer a total loss of RMB25 million. Apart from the above, there are no other material contingencies involved by the Group.

### (13) Gearing Ratio

Item	As at 31 December 2021	As at 31 December 2020	Increase/ decrease in 2021 compared with the same period of 2020	As at 31 December 2019
Gearing ratio (%)	<b>29.86</b>	18.69	increased by 11.17 percentage points	13.97

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

For the Composition of employees of the Company, please see “III The Staff Profile” of Chapter III of this Report.

During the Reporting Period, the total remuneration expenses of the Group were RMB277,769 thousand, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2021	2020
Salaries and bonus	225,796	154,227
Other social securities	19,731	12,859
Pension	24,235	8,594
Labor union charge and employee education charge	4,512	6,715
Other welfares	3,495	3,189
	<b>277,769</b>	185,584

#### The five highest paid individuals

During the Reporting Period, the five highest paid individuals do not include any Directors or Supervisors (2020: do not include any Directors or Supervisors). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2021	2020
Salaries, allowances and other welfares	8,854	6,599
Bonus	2,055	1,015
	<b>10,909</b>	7,614

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

	Year ended 31 December	
	2021	2020
RMB1,000,001 to RMB1,500,000	–	3
RMB1,500,001 to RMB2,000,000	3	2
RMB2,000,001 to RMB2,500,000	1	–
RMB2,500,001 to RMB3,000,000	1	–
	<b>5</b>	5

## Management Discussion and Analysis

In accordance with applicable Chinese laws and regulations, and in line with the industry characteristics and its own business development needs, the Company adopts a salary system with reference to prevailing market rates and based on performance appraisal results, which focuses on the competitiveness of its remuneration level in the market and the fairness of its remuneration system within the organization and adheres to the priority on efficiency and fairness; formulated salary assessment systems such as “Employee Salary Management Measures” and “Employee Assessment Guidance”, updated the assessment systems such as the “Account Manager Assessment Management Measures”, “Performance Assessment Management Measures” and “Management Measures for the Classification of Business Entities” according to market changes and strategic planning, so as to strengthen employee salary assessment management, strengthen performance and ability orientation, give full play to the incentive and restraint role of salary assessment, attract and retain talents, and mobilize the enthusiasm of various employees; the Company signs labor contracts with employees to establish labor relations in accordance with laws and regulations such as China’s labor law, social insurance law and local regulations, maintained contribution to social insurance (endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance) and housing provident fund in full; established an enterprise annuity system, to further improve the pension security system and raise the retirement benefits for our employees.

During the Reporting Period, the Company focused on development and training of talents according to the development strategy and business objectives. It focused on the selection and transformation of advanced experience, and building a job training system based on job competency according to the grading and classification of talents of different categories and levels. Firstly, the Company focused on improving job competencies, building a basic job training system for business entities and a job training system for delivery liaison officers. It organized a total of 57 internal training sessions, 10 live-streaming training sessions offered by associations and exchanges, and produced 142 micro-courses. Secondly, it focused on the extraction and transformation of advanced experiences, increasing shared learning, thematic exchanges and seminars. Thematic exchanges became integral part of the 6 training programs, namely special trainings on improving the leadership of the person in charge of our business entities, wealth management business exchanges (phase 2), and solution course development and presentation skills (phase 2), recruitment and interview skills for the “Three Ones (“三個一”)” talent development project. In the trainings, special communication links are set up and importance was attached to the effectiveness of the trainings. The Company organized excellent solution courseware, excellent function leaders and outstanding account managers of 2020 were engaged to share excellent experience and make presentation on the E-learning platform, to empower our employees.

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

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

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

During the Reporting Period, on 24 May, 2021 the Company completed the relocation of the Shanghai Sales Office in the same city. On 1 June, 2021 the Company completed the relocation of the Ningbo Sales Office in the same city. On 3 August, 2021 the Company completed the relocation of the Zibo Sales Office in the same city. On 28 September, 2021 the Company completed the relocation of the Qingdao Sales Office in the same city. On 11 October, 2021 the Company completed the relocation of the Weifang Sales Office in the same city. On 12 October, 2021 the Company completed the relocation of the Shanghai Branch in the same city. On 3 December, 2021 the Company completed the relocation of the Guangzhou Sales Office in the same city.

During the Reporting Period, the Hangzhou Sales Office changed to Hangzhou Branch.

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

### **2. Details on changes in subsidiaries of the Group**

During the Reporting Period, on 22 April, 2021 LUZHENG INTERNATIONAL FUTURES LIMITED (魯証國際期貨有限公司) completed its liquidation and was closed. On 11 October, 2021 (Switzerland local time) JINOVA S.A. was closed.

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

### **(2) Effects of changes in branches and subsidiaries on the results during the Reporting Period**

#### **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.

#### **Effects of changes in subsidiaries of the Group on the results**

During the Reporting Period, changes of the subsidiaries of the Group reduced the Company's loss by RMB 12.7104 million.

## **VI. MAJOR INVESTMENTS AND FINANCING**

### **(1) Major investments**

During the Reporting Period, the Group made additional capital contribution of RMB5 million to the joint venture Shandong Trading Market Clearing House Co., Ltd.

### **(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.

## Management Discussion and Analysis

### 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 of the Group 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, option pricing risk, hedge risk and interest rate risk.
2. **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.
3. **Credit Risk:** the risk of incurring losses of the Group 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.
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 on the part of our business activities or 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 organ in charge of risk management, with Risk Control Committee and Audit Committee to review and audit major risk matters. The Supervisory Committee is responsible for supervising the Board of Directors in performing its risk management duties; 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 in charge 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 positions respectively, who are responsible for organizing the identification, assessment, response and reporting of various types of risks of their own.

### **(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 Group's risk management covers all departments of the Group in every part of business throughout the course. It also takes the Company as a whole to organize and carry out risk management by gathering risk information of all branches and subsidiaries for overall risk analysis and management, centralized supervision and reporting.

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

The Group puts great emphasis on enhancing risk awareness and risk control capabilities among our staff. Through holding seminars and training in the organization frequently, the Group constantly enhances the capabilities of the staff in identifying and preventing risks as well as raising their risk awareness. It fosters a favorable risk management culture and ensures that the general risk management objectives of the Group are achieved.

## **2. Countering Measures Against Major Risks**

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

- (i) The Company has established systematic investment mechanism, and continuously strengthen the analysis of the financial market. The operation teams are required to submit an application to the Company's senior management before starting a new investment project, which includes details of the nature of transaction, an analysis of the potential market risks and possible outcome.
- (ii) The Company adopts diversified trading strategies to avoid excessive concentration of capital use, and reduce losses arising from systemic risks. It increases research on interest rate and exchange rate risks to make more forward-looking decision about capital use, and the investment decision committee of the treasury operations of the Company will decide the feasibility through a standardized process.
- (iii) The Group tracks monitoring risk limits by using quantitative index in the process of trading and risk control, to strengthen monitoring of the exposure limit, concentration limits, preset warning lines, stop line and position size. Designated personnel is on duty for monitoring, strengthening risk hedge, in order to reduce the loss resulting from dramatic fluctuation and unexpected movement of market price.



## Management Discussion and Analysis

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

- (i) For credit risks related to the physical commodities and futures trading and risk management business, the Group has established a client credit evaluation system for assessing the creditworthiness of the existing and potential clients based on the appraisal conducted by the Group's risk control personnel and independent third-party investigations, and adjust the credit ratings of the clients based on the financial conditions of the client and the experiences of co-operation with the Group. Before entering into a contract, the Group decides on whether to engage a potential client based or to increase the agreed interest rate or commodity price on the credit evaluation results of the clients so as to cover the credit risk borne by the Group.
- (ii) For credit risks related to the 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 such clients. Accordingly, the Company provides appropriate services to them and implements corresponding risk control measures. Meanwhile, the Company requires our clients to maintain higher margin deposits than the minimum deposit required by the PRC Futures Exchanges. The risk control personnel will strictly comply with the internal control measures of the Company to close out the position compulsorily if such margin deposits fall short, with reference to the clients' past dealing history and reputation. This measure can control the risk of margin calls and at the same time, retain premium clients.

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

- (i) The Company has established a risk evaluation and monitoring system on net capital, and continuously monitor the Company's risk regulatory indicators such as net capital.
- (ii) The Company strengthens the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management.
- (iii) The Company conducts a stress test on the risk control indexes on an ad hoc basis to simulate the effects on the major control indexes and the cash flow of the Company under different scenarios, such as dramatic fluctuation in market price, material insufficiency in market liquidity or massive changes in macro-economic environment, and formulate prevention measures and emergency plans accordingly.
- (iv) The Company selects those commodities that are more actively traded in the commodity market for business when it conducts commodity trading and risk management business. 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, including human resources and administration, brokerage business, intermediaries management, trading, settlement, delivery, compliance and internal control, 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 improve such systems in accordance with the laws and regulations, regulatory requirements and the development of new businesses.

## Management Discussion and Analysis

- (ii) The Company continuously classifies the risk points of each business line to form a control list, and constantly improve the process, strengthen accountability, increase the operational level of our employees, in an aim to reduce operational risks caused by internal operating procedures and personnel mistakes. It strictly implements the reward and punishment measures for units or individuals that cause operational risks or effectively avoid operational risks, and holds self-examination and rectification internally to avoid the recurrence of similar risks.
- (iii) To avoid employee moral hazard, the Company adopts a human-oriented approach and established incentives such as remuneration and promotion in an open, fair and impartial way. The Company provides its staff with favorable development environment, to enhance their sense of responsibility and belonging. It carries out professional ethics training, standardize the operation behavior of employees, prohibit the transfer of benefits and market manipulation, to reduce the possibility of human operation risks.
- (iv) The Company has a strict internal audit system, and the audit department to inspect the rationality, the legitimacy and the effectiveness of the internal system of the Company, the capital operation and the financial revenue and expenditure of each operating entities, the operation process of each functional departments of the Company and the duty-performance of our personnel. If any violation of laws or illegal behavior is found, the audit department will make recommendations about rectification and will urge implementation of the measures.

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

- (i) The Company has built up a well-structured compliance management and organization system, and appointed a chief risk officer who is responsible for the risk management, internal compliance and auditing, etc.
- (ii) The Company has designated compliance controllers in each branch to strengthen risk management prior to and during the projects.
- (iii) The compliance and risk control 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, etc.

# Report of the Board of Directors

## 1. PRINCIPAL BUSINESSES

The Company is a futures company. For the details of Group's business scope, please see “(VI) Business Briefings of the Company” of Chapter III of this report.

## 2. 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 2021.

The Board of Directors recommends the payment of a final dividend (the “2021 Final Dividend”) of RMB0.18 (tax inclusive) per 10 Shares for the year ended 31 December 2021. The total amount of dividends to be distributed is RMB18,034,200 (The total amount of final dividends distributed for the year ended 31 December 2020 was RMB23,644,840). The proposal for distribution of the 2021 Final Dividend shall come into effect upon the approval by the Shareholders at the 2021 annual general meeting (the “AGM”) to be held on 28 June 2022. After the 2021 Final Dividend comes into effect with the approval, it will be paid to domestic Shareholders in RMB and H Shareholders in Hong Kong dollars. The actual amount to be paid in Hong Kong dollar shall be calculated on the basis of the average benchmark exchange rate of RMB to Hong Kong dollar announced by the People's Bank of China for five working days before the date of the AGM. The Company expects the 2021 Final Dividend will be distributed on or around 10 August 2022.

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.

### **3. 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 34 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 35 to 50 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 88 to 105 of this report. Major risks and uncertainties that may be faced by the Group are set out in pages 54 to 57. Major relationship with employees, customers and suppliers were set out on pages 51 to 52 and page 65 of this report, respectively.

### **4. DIRECTORS AND DIRECTORS' BIOGRAPHIES**

#### **(1) Directors**

During the Reporting Period and as at the date of this report, the Directors of the Company comprises of Mr. Zhong Jinlong and Mr. Liang Zhongwei as executive Directors; Mr. Liu Hongsong (resigned on 10 March 2021), Mr. Hu Kainan, Mr. Liu Xinyi (appointed on 17 June 2021), Mr. Ming Gang and Mr. Liu Feng as non-executive Directors; Mr. Gao Zhu (resigned on 10 March 2022), Mr. Wang Chuanshun (resigned on 10 March 2022), Mr. Li Dapeng (resigned on 7 October 2021), Mr. Zheng Jianping, Mr Chen Hua (appointed on 10 March 2022) and Mr. Wang Xinyu (appointed on 10 March 2022 and resigned on 14 March 2022) as independent non-executive Directors.

As at the end of the Reporting Period, the Board of Directors included three independent non-executive Directors, and the requirements under the Listing Rules that the Board of Directors must include at least three independent non-executive Directors and at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise was complied. After Mr. Wang Xinyu resigned on 14 March 2022, the number of independent non-executive Directors of the Company does not meet the requirement of the Listing Rules that the Board of Directors must include at least three independent non-executive directors and not less than one-third of the board members shall be independent non-executive directors, nor does it satisfy the requirement that at least one independent non-executive director must possess appropriate accounting or related financial management expertise. The Board of Directors will take steps to comply with the requirements as soon as practicable.

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

#### **(2) 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.

## Report of the Board of Directors

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

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of the Directors and Supervisors have entered 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.

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)).

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

As at 31 December 2021, 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.

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

As at 31 December 2021, 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.) <sup>(1)</sup>	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. <sup>(1), (2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Iron & Steel Group Co., Ltd. <sup>(2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CM International Capital Limited <sup>(3)</sup>	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) <sup>(3)</sup>	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) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
Xu Guiqin	H Shares	Beneficial owner	18,276,000 (long position)	1.82%	6.59%

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 2021.

## Report of the Board of Directors

### Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 46.37% 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.. Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 100.00% 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 2021, 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.

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

In January 2021, certain employees of the Company's back-office department recommended customers to the Company for sales commission, which violated Article 50 of the "Measures for the Supervision and Administration of Futures Companies" (CSRC Order No. 155). According to the provisions of Article 109 of the "Measures for the Supervision and Administration of Futures Companies", Shandong Supervision Bureau of CSRC imposed administrative regulatory measures of ordering the Company to make corrections.

In response to the above situation, the Company has taken active rectification measures, which have been accepted upon inspection by Shandong Supervision Bureau of CSRC. Firstly, the employee in the back office was disconnected from the customer; secondly, the Company revised relevant systems and clarified job accountability; thirdly, self-examination was organized to ensure related issues are rectified.

### **9. 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.

During the Reporting Period, 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 done a lot of work in providing financial support to rural revitalization by fully leveraging on its professional advantages. It signed paired assistance agreements with 12 national-level poverty-stricken counties. In the evaluation of the poverty alleviation work of futures companies for 2020-2021, the Company stood out from the 136 futures companies being appraised, with an honored fifth place. It has successively won the titles of Best Precision Poverty Alleviation and Charity Award from the Futures Daily and Securities Times, "Socially Responsible Financial Institutions" from Hexun.com, "Shandong Socially Responsible Enterprise in 2020" from Dazhong Daily Newspaper. Its "Insurance + Futures" project of red dates in Maigaiti County, Xinjiang won the Excellent Project Award for the "Insurance + Futures" Pilot Construction Project from Zhengzhou Commodity Exchange. Since 2021, the Company has carried out more than 90 "insurance + futures" projects, involving 9 varieties like corn, soybeans, peanuts, red dates and eggs, covering 43 counties and districts in 11 provinces, including Shandong, Heilongjiang, Liaoning and Xinjiang. All the projects cover approximately 700,000 mu of agricultural plantation area and benefit approximately 60,000 farmers. The Company has always been at the forefront of the industry in terms of the number of projects, scale and innovative models. While continuously accumulating risk management capabilities, it has created a "Luzheng Brand" of financial services in serving agriculture, farmer and rural area.



## Report of the Board of Directors

### 10. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlements of the Shareholders to attend the AGM, the register of members of the Company will be closed from 29 May 2022 to 28 June 2022, both days inclusive, during which no transfers of Shares shall be effected. Shareholders whose names appear on the Company's register of members on 28 June 2022 will be entitled to attend and vote at the AGM. In order for holders of H Shares to qualify for attending the AGM, transfer forms accompanied by the relevant share certificates must be lodged with H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 27 May 2022.

### 11. 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 effectively.

### **(4) Compliance of Laws and Regulations**

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

### **(5) Relationship with Key Stakeholders**

#### **1. Employees**

Employees are regarded as the most important and valuable assets for the Group. The Group has established complete system and procedures of human resource management in order to regulate the use of human resources and realistically protect employees' rights and interests. Through compensation and welfare schemes and annual appraisal plans, the Company has awarded and commended outstanding employees while enhancing employees' vocational capabilities and widening their room for development 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 Group provides services for the individual in the different industries and the institutional customers. The Company's large customers include institutional and high-net-worth individuals. For the year ended 31 December 2021, the revenue from the five largest customers of the Company represented less than 30% of operating income.

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, save as disclosed in the section "III Connected Transactions" in Chapter X of this report, there is 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.

## Report of the Board of Directors

### **(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 of the Company in accordance with the laws of the PRC and the requirements of the Articles of Association.

### **(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 18 to the consolidated financial statements of this report for details of property and equipment of the Group during the Reporting Period.

### **(13) Public Float**

During the Reporting Period and up to the date of this report, 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 the end of Reporting Period, 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**

During the Reporting Period, the Company had no issued debentures.

### (16) Donation

In April 2021, the Company donated RMB100,000 to Susong County of Anhui Province, a former national-level poverty-stricken county. The donated amount was included in the “Caring Relief Fund (愛心救助基金)” of Shanghai Stock Exchange for the purpose of satisfying the basic living needs of families who are living in poverty, who have just left poverty behind but being monitored, who are on the cusp of poverty, and the group of people who are elderly, young, sick, disabled or orphans” in Susong County.

In July 2021, the Company donated RMB450,000 to Huachuan County of Heilongjiang Province, a former national-level poverty-stricken county, for the implementation of the “Insurance + Futures” industrial poverty alleviation pilot project of corn in Huachuan County.

In September 2021, the Company donated RMB180,000 to Gyantse County of Tibet Autonomous Region, a former national-level poverty-stricken county, for the implementation of the “Insurance + Futures” industrial poverty alleviation pilot project of cow feed cost in Gyantse County.

In November 2021, the Company donated RMB500,000 to Maigaiti County of Xinjiang Uygur Autonomous Region, a former national-level poverty-stricken county, for the implementation of the “Insurance + Futures” industrial poverty alleviation pilot project of Red Dates in Maigaiti County.

In December 2021, the Company donated RMB400,000 to Huining County of Gansu Province, a former national-level poverty-stricken county, for the implementation of the “Insurance + Futures” cost insurance project of apples in Huining County.

By order of the Board  
*Chairman*  
**Zhong Jinlong**  
24 March 2022

# Work Report of the Supervisory Committee in 2021

In 2021, the Supervisory Committee of the Company independently exercised its supervision powers and functions, 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 relevant laws and regulations. The work report of the Supervisory Committee in 2021 is as follows.

## I. ROUTINE WORK OF THE SUPERVISORY COMMITTEE IN 2021

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

### **(1) The fifth meeting of the third session of the Supervisory Committee was held on 25 March 2021. The following five proposals were approved by voting on site and through video:**

1. The "Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for the Year 2020";
2. The "Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited for the Year 2020";
3. The "Proposal on the Annual Report (IFRSs) of LUZHENG FUTURES Company Limited for the Year 2020";
4. The "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for the Year 2020";
5. The "Proposal on the Profit Distribution Plan of LUZHENG FUTURES Company Limited for the Year 2020".

### **(2) The sixth meeting of the third session of the Supervisory Committee was held on 12 May 2021. The following proposals were approved by voting through correspondence:**

1. The "Proposal on the Work Report on Anti-Money Laundering of LUZHENG FUTURES Company Limited for the Year 2020";
2. The "Proposal on the Work Report of Compliance and Risk Control of LUZHENG FUTURES Company Limited for the Year 2020";
3. The "Proposal on the Final Accounts (IFRSs) of LUZHENG FUTURES Company Limited for the Year 2020";
4. The "Proposal on the Financial Budget of LUZHENG FUTURES Company Limited for the Year 2021";
5. The "Proposal on the Self-inspection Report on Honest and Clean Conduct of LUZHENG FUTURES Company Limited for the Year 2020".

## Work Report of the Supervisory Committee in 2021

### **(3) The seventh meeting of the third session of the Supervisory Committee was held on 26 August 2021. The following proposal was approved by voting on site and through video:**

1. The “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2021”.

## **II. MAJOR WORK OF THE SUPERVISORY COMMITTEE IN 2021**

### **(1) Supervision and inspection of daily operating activities**

During the Reporting Period, the Supervisory Committee persevered in daily supervision and inspection of the Company’s operating activities despite travel restriction during the Pandemic prevention and control period. Firstly, it carried out supervision and inspection of eight branches in Weifang, Dongying, Wenzhou, Jinan, Rizhao, Shenyang, Linyi and Qingdao; secondly, it carried out special internal inspection on the business operation of risk management subsidiaries; thirdly, it conducted special supervision and inspection on the compliance and risk control, anti-money laundering work and honest and clean practices of the Company in the year.

### **(2) 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, to update itself about the Company’s assets and liabilities, cash flow and results of operation, and other financial information in a timely manner. It paid close attention to the liquidity of the Company’s own funds, customer margin, 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.

### **(3) Supervision and inspection of the duty-performance of the Directors and senior management**

During the Reporting Period, members of the Supervisory Committee reviewed and approved the summary minutes of the meetings held by the general manager’s office to implement its supervision and inspection functions, stay informed of the Company’s business management activities and decision-making process on major issues in a timely manner by attending the general meetings of shareholders, the Board meetings and the annual management meeting of the Company.

### **(4) Improving the ability of the Supervisory Committee to perform their duties**

During the Reporting Period, the Supervisory Committee continued to make arrangements for its members to study the latest regulatory policies and regulations in accordance with the requirements of the Hong Kong Stock Exchange for the operation of listed companies, familiarize themselves with the relevant laws, regulations and regulatory rules for listed companies, enhance the ability of its members to perform their duties, and ensure that the Supervisory Committee functions in all aspects effectively.

## Work Report of the Supervisory Committee in 2021

### III. REVIEW OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS IN 2021

During the Reporting Period, the Supervisory Committee supervised and inspected the finance, lawful operation, major decision and significant operating activities of the Company, and the Supervisory Committee attended the general meetings, the Board meetings and the working meetings of the management as required. On that basis, the Supervisory Committee issued the following opinions.

- (1) The Supervisory Committee believed that: during the Reporting Period, the overall operating activities of the Company were in compliance with related laws, regulations and the requirements of regulatory policies; the Board practically implemented all resolutions and the decision-making procedures for major issues conformed to the requirements of the Company Law of the PRC and the Articles of Association; the Directors and senior management earnestly performed their duties pursuant to national laws, regulations and requirements of the Articles of Association and executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association or harm the interest of the Company when discharging their duties in the Company.
- (2) The Supervisory Committee believed that: during the Reporting Period, the financial and accounting system of the Company was sound, and the financial operation was lawful. The financial statements prepared by the Company gave a true, objective and accurate picture of the financial conditions of the Company. PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP (special general partnership) issued an unqualified audit report, which gave a true and fair picture of the financial performance and results of operation of the Company in 2021.
- (3) The Supervisory Committee believes that: during the Reporting Period, the Company has established internal control systems in respect of material aspects, and the overall internal control system is sound and effective, ensuring the normal development of production and operating activities.
- (4) The Supervisory Committee believed that: during the Reporting Period, the transactions between the Company and its Controlling Shareholder Shandong Steel Group and its connected persons, its Controlling Shareholder Zhongtai Securities and its connected persons, were entered into in line with the general market transaction principles. The prices were fair and the information disclosure was complete, and relevant procedures were implemented to ensure that the transactions were fair and reasonable, and no use of connected transactions was found to harm the interests of the Company and other small and medium Shareholders.
- (5) The Supervisory Committee believed that: during the Reporting Period, there were no illegal external guarantees, nor debt restructurings, non-monetary transactions, asset swaps, major acquisitions or disposal of assets. There was no other incident that harmed the interests of the Shareholders of the Company or caused loss of assets to the Company.
- (6) The Supervisory Committee believed that: during the Reporting Period, the Company implemented 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 and insider transactions, or illegal trading of the Company's Shares by Directors, Supervisors, senior management and other insiders.

## Work Report of the Supervisory Committee in 2021

### IV WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2022

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

The Supervisory Committee will work towards the strategic development goals determined by the shareholders' general meeting and the Board. It will continue to exercise strict supervision of key areas and important parts of operation, 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 lawful operation and protect the interests of the Company and all shareholders as a whole; secondly, it will take effective measures such as attending the general meetings of Shareholders and 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 rational suggestions to the Board; thirdly, it will give full play to the Supervisory Committee's supervising, serving and ensuring functions, to make the decision-making process of the Company more scientific, democratic and legal, and boost the healthy development of the Company.

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

The Supervisory Committee will continue to strengthen supervision of major matters such as the comprehensiveness and effectiveness of the Company's lawful operation, financial management, construction and implementation of the internal control system, connected transactions, external investment, and guarantees and anti-money laundering work in accordance with laws and regulations to ensure the true, accurate and complete information is disclosed in a timely manner. It seriously supervises the performance of duties by Directors and Senior Management of the Company, and offer 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 extend functions

The Supervisory Committee will continue to play the role of an immune system, by supervising, coordinating and controlling the relationship between business development and risk prevention, and promote the Company to enhance its comprehensive capabilities in risk pre-research and prediction and full-coverage disposal of risks, and play a more prominent role in risk management.

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

The Supervisory Committee will continue to make arrangements for members of the Supervisory Committee to learn national laws and regulations, the latest regulatory policies and regulations, and financial knowledge, and train them for identifying, analyzing and solving problems, so that they dare to supervise, be good at supervision, and conduct targeted and effective supervision, pushing the Supervisory Committee to function better and better.

By order of the Supervisory Committee

**An Tie**

*Chairman*

24 March 2022



# 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 as at the date of this report:

1. Directors: the Board consists of eight members, including two executive Directors with Mr. Zhong Jinlong serving as the Chairman of the Board, and Mr. Liang Zhongwei serving as a staff representative Director, and six non-executive Directors (including two independent non-executive Directors).
2. Supervisors: the Supervisory Committee consists of eight members, including two Shareholder representative Supervisors, three staff representative Supervisors and three independent Supervisors.
3. Senior management: there are five senior management, including one general manager, three deputy general managers and one chief risk officer.

## Directors, Supervisors, Senior Management and Staff

### (I) The Board

#### Executive Directors

Mr. Zhong Jinlong (鐘金龍) (without former name), aged 56, joined the Company in September 2019. At present, he is the secretary to the Company's party committee and the Chairman of the Board of the Company, the deputy general manager of Zhongtai Securities, as well as a member of the Council under Shandong Zhongtai Charity Foundation (山東中泰慈善基金會) and a member of the Council under Shandong Finance Industry Association (山東金融業聯合會). 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 (山東省國際信託投資公司) from August 1995 to June 2000; served in succession as vice general manager, general manager 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; held various positions, such as compliance officer and deputy general manager of Zhongtai Securities (formerly known as Qilu Securities Co., Ltd.) since January 2008; served as the secretary to the party committee of the Company since September 2019; served as the Chairman of the Board of the Company since December 2019; served as a member of the Council under Shandong Finance Industry Association (山東金融業聯合會) since April 2020; and served as a member of the Council under Shandong Zhongtai Charity Foundation (山東中泰慈善基金會) since June 2020. 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. In February 2005, he obtained the professional qualification of lawyer issued by the Ministry of Justice of the PRC.

Mr. Liang Zhongwei (梁中偉) (without former name), aged 48, joined the Company in March 2009 and currently is a member of the Company's party committee, staff representative director, secretary of the Board, head of the Board Office, and a director and the general manager of LUZHENG INTERNATIONAL HOLDINGS CO., LTD. Mr. Liang Zhongwei served as an employee of Shandong Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資有限公司) from July 1997 to May 2001; successively served as the departmental senior business manager and the departmental assistant to the general manager of Zhongtai Securities (formerly known as Qilu Securities Co., Ltd.) from May 2001 to March 2009; successively served as the office director and the general manager of the human resources department of the Company from March 2009 to September 2013; served as staff representative director of the Company since June 2012; served as secretary general of Shandong Futures Association from September 2013 to August 2017; served as the head of the Party Committee Organization Department of the Company from October 2017 to December 2020; serves as the head of the Board Office of the Company since February 2018; Director of LUZHENG INTERNATIONAL HOLDING LIMITED since April 2018; served as a director of LUZHENG INTERNATIONAL FUTURES LIMITED from May 2018 to April 2021; serves as a member of the Party Committee of the Company since August 2018; serves as the secretary of the Board of the Company since June 2019; is a Director of Jinova S.A from July 2019 to October 2021; and serves as the general manager of LUZHENG INTERNATIONAL HOLDINGS CO., LTD. since November 2020. Mr. Liang Zhongwei graduated from Shandong University with a bachelor's degree in international economic in July 1997. Mr. Liang Zhongwei obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 2001.

## Directors, Supervisors, Senior Management and Staff

### Non-executive Directors

Mr. Hu Kainan (胡開南) (without former name), aged 54, joined the Company in December 2019. At present, he is a non-executive Director of the Company, the chief risk officer and 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; 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) (formerly known as Shangdong Securities Co., Ltd. (山東證券有限責任公司)) from November 1994 to November 1997; served as an employee in the supervision and inspection department of Tiantong Securities Co., Ltd. from November 1997 to January 2007; served as senior business manager of the compliance management headquarters and the senior business manager of the risk control department of Zhongtai Securities from January 2007 to July 2010; served as assistant to general manager of both the risk management department and the risk compliance headquarters of Zhongtai Securities from July 2010 to November 2013; served as the deputy general manager of risk compliance headquarters of Zhongtai Securities from November 2013 to July 2016; served as the deputy general manager of the risk management department of Zhongtai Securities from July 2016 to October 2019; serves as general manager of the risk management department of Zhongtai Securities since October 2019; and serves as the non-executive Director of the Company since December 2019; and served as chief risk officer of Zhongtai Securities since January 2022. Mr. Hu Kainan graduated from Shanghai Railway College with a bachelor's degree in computer software in July 1990.

Mr. Liu Xinyi (劉心義) (without former name), aged 56, joined the Company in June 2021. At present, he serves as non-executive Director of the Company and the deputy chairman of the labour union of Zhongtai Securities. From July 1988 to January 1999, Mr. Liu Xinyi served as a teaching assistant, lecturer, and deputy secretary of the general Party branch of the School of Electrical Engineering of Shandong Industry University (山東工業大學); served as an associate professor and the deputy secretary of Communist Youth League University Committee of Shandong Industry University (山東工業大學) from January 1999 to August 2000; he successively served as the deputy secretary of Communist Youth League Committee and an employee of the human resources headquarter of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from August 2000 to January 2007; served as the deputy general manager of the business department of Zibo Commodity Street of Zhongtai Securities from January 2007 to January 2008; served as a senior business manager of the brokerage business headquarter of Zhongtai Securities from January 2008 to April 2010; served as the general manager of the Heze Dongming business department of Zhongtai Securities from April 2010 to May 2011; served as the deputy general manager of the customer service headquarter of Zhongtai Securities from May 2011 to February 2013; served as the deputy general manager of the retail business headquarter of Zhongtai Securities from February 2013 to April 2014; served as the deputy general manager of the wealth management business headquarter of Zhongtai Securities from April 2014 to February 2015; served as the deputy general manager of the wealth management department of Zhongtai Securities from February 2015 to May 2017; served as the deputy general manager of the brokerage business department of Zhongtai Securities from May 2017 to March 2021; served as the deputy general manager and chief manager of the retail business department of Zhongtai Securities from March 2021 to June 2021; served as non-executive Director of the Company since June 2021; served as the general manager of the logistics support department of Zhongtai Securities from July 2021 to February 2022; he served as the general manager, director and legal representative of Qilu Zhongtai Property Co., Ltd. from July 2021 to March 2022; and served as vice president of the labour union of Zhongtai Securities from September 2021. Mr. Liu Xinyi graduated from Shandong Industry University (山東工業大學) with a bachelor's degree in electrical technology in June 1988 and graduated from Tianjin University of Finance and Economics (天津財經大學) with a master's degree in business administration in June 2005.

## Directors, Supervisors, Senior Management and Staff

Mr. Ming Gang (明鋼) (without former name), aged 47, joined the Company in December 2019. At present, he is a non-executive Director of the Company, as well as the general manager of the International Trading 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 2019, including general manager of Shandong Yongfeng International Trading Co., Ltd., deputy general manager of the marketing company and the head of the trade department, the general manager of Supply and Marketing Company of Yongfeng Group Co., Ltd.; served as the general manager of the International Trading Company of Yongfeng Group Co., Ltd. since December 2019; and he has served as a 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) (former name Liu Feng (劉鋒)), aged 49, joined the Company in February 2015. At present, he is a non-executive Director of the Company, as well as the head of risk management department of Shandong State-owned Assets Investment Holdings Co., Ltd., a director of Zhongtong Bus Holding Co., Ltd. (中通客車控股股份有限公司), a supervisor of Yunding Technology Co., Ltd. (雲鼎科技股份有限公司), a supervisor of Shandong Marine Group Ltd. (山東海洋集團有限公司) and the chairman of the supervisory committee of Shandong Dongyin Investment Co., Ltd. (山東東銀投資有限公司). 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) in succession from July 1994 to June 2002; served as the manager of comprehensive administration department of Shandong Hengrun Silk Co., Ltd. (山東恆潤絲綢有限公司) 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; held 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 the general manager and director of Shandong Juneng Investment Co., Ltd. (山東省巨能投資有限公司) from September 2014 to April 2016; served as a Director in the Company since February 2015; appointed as the deputy head of the People's Government of Shanting District, Zaozhuang City from July 2015 to July 2016; served as a director of Zhongtong Bus Holding Co., Ltd. since December 2016; served as general manager and director of Lukang Investment Co., Ltd. (魯康投資有限公司) from May 2017 to November 2019; served as the head of risk management department of Shandong State-owned Assets Investment Holdings Co., Ltd. since November 2019; served as a supervisor of Yunding Technology Co., Ltd. since February 2020; a supervisor of Shandong Marine Group Ltd. (山東海洋集團有限公司) since April 2020; the chairman of the supervisory committee of Shandong Dongyin Investment Co., Ltd. (山東東銀投資有限公司) since April 2021. 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. Zheng Jianping (鄭堅平) (without former name), aged 57, joined the Company in December 2019. At present, 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 Investment Bank Department 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; served 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; 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 served as an 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.

## Directors, Supervisors, Senior Management and Staff

Mr. Chen Hua (陳華) (without former name), aged 54, joined the Company in March 2022. At present, he is an independent non-executive Director of the Company and the director of the Institute of Contemporary Finance (當代金融研究所), professor and doctoral supervisor of Shandong University of Finance and Economics (山東財經大學), and serves as an independent director of Impulse (Qingdao) Health Technology Co., Ltd. (青島英派斯健康科技股份有限公司) (stock code: 002899.SZ), an independent non-executive director of Champion Alliance International Holdings Limited (stock code: 01629.HK), an independent director of Jining Hongrun Food Co., Ltd. (濟寧鴻潤食品股份有限公司) (stock code: 872568.NEEQ), an independent director of Bank of Rizhao Co., Ltd. (日照銀行股份有限公司), an independent director of Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司), a member of the 10th and 11th Shandong Provincial Committee of the Chinese People's Political Consultative Conference, a consulting expert of the Standing Committee of the Shandong Provincial People's Congress, a review expert of the Shandong Provincial Science and Technology Award, a council member of the Insurance Society of China, an executive council member of the Shandong Provincial Economic Society and a council member of the Shandong Finance Society. Mr. Chen Hua served as the chief of planning section in Qufu Sub-branch of Industrial and Commercial Bank of China Limited (工商銀行股份有限公司曲阜市支行) from July 1989 to October 1991; the chief of publicity section in Jining Branch of Industrial and Commercial Bank of China Limited (工商銀行股份有限公司濟寧市分行) from November 1991 to November 1999; the deputy director of Wenshang County Sub-branch of Industrial and Commercial Bank of China Limited (工商銀行股份有限公司汶上縣支行) from January 2000 to August 2001; the manager of risk management department in Jining Branch of Industrial and Commercial Bank of China Limited (工商銀行股份有限公司濟寧市分行) from July 2001 to August 2001; the director of the Institute of Finance and Taxation of Shandong Economics University (山東經濟學院財稅金融所) from March 2005 to October 2011; the director of the Economic Research Center of Shandong University of Finance and Economics (山東財經大學經濟研究中心) from October 2011 to October 2014; the director of the Institute of Contemporary Finance of Shandong University of Finance and Economics (山東財經大學當代金融研究所) since November 2014; an independent non-executive director of Bank of Qingdao Co., Ltd. (青島銀行股份有限公司) (stock code: 03866.HK) from July 2015 to July 2021; an independent director of Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司) since May 2018; an independent non-executive director of Champion Alliance International Holdings Limited since May 2019; an independent director of Jining Hongrun Food Co., Ltd. (濟寧鴻潤食品股份有限公司) since October 2020; an independent director of Impulse (Qingdao) Health Technology Co., Ltd. (青島英派斯健康科技股份有限公司) since July 2021; and an independent director of Bank of Rizhao Co., Ltd. (日照銀行股份有限公司) since July 2021. Mr. Chen Hua graduated from Southwestern University of Finance and Economics (西南財經大學) with a bachelor's degree in statistics in July 1989; graduated from Shandong University (山東大學) with a master's degree in financial mathematics in December 2001; graduated from Soochow University (蘇州大學) with a doctorate degree in finance in June 2005; and studied at the Postdoctoral Station of Applied Economics of the Institute of Fiscal Science of the Ministry of Finance (財政部財政科學研究所應用經濟學博士後流動工作站) from November 2011 to April 2012 and successfully graduated from the station with passing grade.

## Directors, Supervisors, Senior Management and Staff

### (II) The Supervisory Committee

Mr. An Tie (安鐵) (without former name), aged 52, joined the Company in June 2020. At present, he is the chairman of the Supervisory Committee of the Company, as well as a staff representative supervisor, the general manager of the compliance management headquarters of Zhongtai Securities. Mr. An Tie served in succession as the director of the trust department and the deputy general manager of the securities clearing department of Shandong Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資股份有限公司) from July 1997 to May 2001; served in succession as the person in charge of the clearing center and the general manager of the securities business department of Zhongtai Securities from May 2001 to December 2004; served as the general manager of the audit department of Zhongtai Securities from January 2005 to January 2010; served as a staff representative supervisor, the general manager of the audit department of Zhongtai Securities from January 2010 to May 2017; served as a member of the disciplinary committee of Zhongtai Securities from January 2010 to August 2020; served as a staff representative supervisor, the general manager of the compliance management headquarters of Zhongtai Securities since May 2017; served as the Supervisor of the Company since June 2020; and served as the chairman of the Supervisor Committee of the Company since November 2020. Mr. An Tie graduated from Shandong University (山東大學) majoring in archive management and obtained a college diploma in July 1989; graduated from Shandong Cadre Correspondence University (山東幹部函授大學) majoring in economic management, and obtained a diploma of bachelor's degree in June 1997; completed his courses majoring in monetary banking in Chinese Academy of Social Sciences (中國社會科學院) in July 1999; and graduated from Asia International Open University (Macau) (亞洲(澳門)國際公開大學) majoring in business management and obtained a master degree in April 2008.

Mr. Tan Shaojie (譚少傑) (without former name), aged 43, joined the Company in December 2019. At present, he serves as a non-staff representative Supervisor of the Company, as well as 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). 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; served as executive director (legal representative) of Jinan Chanfa Industrial Co., Ltd. (濟南產發實業有限公司) from April 2019 to May 2020; and served as the non-staff representative Supervisor of the Company since December 2019. Mr. Tan Shaojie graduated from Shandong University of Economics with a bachelor's degree in information management and information system in July 2005; 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; and obtained the qualification of senior economist issued by the Human Resources and Social Security Department of Shandong Province in May 2020.

## Directors, Supervisors, Senior Management and Staff

Mr. Hu Yuyue (胡俞越) (without former name), aged 61, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as 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 (北京工商大學), a part-time professor of China Agricultural University (中國農業大學), Central South University (中南大學), Qingdao University (青島大學) and Shandong Technology and Business University (山東工商學院), a standing director of the Capital Enterprise Reform and Development Society (首都企業改革與發展研究會), the director of the Beijing University for Business Administration (北京工商管理學會), a member of the Advisory Committee of Zhengzhou Commodity Exchange (鄭州商品交易所), a member of the Product Committee of Shanghai Futures Exchange (上海期貨交易所), a member of the Advisory Committee and deputy director of the Expert Committee of the Research Institute of Dalian Commodity Exchange (大連商品交易所), a consulting expert of Shanghai Stock Exchange (上海證券交易所), deputy director of the Financial Work Committee of China Market Society (中國市場學會金融工作委員會), a member of the Independent Director Committee and a member of Academic Advisory Committee (學術顧問委員會) of China Association for Public Companies (中國上市公司協會), deputy director of Expert Committee of CFLP Bulk Commodity Market (中物聯大宗商品市場分會專家委員會) and an independent director of six companies (please see below for details of these companies). Mr. Hu Yuyue held 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 the independent Supervisor of the Company since June 2015; served as an independent director of Jinneng Holding Shanxi Electric Power Co.,Ltd. (晉能控股山西電力股份有限公司) (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. (北京城建投資發展股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600266) since July 2018; served as an independent director of AddSino Co.,Ltd (航天工業發展股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 000547) since May 2019; and served as an independent director of Tianfeng Futures Co. Ltd (天風期貨股份有限公司) (listed in National Equities Exchange and Quotations; stock code: 834277) since February 2020. 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 Organization Department of 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's degree in July 1983. Mr. Hu Yuyue was granted the title of professor by Beijing High Professional Technical Title Review Committee in September 1999.



## Directors, Supervisors, Senior Management and Staff

Mr. Mu Yong (牟 勇) (without former name), aged 44, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the chief investment officer of China Forestry Group Corporation (中林集團控股有限公司). Mr. Mu Yong served as a staff member in Sichuan Branch of Beijing King & Wood Mallesons (北京金杜律師事務所) 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 (北京金石農業產業投資基金管理中心) from January 2014 to June 2015; served as an independent Supervisor of the Company since June 2015; served as the managing director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) from June 2015 to April 2020; served as the representative of the Beijing Fruit Industry Development Fund (北京市果樹產業發展基金) from March 2016 to March 2020; served as the representative of the Beijing Foreign Economic and Trade Development Guidance Fund (北京外經貿發展引導基金) from April 2016 to April 2020; and served as the chief investment officer of China Forestry Group Corporation (中林集團控股有限公司) since September 2020. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in July 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law and obtained a master degree in July 2003.

Mr. Yu Xuehui (于學會) (without former name), aged 55, 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), an independent director of Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司), and an independent director of Ruida Futures Co., Ltd. (瑞達期貨股份有限公司). 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 director of Cinda Futures Co., Ltd. since March 2008; served as a director of Minsheng Royal Fund Management Co., Ltd. since August 2012; served as an independent Supervisor of the Company since December 2019; and served as an independent director of Ruida Futures Co., Ltd. since May 2020. 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.

## Directors, Supervisors, Senior Management and Staff

Mr. Lin Zongheng (林宗恆) (without former name), aged 49, joined the Company in February 2008. At present, he is a staff representative Supervisor of the Company, as well as the chief risk officer and general manager of Compliance and Risk Control Department of Luzheng Capital, the supervisor of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED. Mr. Lin Zongheng held various positions, such as an employee and deputy section chief of the finance department of Jinan Zhenghao Chemical Fiber New Material Co., Ltd.\* (濟南正昊化纖新材料有限公司) from July 1996 to April 2000; served as the head of the finance department of Jinan Huaxianke Industry and Trade Co., Ltd.\* (濟南華先科工貿有限公司) from April 2000 to February 2004; served as the financial manager of the finance department of Jinan Divide Fiber Fabric Co., Ltd.\* (濟南迪維得纖維面料有限公司) from February 2004 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 an employee, officer and deputy general manager of financial planning department of the Company from February 2008 to June 2013; served as deputy general manager and chief financial officer of Luzheng Capital 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 from November 2013 to July 2020; served as general manager of audit department of the Company from July 2017 to December 2019; served as staff representative Supervisor of the Company since April 2019; served as the chief risk officer and general manager of Compliance and Risk Control Department of Luzheng Capital since January 2020; and served as the supervisor of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED since July 2020. Mr. Lin Zongheng graduated from Shandong University of Economic majoring in accounting and obtained a bachelor degree in July 1996; and obtained the qualification of senior accountant issued by Ministry of Finance of the PRC in June 2019.

Mr. Liu Pu (劉普) (without former name), aged 49, joined the Company in April 2007. At present, he is a staff representative Supervisor and served as the general manager of the Audit Department of the Company. Mr. Liu Pu served as an employee of Taian Hoisting Machinery Factory (泰安市起重機總廠) from July 1989 to November 1993; served in session as an employee of Taian Sales Office, financial officer of Shanghai Sales Office and chief accountant of Taian Sales Office of Taian Trust and Investment Corporation (泰安市信託投資公司) from November 1993 to May 2001; served as financial officer of Shanghai Sales Office and supervisor of Shanghai accounting center of Zhongtai Securities from May 2001 to April 2007; served as general manager of the Audit Department of the Company from April 2007 to May 2011; served as director of office of the Company from June 2008 to March 2009; served as the secretary general of Shandong Futures Association from September 2009 to August 2013; served as general manager of IB business service department of the Company from October 2013 to June 2016; served as administrative head of branch service department of headquarters of operation management of the Company from June 2016 to August 2019; served as employee of the Board Office of the Company from August 2019 to December 2019; served as general manager of the 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

Mr. Wang Hairan (王海然) (without former name), aged 42, joined the Company in July 2007. At present, he is a staff representative Supervisor, a senior manager of Operation Management Headquarters of the Company, as well as the secretary general of Shandong Futures Association (山東省期貨業協會). Mr. Wang Hairan held several positions in succession in Sanlong Futures Brokerage Co., Ltd. (三隆期貨經紀有限公司) from December 1999 to February 2007, including an employee of the trading department, dealer of Dalian Commodity Exchange, and the deputy general manager of the trading department and manager of the Audit Department; served as the office manager of Sanlong Industrial Group (三隆實業集團) from March 2007 to June 2007; served in succession as an employee and the person in charge in the compliance and audit department of the Company from July 2007 to January 2009; served as the head of Beijing Sales Office of the Company from January 2009 to August 2010; served as an employee of the compliance department of the Company from August 2010 to May 2011; served as the deputy manager of the compliance department of the Company from May 2011 to April 2014; served as the general manager of the compliance and audit department of the Company from April 2014 to July 2017; seconded to Shandong Futures Association since July 2017, and served as secretary general of Shandong Futures Association since August 2017; served as general manager of the Compliance and Risk Control Department of the Company from January 2020 to January 2022; served as a supervisor of Luzheng Capital from March 2020 to January 2022; served as an staff representative supervisor of the Company since November 2020; served as a senior manager in the operation management headquarters of the Company since January 2021. Mr. Wang Hairan graduated from Shandong University majoring in business administration, and obtained the bachelor's diploma in January 2008.

### (III) Senior Management

Mr. Liu Qingbin (劉慶斌) (without former name), aged 52, joined the Company in May 2014. At present, he is a member of the party committee and the general manager of the Company, as well as a member of the fifth session of the Council and a deputy chairman director of Legal Committee of the fifth session of the Council and a director of Talent Development Committee under China Futures Association (中國期貨業協會), a chairman director of Metal Variety Committee of Shanghai Futures Exchange (上海期貨交易所), a member of Trading Committee of the third session of the Council under Dalian Commodity Exchange (大連商品交易所), a deputy director of Variety Committee of the seventh session of the Council under Zhengzhou Commodity Exchange (鄭州商品交易所), the supervisor of Shandong Finance Association (山東金融業聯合會), and the chairman of Shandong Futures Association (山東省期貨業協會). Mr. Liu Qingbin served as an employee 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 (濟南證券管理辦公室) 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 Intermediary Supervision Division of Futures Supervision Department, and Deputy director and director of the Futures Supervision Department 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 the department cadre and director of company supervision division I of the Futures Supervision Department, director of the audit division of Futures Supervision Division II and director of the integration office of Futures Supervision Division II of the CSRC in succession from August 2008 to April 2014; served as the secretary to the party committee of the Company from July 2014 to August 2016; served as the chairman of Luzheng Capital from August 2015 to March 2020; served as the director of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED since August 2015 to July 2020; served as a member of the party committee and the general manager of the Company since August 2016; served as the chairman of Shandong Futures Association since August 2017; served as the director of Metal Variety Committee of Shanghai Futures Exchange since August 2018; served as the member of the fifth session of the Council under China Futures Association since September 2018; served as the supervisor of Shandong Finance Association since March 2019; served as the member of Trading Committee of the third session of the Council under Dalian Commodity Exchange since July 2019; and served as the deputy director of Variety Committee of the seventh session of the Council under Zhengzhou Commodity Exchange since June 2020; served as the deputy director of Legal Committee of the fifth session of the Council under China Futures Association since May 2021; and served as the director of Talent Development Committee of the fifth session of the Council under China Futures Association since December 2021. Mr. Liu Qingbin graduated from Luoyang Institute of Technology (洛陽工學院) majoring in marketing and obtained a bachelor's degree in July 1992. Mr. Liu Qingbin obtained 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 52, joined the Company in January 2007. At present, he is a member of the party committee, the deputy general manager, the person in charge of financial affairs and chairman of the labour union of the Company, as well as the chairman of the board of directors of LUZHENG INTERNATIONAL HOLDING LIMITED. Mr. Liu Yunzhi served as a head of the Securities Audit 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 manager of the Securities Audit 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 deputy senior accountant and the manager of the Securities Audit 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 (formerly known as Qilu Securities Co., Ltd.) from January 2002 to January 2007; served as the deputy general manager of Luzheng Futures Company Limited (魯証期貨有限公司) from February 2007 to December 2007; served as the general manager of the Company's Jinan sales office from October 2007 to August 2008, concurrently, served as the Deputy General Manager of the Company since January 2008; served as a member of the party committee of the Company since November 2008; served as the financial controller of the Company since December 2008; served as a director of Luzheng Capital from April 2013 to August 2019; served as secretary of the Board of Directors and Joint Company Secretary of the Company from February 2018 to June 2019; served as Director of Jinova S.A. from July 2019 to October 2021; Director of LUZHENG INTERNATIONAL FUTURES CO., LTD. from August 2019 to April 2021, and Chairman of the board of directors Luzheng International Holdings Co., Ltd. since September 2019. Mr. Liu Yunzhi graduated from Jiangxi University of Finance and Economics (江西財經大學) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) with 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 50, joined the Company in December 2008. At present, she is the deputy general manager of the Company. 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 Sales Office 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 Sales Office of Dalian Wanheng Futures Co., Ltd. (大連萬恆期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a director of Luzheng Capital from April 2013 to March 2020. 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 48, joined the Company in November 2006. At present, he is the deputy general manager of the Company, executive director of Luzheng Information Technology, chairman of the supervisory committee of Shandong Exchange Market Clearing House Co., Ltd., and member of the Information Technology Committee of the Fifth session of the Council of China Futures Association. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of Jinan Yingda Trust Co., Ltd. (濟南英大信託有限公司) 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 (formerly known as Qilu Securities Co., Ltd.) from May 2001 to November 2006; held 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; and served as the director of the Information Technology 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; served as and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. since September 2016 and served as a member of the Information Technology Committee of the fifth session of the Council under 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 52, joined the Company in January 2000. At present, he is the chief risk officer of the Company and the chairman of the Supervisory Committee of Luzheng Capital. 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; held 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 deputy general manager of the Company from September 2014 to September 2018; served as the chief risk officer of the Company since September 2018; served as the supervisor of Luzheng Capital Management Co., Ltd. (previously known as Luzheng Trading Co., Ltd. (魯証經貿有限公司)) since April 2013; and served as the chairman of the Supervisor Committee of Luzheng Capital since March 2020. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

## Directors, Supervisors, Senior Management and Staff

### (IV) Joint Company Secretaries

As at the date of this Report, Mr. Liang Zhongwei is also a joint company secretary of the Company. For the biography of Mr. Liang Zhongwei, please refer to “(1) Board of Directors” in this section.

Dr. Ngai Wai Fung is a joint company secretary of the Company. He currently serves as Director and Group Chief Executive Officer of SWCS Corporate Services Group (Hong Kong) Limited. Dr. Ngai has over 30 years of professional practice and senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in respect of finance, accounting, internal control and regulatory compliance, corporate governance and company secretarial work for listed issuers including major red chips companies.

Dr. Ngai Wai Fung is an associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of The Association of Chartered Certified Accountants in the United Kingdom and a member of The Chartered Institute of Arbitrators.

Dr. Ngai Wai Fung holds a bachelor’s degree (Honours) in Law from the University of Wolverhampton, a Master of Business Administration from Andrews University, a Master of Corporate Finance from Hong Kong Polytechnic University, and a doctorate of economics from the Shanghai University of Finance and Economics.

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

During the Reporting Period, Mr. Liu Xinyi was appointed as a non-executive Director of the Company, Mr. Liu Hongsong ceased to be a non-executive Director of the Company, and Mr. Li Dapeng ceased to be an independent non-executive Director of the Company.

During the Reporting Period, there was no change in the Supervisors of the Company.

During the Reporting Period, Ms. Shen Mingxia ceased to be the deputy general manager of the Company.

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

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

The remuneration plan of staff representative Directors and Supervisors of the Company shall be performed by the relevant internal remuneration management system of the Company, and decided by the senior management of the Company; the remuneration plan of external Directors and Supervisors shall be proposed by the Remuneration and Appraisal Committee, and reviewed and decided by the general meetings of the Company; the remuneration plan of the senior management shall be proposed by the Remuneration and Appraisal Committee, and decided by the Board of Directors.

## Directors, Supervisors, Senior Management and Staff

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

The remuneration of staff representative Directors and Supervisors of the Company shall be confirmed according to their labor contract with the Company, as well as the combination of the Company's business performance, job responsibilities, job performance and market environment and other factors.

The remuneration plan of the external Directors and Supervisors of the Company shall be proposed by the Remuneration and Appraisal 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 11 of the consolidated financial statements of this report for details.

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

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

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

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



# Significant Events

## I. MATERIAL LITIGATIONS AND ARBITRATIONS

During the Reporting Period, the Company was not involved in any material legal litigations and arbitrations.

## II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

During the Reporting Period, the Group 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 RMB6.9686258 billion. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading of securities and etc. As at the end of the Reporting Period, 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.

- **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 Finance 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 and etc. As at the end of the Reporting Period, Shandong Steel owned 100.00% equity interest in Laiwu Steel. Meanwhile, as known to the Company, Laiwu Steel owned approximately 46.37% equity interest in 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***

Reference is made to the announcement of the Company dated 26 April 2019 in relation to, inter alia, the non-exempt continuing connected transactions under the Former Financial Services Framework Agreement entered into between the Company and Zhongtai Securities and its annual caps. As disclosed in the announcement of the Company dated 26 April 2019, pursuant to the Former Financial Services Framework Agreement, Zhongtai Securities and/or its associates regularly provide various financial services to the Group in the ordinary and usual course of business of the Group. The aforesaid services mainly include the IB services provided by Zhongtai Securities and/or its associates to the Group, the asset management schemes purchased by the Group in which Zhongtai Securities and/or its associates act as the manager, the securities brokerage and other financial services received by the Group from Zhongtai Securities and/or its associates.

## Significant Events

As the corresponding annual caps under the Former Financial Services Framework Agreement will expire on 31 December 2021, and the Group will continue to conduct certain continuing connected transactions under the Former Financial Services Framework Agreement subsequent to 31 December 2021, the Company shall continue to comply with the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Therefore, the Company entered into the Financial Services Framework Agreement with Zhongtai Securities on 10 May 2021 (after trading hours) and proposed the annual caps for 2022, 2023 and 2024 under the Financial Services Framework Agreement. Pursuant to the agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, mainly including the IB services, asset management schemes, securities brokerage and other financial services. The term of the Financial Services Framework Agreement is three years with effect from 1 January 2022 and will expire on 31 December 2024. 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 over the next three years. For details of the entering into of the Financial Services Framework Agreement and the transactions thereunder, please refer to the Company's circular dated 28 May 2021.

- 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 as at the end of the Reporting Period are set out in the following table:

Nature of transaction	Amounts for the year ended 31 December 2021 (RMB '000)	Proposed annual caps for the year ended 31 December 2021 (RMB '000)
<b>A. Acceptance of IB Services Provided by Zhongtai Securities and/or its associates</b> Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Group	13,532	40,500
<b>B. Purchase of Asset Management Schemes from Zhongtai Securities and/or its associates</b> Maximum daily amount invested Asset Management Fees charged by Zhongtai Securities and/or its associates	123,497 308	250,000 3,740
<b>C. Securities Brokerage and other Financial Services</b> Commissions charged by Zhongtai Securities and/or its associates	11	2,000
<b>D. OTC Option introduction Services</b> Introduction fee charged by Zhongtai Securities and/or its associates	0	4,320
<b>Total Commissions charged by Zhongtai Securities and/or its associates on the Group</b>	<b>13,851</b>	<b>50,560</b>

### **Financial Services Framework Agreement**

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

#### **Principal terms:**

In the Company's ordinary and usual course of business, Zhongtai Securities and/or its associates provide IB services to the Company, and introduces potential clients to the Company for participation in the Company's futures brokerage businesses. In addition, Zhongtai Securities and/or its associates will also provide the following services to such clients introduced to the Company: (i) assisting such clients in opening accounts; (ii) the provision of latest market information about futures, option and other derivative markets as well as trading facilities to such clients; (iii) assisting such clients in risk control and management; and (iv) other related financial services. Zhongtai Securities and/or its associates will charge commissions on the Company for the provision of such IB services.

## Significant Events

### Reasons for the transaction:

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

### Pricing terms:

- (i) The commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company will be 60% of the handling fee income generated from such clients introduced by Zhongtai Securities and/or its associates (the "Commission Split"). Based on the enquires on futures commission splits made to other futures companies which conduct IB services with securities companies, the Company is of the opinion that the Commission Split of 60% falls within the reasonable market range and is in line with market practice;
- (ii) The handling fee income equals the handling fee received from such clients, with deduction of the trading and clearing fees paid to the futures exchanges in the PRC, including but not limited to, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Exchange; and
- (iii) The Commission Split of 60% has been determined based on arm's-length negotiation 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:

The Company purchases asset management schemes, in which Zhongtai Securities and/or its associates act as the manager in the ordinary and usual course of business of the Group. Zhongtai Securities and/or its associates, as the manager, will invest in 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 collectively, the "Asset Management Fees") to Zhongtai Securities and/or its associates.

### Reasons for the transaction:

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

### Pricing terms:

- (i) The Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager of the asset management schemes are calculated by multiplying the Group's investment amounts with the Asset Management Fees rate. According to the similar transactions entered into by the Group 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 plans equally and evenly, including the Group and any other independent third party investor participants. Such Asset Management Fees rate is also comparable to the prevailing market rate for collective asset management schemes issued by any other independent third parties with similar size 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 and/or its associates on 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 by any other independent third party managers on the Group for 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 negotiation between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rates for similar targeted management schemes, on normal commercial terms, and is consistent with market practice.
- C. *Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates*

### Principal terms:

As part of treasury management activities, Zhongtai Securities and/or its associates provide securities brokerage services to the Company in the ordinary and usual course of business of the Group, including but not limited to trading in securities, trading in bonds and funds, application for shares in initial public offerings and reverse repo of treasury bonds, as well as other financial services, for which Zhongtai Securities and/or its associates charge commissions on the Group.

## Significant Events

### Reasons for the transaction:

Since the Group needs to increase its return on capital through securities investment in its wealth management activities, the Group needs to conduct securities investment and other financial businesses through companies who have the necessary qualifications for engaging in securities brokerage business. The Group has cooperated with Zhongtai Securities and/or its associates for securities brokerage and other financial services for several consecutive years. Zhongtai Securities and/or its associates have developed a good understanding of the Group's needs. The Group deems it a key factor in selecting a provider of securities brokerage and other financial services.

### Pricing policy:

- (i) The commissions fee rate 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 negotiation between Zhongtai Securities and/or its associates and us with reference to the prevailing market commission fee rate for similar business, and is consistent with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee exceeds RMB5 through calculation by transaction amount times the 0.03% of commission rate, the transaction will be charged at the commission fee rate of 0.03%). Different commission fee rates are applied to the bond brokerage business provided to us by Zhongtai Securities and/or its associates, ranging from 0.001% to 0.03%, depending on different types of bonds (such as reverse repo of bonds with the term of one day or over 28 days). Such commission fee rates are also applied to independent third parties; and
- (ii) The commissions fee rate charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Group is comparable to, or no less favorable than, the average commission fee rates on the market, and the corresponding commission fee rates are also within the range specified by respective stock exchanges in China, namely 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 company 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.

### **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.

On 27 November 2020, the Company entered into a Futures Brokerage Service Framework Agreement with Shandong Steel, and proposed the annual caps for 2021, 2022 and 2023 under the Futures Brokerage Services Framework Agreement to renew Continuing connected transactions under the new Futures Brokerage Services Framework Agreement. The agreement is for a period of three years, effective from 1 January 2021, and will expire on 31 December 2023. For details, please refer to the Company's announcement dated 27 November 2020.



## Significant Events

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	Amounts for the year ended 31 December 2021 (RMB' 000)	Proposed annual caps for the year ended 31 December 2021 (RMB' 000)
<b>Derivatives brokerage</b> Commissions charged by the Group to Shandong Steel and/or its associates for provision of derivatives brokerage services <sup>(i)</sup>	1,770	4,400

- (i) Commissions charged by the Group for provision of derivatives brokerage services by the Group to Shandong Steel and/or its associates include those charged to Zhongtai Securities and/or its associates for provision of derivatives brokerage services by the Group, netting off trading and clearing fees paid to future exchanges, if any.

### 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 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.

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	Amounts for the	Proposed annual
	year ended 31 December 2021 (RMB '000)	caps for the year ended 31 December 2021 (RMB '000)
<b>Collective asset management schemes purchased by Shandong Steel and/or its associates</b>		
Maximum daily amount invested	0	100,000
Asset management fees charged to Shandong Steel and/or its associates	0	1,500

## Significant Events

### Principal terms:

In the ordinary and usual course of business, Shandong Steel and/or its associates continuously purchase collective asset management schemes in which the Company acts 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 shall pay Assets Management Fees to the Company.

### 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 the Company's 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, the Company charges Asset Management Fees based on the calculation of the investment amounts in the asset management schemes by Shandong Steel and/or its associates times the Asset Management Fees rate; 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 the Company 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 Capital, 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 Capital, 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.

## Significant Events

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

Nature of transaction	Amounts for the year ended 31 December 2021 (RMB '000)	Proposed annual caps for the year ended 31 December 2021 (RMB '000)
Physical commodities purchased by the Group from Shandong Steel and/or its associates	338,271	495,000
Physical commodities purchased by Shandong Steel and/or its associates from the Group	0	264,000

### Principal terms:

In the Group's ordinary and usual course of business, Luzheng Capital 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 Capital and pay the consideration.

### Reasons for the transaction:

For the purchases of bulk commodities, including but not limited to, hot rolled wide steel plates by Luzheng Capital from Shandong Steel and/or its associates, when bulk commodity price fluctuates and trading opportunities in the market arise, Luzheng Capital may be entrusted by downstream traders and may on its own initiative purchase bulk commodities including hot rolled steel plates and rebars. Luzheng Capital 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 Capital for its purchase from Shandong and/or its associates is relatively low. The Bulk Commodities Sale and Purchase Framework Agreement entered into between the Group and Shandong Steel is expected to seize favorable opportunities created by prevailing market conditions and secures stable profits from the differences in price, which is in the interest of the Company and Shareholders as a whole.

## Significant Events

For the purchase of raw materials, including but not limited to, coke and iron ores by Shandong Steel and/or its associates from Luzheng Capital, Luzheng Capital 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 Capital 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 Group 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 Group and Shareholders as a whole.

### **Pricing terms:**

For the Group's purchase of bulk 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 purchases 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 bulk 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 Capital 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 bulk 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 announcement of the Company dated 26 April 2019 in relation to, inter alia, non-exempt continuing connected transactions under the Former Risk Management Services Framework Agreement entered into between and by the Company and Shandong Steel and its annual caps. As disclosed in the announcement of the Company dated 26 April 2019, 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 Services Framework Agreement will expire on 31 December 2022 and the Group will continue to conduct certain continuing connected transactions under the Former Risk Management Services Framework Agreement after 31 December 2021, and the Company intends to adjust the caps of the premium paid in the OTC option transaction between the Group and Shandong Steel and/or its associates under the former Risk Management Service Framework Agreement, and conduct swap transactions with Shandong Steel and/or its associates, the Company shall continue to comply with the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Accordingly, the Company entered into the Risk Management Services Framework Agreement with Shandong Steel on 10 May 2021 (after trading hours) and proposed the annual caps for 2021, 2022 and 2023 under the Risk Management Services Framework Agreement. 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.

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 2021 (RMB '000)	Proposed annual caps for the year ended 31 December 2021 (RMB '000)
Option premium paid by Shandong Steel and/or its associates to the Group <sup>(1)</sup>	7,965	40,000
Option premium paid by the Group to Shandong Steel and/or its associates	0	40,000
The scale of the notional amount of the swap business with Shandong Steel and/or its associates	1,509,484	2,110,000

- (i) Option premium charged by the Group to Shandong Steel and/or its associates include those charged to Zhongtai Securities and/or its associates, netting off trading and clearing fees paid to future exchanges, if any.

## Significant Events

### Principal terms:

In the Group's ordinary and usual course of business, the Group 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 the Group. 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 Group 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 Group gradually matured with greater improvement of its trading capacity, risk management and service capability. The Group plans to provide OTC Options on futures such as rebars, iron ores, coke and rubber to Shandong Steel and/or its associates in order to meet the risk management needs of Shandong Steel and/or its associates, facilitate the development of the OTC derivatives business of the Group, as well as increase the revenue of the Group. Zhongtai Securities has advantages in equity OTC derivatives, while the Group has advantages in commodity OTC derivatives. Therefore, entering into OTC derivatives transactions between Zhongtai Securities and the Group 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:

Taking into consideration the factors including the market volatility and liquidity, the premium ratio for trading OTC derivatives with Shandong Steel and/or its associates ranges from approximately 0.1% to 8% of the value of the underlying asset.

- (i) among them, the premium ratio for trading structured financial product ranges from approximately 0.1% to 10% of the value of the assets;
- (ii) although the premium of OTC derivatives business charged by the Group varies depending on the types of futures products, the premium ratio of the same futures products is applicable to all of the Group's clients including Shandong Steel and/or its associates and other independent third party clients; and
- (iii) the premium ratio charged by/paid by the Group for risk management services provided is determined based on internationally recognized pricing models and risk control systems, with reference to the quotation of market organizations and reference parameters including the volatility ratio 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 Group 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 continuing connected transactions disclosed:

- (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 by the Company 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 2021 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 appointed 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 the year ended 31 December 2021, the remuneration of the Group's auditors, which are PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, was RMB1.851 million in total. The audit fees of the statutory audit report was RMB1.76 million, the fees of other assurance service was RMB0.091 million. The remuneration of the Group's other auditors was RMB0.116 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 2021.

# 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 the Shareholders. A modern corporate governance structure, comprising of the general meeting, the Board of Directors, the Supervisory Committee and the senior management, has been established by the Company with reference to the CG Code which operates independently under effective balance and check. 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 a total of 28 meetings, of which there were one general meeting, thirteen Board meetings, three Supervisory Committee meetings, three Risk Control Committee meetings, four Audit Committee meetings, three Nomination Committee meetings and one Remuneration and Appraisal Committee meeting.

## II. GENERAL MEETING

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

### 1. The 2020 annual general meeting of LUZHENG FUTURES Company Limited

On 17 June 2021, the Company convened the 2020 annual general meeting by voting on site and through video, at which the following resolutions were passed:

- (1) The “Proposal on the Work Report of the Board of Directors for the Year 2020”;
- (2) The “Proposal on the Work Report of the Supervisory Committee for the Year 2020”;
- (3) The “Proposal on the Annual Report for the Year 2020”;
- (4) The “Proposal on the Final Accounts for the Year 2020”;
- (5) The “Proposal on the Financial Budgets for the Year 2021”;
- (6) The “Proposal on the Profit Distribution Plan for the Year 2020”;
- (7) The “Proposal on the Appointment of the Accounting Firms for the year 2021”;

- (8) The “Proposal on the Appointment of Non-Executive Director”;
- (9) The “Proposal on Entering into the Financial Services Framework Agreement with Zhongtai Securities”;
- (10) The “Proposal on Entering into the Risk Management Services Framework Agreement with Shandong Steel”; and
- (11) The “Proposal on Amendments to the Rules of Procedure for the Board of Directors”.

### III. PERFORMANCE OF DUTY BY THE DIRECTORS

#### (1) Summary of the duty 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 the section headed “I. Briefings of the Directors, Supervisors and Senior Management (1) The Board” of Chapter IX 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 other Directors, Supervisors or members of the senior management. The composition of the Board of Directors is reasonable and every Director possesses extensive knowledge, experience and expertise in respect of the business operation and development of the Company. All the Directors understand their collective and individual obligation towards 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 for convening such meetings. Notice of Board meetings shall stipulate the date and venue of the meeting, the period, reasons, agenda and the date of the notice.

A Board meeting shall be held only when it is attended by more than half of the Directors. 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 had a connected relationship with the entity involved in the matter to be resolved at a Board meeting, he/she shall not vote on the resolution for 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 submitted to the general meeting of shareholders for consideration. In principle, Board meetings shall be held at the legal address of the Company, but they can also be held by way of teleconference or similar means of correspondence.

## Corporate Governance Report

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

Name of Directors	Attendance at Board meetings					Attendance at general meetings	
	Number of Board meetings attended	Attended in person	Attended by means of correspondence	Number of meetings attended by proxy	Absent	Whether absent from two consecutive meetings	Number of general meetings attended
<b>Executive Directors</b>							
ZHONG Jinlong	13	2	11	0	0	nil	1
LIANG Zhongwei	13	2	11	0	0	nil	1
<b>Non-executive Directors</b>							
LIU Hongsong <i>(resigned on 10 March 2021)</i>	1	0	1	0	0	nil	0
HU Kainan	13	1	11	1	0	nil	0
LIU Xinyi <i>(appointed on 17 June 2021)</i>	8	1	7	0	0	nil	0
MING Gang	13	0	13	0	0	nil	0
LIU Feng	13	0	12	1	0	nil	0
<b>Independent Non-executive Directors</b>							
GAO Zhu	13	0	13	0	0	nil	1
WANG Chuanshun	13	0	12	1	0	nil	1
LI Dapeng <i>(resigned on 7 October 2021)</i>	9	0	9	0	0	nil	1
ZHENG Jianping	13	0	13	0	0	nil	0

Number of Board meetings held during the year	13
In which: conducted by voting on-site	2
conducted by means of correspondence voting	11
Number of general meetings held during the year	1

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

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

#### 1. The 17th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 8 January 2021, the Company held the 17th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Changing the Place of Business of Ningbo Sales Office”.

#### 2. The 18th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 12 March 2021, the Company held the 18th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on the Set-up of IB Business Services Department” and the “Proposal on Amendment to the “Inside Information Management System of LUZHENG FUTURES Company Limited”.

#### 3. The 19th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 25 March 2021, the Company held the 19th meeting of the third session of the Board of Directors through voting on-site and through video and passed the “Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for the Year 2020”, the “Proposal on the Work Report of the Board of Directors of LUZHENG FUTURES Company Limited for the Year 2020”, and the “Proposal on the Annual Report (IFRSs) of LUZHENG FUTURES Company Limited for the Year 2020”, etc..

#### 4. The 20th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 2 April 2021, the Company held the 20th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Establishing Sales Offices of Financial Institutions ”.

#### 5. The 21st meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 10 May 2021, the Company held the 21st meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Election of Non-staff Representative Directors”, the “Proposal on Entering into the Framework Agreements on Continuing Connected Transactions with Related Parties (subject to independent shareholders’ approval)”, and the “Proposal on the Work Report on Anti-Money Laundering of LUZHENG FUTURES Company Limited for the Year 2020”, etc..

## Corporate Governance Report

### **6. The 22nd meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 29 June 2021, the Company held the 22nd meeting of the third session of the Board of Directors through voting by correspondence and passed The “Proposal on Amendments to ‘Measures for Capital Management of LUZHENG FUTURES Company Limited’”, the “Proposal on Applying for Fund Distribution Qualification”, and the “Proposal on Renaming the Marketing Management Department to Wealth Management Department”, etc..

### **7. The 23rd meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 9 July 2021, the Company held the 23rd meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on the Environmental, Social and Governance Report of LUZHENG FUTURES Company Limited for the Year 2020” and the “Proposal on Addition of Members to the Remuneration and Appraisal Committee and the Nomination Committee of the Third Session of the Board of Directors”.

### **8. The 24th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 26 August 2021, the Company held the 24th meeting of the third session of the Board of Directors through voting on-site and through video and passed the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for the Year 2021”, the “Proposal on the Risk Regulatory Indicators of LUZHENG FUTURES Company Limited for the Interim Period of the Year 2021” and the “Proposal on Amendments to the ‘Rules of Procedure for the Board of Directors of LUZHENG FUTURES Company Limited’”, etc.

### **9. The 25th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 17 September 2021, the Company held the 25th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Amendments to the Administrative Measures for Safe Depositing of Client Margins of LUZHENG FUTURES Company Limited”, the “Proposal on Formulating the ‘Measures for Internal Control Appraisal of LUZHENG FUTURES Company Limited’” and the “Proposal on Amendment to the ‘Working Rules for the General Manager of LUZHENG FUTURES Company Limited’”.

### **10. The 26th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 7 October 2021, the Company held the 26th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Changing Chairmen and Members of Certain Special Committees of the Board of Directors”.

### **11. The 27th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 9 November 2021, the Company held the 27th meeting of the third session of the Board of Directors through voting by correspondence, and considered and approved the “Proposal on Establishing the First and Second Departments of Industrial Development”.

### **12. The 28th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 22 December 2021, the Company held the 28th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on the Election of Independent Non-executive Directors”, the “Proposal on Formulating the ‘Rules Governing How the Board of Directors Delegates the Management and the General Manager Reports Work to the Board of Directors of LUZHENG FUTURES Company Limited’ and the “Proposal on Adjusting the Responsibilities of Operation Management Headquarters and Wealth Management Department”.

### **13. The 29th meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 31 December 2021, the Company held the 29th meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Amendment to the “Working Rules of the General Manager of LUZHENG FUTURES Company Limited”, the “Proposal on the Election of the General Legal Counsel of LUZHENG FUTURES Company Limited” and the “Proposal on the Appointment of the Accounting Firms of LUZHENG FUTURES Company Limited”, etc..

## **(4) Appointment, Reappointment and Removal of Directors**

The Articles of Association contains specific provisions on the appointment, reappointment and removal of the non-staff representative Directors. Pursuant to the Articles of Association, Directors who are not staff representatives shall be elected and removed by Shareholders at general meetings, while directors as staff representatives shall be elected and removed through democratic means by the staff of the Company, with a term of three years. Upon the expiration of the term of office, a Director shall be eligible for re-election and re-appointment. 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. 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 the 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, etc.. During the Reporting Period, the Company has established a multi-level information communication system and an information exchange platform to increase information sharing and exchanges among Directors, Supervisors and the senior management, enhancing the Directors’ ability to fulfill their duties.



## Corporate Governance Report

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

Name of Directors	Date	Duration	Organizer	Content
ZHONG Jinlong	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
LIANG Zhongwei	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
LIU Hongsong (resigned on 10 March 2021)	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
HU Kainan	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
	27 May 2021	2 hours and 50 minutes	Securities Association of China	Social Responsibility and Business Ethics of Securities Companies
	28 May 2021	2 hours	Securities Association of China	Outlook of the Development of Overseas REITs and Domestic REITs
	29 November 2021	1 hour and 20 minutes	Securities Association of China	Major revisions of Securities Law (2019) (1st half)
	29 November 2021	2 hours and 25 minutes	Securities Association of China	Major revisions of Securities Law (2019) (middle part)

Name of Directors	Date	Duration	Organizer	Content
MING Gang	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
LIU Feng	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
	29 September 2021	8 hours and 30 minutes	Shandong Listed Companies Association	Training Course for Directors and Supervisors in 2021
GAO Zhu	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
WANG Chuanshun	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
LI Dapeng (resigned on 7 October 2021)	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)
ZHENG Jianping	28 January 2021	2 hours	China Futures Association	Measures Governing the Qualifications for the Position of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格監管辦法》) and Measures for the Closed Administration of Margin Deposit of Futures Companies (《期貨公司保證金封閉管理辦法》)

## Corporate Governance Report

### IV. WORK PERFORMANCE OF DUTY BY THE BOARD OF DIRECTORS AND ITS 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 nine Directors: Mr. Zhong Jinlong as chairman of the Board and an executive Director, Mr. Liang Zhongwei as an executive Director, Mr. Hu Kainan, Mr. Liu Xinyi, Mr. Ming Gang and Mr. Liu Feng as non-executive Directors, and Mr. Gao Zhu, Mr. Wang Chuanshun 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 Financial 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 of 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, person in charge of financial matters and other senior management officers of the Company and to fix their remuneration, bonus and punishment;
- (12) to formulate the Company's basic management system;
- (13) to formulate proposals for amendments to the Articles of Association;
- (14) to manage the information disclosure of the Company;
- (15) to determine the establishment of special committees under the Board of Directors and to appoint or dismiss the chairmen of these committees;
- (16) to propose to general meetings for the appointment or replacement of the accounting firms for audit 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 venture investment, acquisition and disposal of assets, pledge of assets, external guarantees, entrusted 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 the listing rules of the stock exchange where the Company's Shares are listed, the General Meeting and the Articles of Association.

## Corporate Governance Report

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

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 all the principles as set out in 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 authorities 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 include determining the business plans and investment plans of the Company, determining the establishment of internal management organizations, establishing the basic management 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, namely the Strategic Development Committee, the Risk Control Committee, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee.

1. As at the end of the Reporting Period, the Strategic Development Committee comprises five members: Mr. Zhong Jinlong as executive Director, Mr. Gao Zhu and Mr. Zheng Jianping as 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;
  - (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 the 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 develop 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.

## Corporate Governance Report

2. As at the end of the Reporting Period, the Risk Control Committee comprises five members: Mr. Liang Zhongwei as executive Director, Mr. Gao Zhu and Mr. Zheng Jianping as independent non-executive Directors, 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 end of the Reporting Period, the Audit Committee comprised five members: Mr. Wang Chuanshun, Mr. Gao Zhu and Mr. Zheng Jianping as independent non-executive Directors, and Mr. Hu Kainan and Mr. Liu Feng as non-executive Directors. Mr. Wang Chuanshun, an independent non-executive Director, was 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-audit services. For this purpose, any entity that is under common control, ownership or management with the audit firm, or any third party that is reasonably in possession of all relevant information, any entity that is reasonably deemed as part of the domestic or international businesses of the auditing firm, shall be regarded as an external auditor. The Audit 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 audit department, and to make suggestions as to the appointment and removal of the head of the internal audit department of the Company.

- (4) to audit 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 judgments 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 judgments;
- c. significant adjustments according to the results of audit;
- d. assumptions on the ongoing operations of the Company and any qualified opinions;
- e. compliance with accounting standards; and
- f. compliance with the regulatory 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;



## Corporate Governance Report

- 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 end of the Reporting Period, the Remuneration and Appraisal Committee comprised five members: Mr. Liang Zhongwei as an executive Director; Mr. Gao Zhu, Mr. Wang Chuanshun and Mr. Zheng Jianping as independent non-executive Directors and Mr. Liu Xinyi as a non-executive Director. Mr. Gao Zhu, an independent non-executive Director, was 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 to be committed by 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;
  - (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.

## Corporate Governance Report

5. As at the end of the Reporting Period, the Nomination Committee comprised five members: Mr. Liang Zhongwei as an executive Director, Mr. Gao Zhu, Mr. Wang Chuanshun and Mr. Zheng Jianping as independent non-executive Directors, and Mr. Liu Xinyi as a non-executive Director. Mr. Zheng Jianping, an independent non-executive Director, was 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 “IX. Other Relevant Matters (vi) 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 general manager);
  - (4) to evaluate the independence of the independent non-executive Directors; and
  - (5) other duties as assigned by the Board.

## (5) Meetings of special committees

### 1. Risk Control Committee

On 25 March 2021, the sixth meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on the Risk Regulatory Indicators of LUZHENG FUTURES Company Limited for the Year 2020” by voting on site and through video.

On 8 May 2021, the seventh meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on the Work Report on Anti-money Laundering of LUZHENG FUTURES Company Limited for the Year 2020”, the “ Proposal on the Work Report on Compliance and Risk Control of LUZHENG FUTURES Company Limited for the Year 2020”, and “Proposal on Formulating the ‘Basic Internal Control System of LUZHENG FUTURES Company Limited’”, the “Proposal on Formulating the ‘Administrative Measures for Honest and Clean Conduct of LUZHENG FUTURES Company Limited’”, and the “Proposal on the Self-inspection Report of LUZHENG FUTURES Company Limited for the Year 2020” by voting through correspondence.

On 26 August 2021, the eighth meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on Reporting the Risk Regulatory Indicators of LUZHENG FUTURES Company Limited for the Interim Period of the Year 2021” by voting on site and through video.

During the Reporting Period, the attendance of members of the Risk Control Committee at meetings:

Name	The actual number of meetings attended/ the number of meetings expected to be attended
HU Kainan (chairman of the Risk Control Committee)	3/3
GAO Zhu	3/3
LIANG Zhongwei	3/3
MING Gang	3/3
ZHENG Jianping	3/3

## Corporate Governance Report

### 2. Audit Committee

On 25 March 2021, the fourth meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited, considered and approved the “Proposal on the Annual Report (IFRSs) of LUZHENG FUTURES Company Limited for the Year 2020”, the “Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for the Year 2020”, the “Proposal on the Profit Distribution Plan of LUZHENG FUTURES Company Limited for the Year 2020”, and the “Proposal on the Appointment of the Accounting Firms of LUZHENG FUTURES Company Limited for the Year 2021”, by voting on site and through video.

On 8 May 2021, the fifth meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on Entering Into the Framework Agreements on Continuing Connected Transactions with Related Parties (subject to independent shareholders’ approval)”, the “Proposal on Formulating the ‘Basic Internal Control System of LUZHENG FUTURES Company Limited’” and the “Proposal on the Final Accounts (IFRSs) of LUZHENG FUTURES Company Limited for the Year 2020” and the “Proposal on the Financial Budget of LUZHENG FUTURES Company Limited for the Year 2021” by voting through correspondence.

On 26 August 2021, the sixth meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited, considered and approved the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for the Year 2021” and the “Proposal on Formulating the ‘Internal Control Appraisal of LUZHENG FUTURES Company Limited’” by voting on site and through video.

On 24 December 2021, the seventh meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on the Appointment of the Accounting Firms of LUZHENG FUTURES Company Limited” by voting through correspondence.

During the Reporting Period, the attendance of members of the Audit Committee at meetings:

Name	The actual number of meetings attended/ the number of meetings expected to be attended
WANG Chuanshun (chairman of the Audit Committee)	4/4
GAO Zhu	4/4
LI Dapeng (resigned as member of the Audit Committee on 7 October 2021)	3/3
ZHENG Jianping (appointed as member of the Audit Committee on 7 October 2021)	1/1
LIU Feng	4/4
HU Kainan	4/4

### 3. Nomination Committee

On 8 May 2021, the second meeting of the Nomination Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on Examining and Recommending Non-staff Representative Directors” by voting through correspondence.

On 21 December 2021, the third meeting of the Nomination Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on Examining Candidates for Independent Directors” by voting through correspondence.

On 30 December 2021, the fourth meeting of the Nomination Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Proposal on Examining Candidates for General Legal Counsel” by voting through correspondence.

During the Reporting Period, the attendance of members of the Nomination Committee at meetings:

Name	The actual number of meetings attended/ the number of meetings expected to be attended
LI Dapeng (chairman of the Nomination Committee, resigned as chairman and member of the Nomination Committee on 7 October 2021)	1/1
ZHENG Jianping (chairman of the Nomination Committee, appointed as Chairman of Nomination Committee on 7 October 2021)	3/3
GAO Zhu (appointed as member of the Nomination Committee on 7 October 2021)	2/2
WANG Chuanshun	3/3
LIU Hongsong (resigned as member of the Nomination Committee on 10 March 2021)	0/0
LIU Xinyi (appointed as member of the Nomination Committee on 9 July 2021)	2/2
LIANG Zhongwei	3/3

## Corporate Governance Report

### 4. Remuneration and Appraisal Committee

On 26 August 2021, the third meeting of the Remuneration and Appraisal Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited considered and approved the “Report on the Performance Appraisal of the senior management of LUZHENG FUTURES Company Limited for the Year 2020” by voting on site and through video.

During the Reporting Period, the attendance of members of the Remuneration and Appraisal Committee at meetings:

Name	The actual number of meetings attended/ the number of meetings expected to be attended
GAO Zhu (chairman of the Remuneration and Appraisal Committee)	1/1
WANG Chuanshun	1/1
ZHENG Jianping	1/1
LIU Hongsong (resigned as member of the Remuneration and Appraisal Committee on 10 March 2021)	0/0
LIU Xinyi (appointed as member of the Remuneration and Appraisal Committee on 9 July 2021)	1/1
LIANG Zhongwei	1/1

### 5. Strategic Development Committee

During the Reporting Period, the Strategic Development Committee of the Board of Directors of the Company believed that the Company could operate and develop in accordance with the established strategic plan, and no meeting of the Strategic Development Committee was held.

### V. CHAIRMAN AND GENERAL MANAGER

The roles of the Chairman of the Board of Directors and the general manager are separate in order to ensure the independence and accountability of their respective responsibilities and the balanced distribution of rights and authorities. Currently, Mr. 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.

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;



## Corporate Governance Report

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 the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for the senior management. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they had complied with the standards specified in the Model Code during the Reporting Period. The Company has made specific inquiries to the senior management about their compliance with the guidelines on transactions of the Company's securities, and the Company did not notice any violation of the guidelines.

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

During the Reporting Period, 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 three independent non-executive Directors, namely Mr. Gao Zhu, Mr. Wang Chuanshun 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 safeguard the investment of the Shareholders and the assets of the Company.

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.

## Corporate Governance Report

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

- (I) 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;
- (II) 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
- (III) 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 effectiveness of the Group’s risk management and internal control systems. During the Reporting Period, the Board has reviewed the Group’s risk management and internal control system six times. 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 audit of outgoing responsible persons of the Company, routine audit of branches, audit of domestic and overseas subsidiaries, audit of the management of main futures business, and audit of the company’s anti-money laundering and clean operation. 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.

### **IX. OTHER RELEVANT MATTERS**

#### **(1) Auditors and their 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 2021, 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.

#### **(2) 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 2021 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.

## Corporate Governance Report

### (3) Company secretaries

During the Reporting Period, Mr. Liang Zhongwei and Ms. Ng Wing Shan were the joint company secretaries of the Company. Ms. Ng Wing Shan resigned as the joint company secretary of the Company on 10 March 2022, and Dr. Ngai Wai Fung was appointed as the joint company secretary of the Company on the same day to replace her. For the biographies of Mr. Liang Zhongwei and Dr. Ngai Wai Fung, please refer to “I. Directors, Supervisors, Senior Management and Staff” in Chapter IX of this report. Mr. Liang Zhongwei, the joint company secretary and secretary to the Board of the Company, has been the main contact person between Ms. Ng Wing Shan and Dr. Ngai Wai Fung and the Company.

In accordance with the requirements of Rule 3.29 of the Listing Rules, Mr. Liang Zhongwei and Ms. Ng Wing Shan, being the joint company secretaries, have received no less than 15 hours of relevant professional training during the year ended 31 December 2021.

### (4) 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](http://www.luzhengqh.com), which serves as a channel promoting effective communication with Shareholders. Shareholders can make inquiries 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 66 to 97 of Chapter IX 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.

### **(5) 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. To make the investors understand the situation of the Company and improve investors' recognition and understanding of the Company and the industry in which the Company operates.

### **(6) 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, gender, 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.

## Corporate Governance Report

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

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 at the end of Reporting Period, the Board of Directors consisted of nine Directors, three of whom were independent non-executive Directors and one was staff representative Director, thereby enhancing the strict review and monitoring of management procedures. The Board of representative Directors is highly diverse in all aspects of age, cultural and educational background, professional experience, skills, knowledge and terms of service.

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

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

### (8) Remuneration of the senior management

The remuneration paid to the senior management by bands for the year ended 31 December 2021 is set out below:

Remuneration bands	Year ended 31 December 2021 Number
RMB300,001 to RMB500,000	1
RMB500,001 to RMB700,000	3
RMB700,001 to RMB900,000	1
RMB900,001 to RMB1,100,000	1
	6

### (9) 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.

### (10) 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 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.

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 the 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 Controls

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 establishes and perfects 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' establishment and implementation of 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 Audit Committee and Risk Control Committee are subordinated to the Company's Board of Directors, who are responsible 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 responsible to the Board of Directors.

## II. IMPLEMENTATION AND OPERATION OF INTERNAL CONTROL SYSTEM

Pursuant to relevant laws and regulations, requirements on regulatory policies and corporate governance, the Company establishes and implements corresponding levels of internal control system, including the Articles of Association, the Rules of Procedure of Shareholders' general 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 optimizes process control, increases the appraisal and check mechanisms, and comprehensively improves the implementation of the systems.

## III. SUPERVISION AND INSPECTION OF INTERNAL CONTROL

The Company established an internal control management model that covers pre-events, ongoing events and post events so as to ensure that various operation and management activities are undertaken in accordance with laws and regulations. The internal monitoring system of the Company comprises the Supervisory Committee, the Audit Committee of the Board, the Audit Department and the Compliance and Risk Control Department, and established a scientific and effective internal authorization management mechanism. The Compliance and Risk Control Department focused on the pre-event and on-going event monitoring function of compliance management. The Audit Department 's duties are internal independent audit and assessment., with a focus on post-event monitoring. It is led by the chief risk officer in operation, and is accountable to the Audit Committee of the Board of Directors. The Company supervises and inspects the construction and implementation of the Company's internal control system by implementing internal audits and conducting compliance inspections.

During the Reporting Period, the Company revised and improved various internal audit regulations in accordance with regulatory requirements and internal control management needs, and implemented various audit inspections in accordance with the annual audit plan, including the departure audit on relevant responsible persons, regular audits on branches, and audits on domestic and overseas subsidiaries, audits management of main futures business, and audits of the Company's anti-money laundering and integrity practices. In the daily audit work, we pay full attention to the regulatory dynamics and the Company's business development, enrich the audit content in light of regulatory cases, and implement supervision and management of the Company's key risk control business in a timely manner. In practice, we improved the quality of audit work by optimizing the audit process, and further strengthened the supervision of audit rectification, which effectively promoted the improvement of the execution of the Company's internal control system.

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

During the Reporting Period, the Company has established and improved the corporate governance structure of "the General Meeting, the Board of Directors, the Supervisory Committee and the Senior Management", established and implemented internal control systems at corresponding levels, and established rules and regulations covering futures brokerage business, asset management business, investment consulting business, and risk management subsidiary business, which were strictly enforced. According to the internal control evaluation work carried out by the Company in 2021, no major defects in the internal control of the Company were found.

During the Reporting Period, PricewaterhouseCoopers Zhongtian Certified Public Accountants audited the Company's internal control requirements and internal control measures related to financial statements through inquiries, observations, inspections, and tracking transactions. Control tests were performed on internal control in relation to the preparation of financial statements. Upon inspection, no significant defects were found in the Company's internal control related to the financial statements.

# Independent Auditor's Report

## **TO THE SHAREHOLDERS OF LUZHENG FUTURES COMPANY LIMITED**

(incorporated in China with limited liability)

### **Opinion**

#### **What we have audited**

The consolidated financial statements of Luzheng Futures Company Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 143 to 240, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- 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 significant accounting policies and other explanatory information.

#### **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 2021, 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.

#### **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 through profit or loss and derivative financial instruments.

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Valuation of financial instruments held at fair value through profit or loss and derivative financial instruments</b>	
<p>Refer to notes 4.5, 4.6, 4.7, 4.8, 4.10, 26, 27 and 46.2 to the Group's consolidated financial statements.</p> <p>As at 31 December 2021, the Group's financial assets held at fair value through profit or loss were stated at RMB633 million, derivative financial assets at RMB244 million and derivative financial liabilities at RMB140 million.</p> <p>Financial assets of RMB218 million including trust schemes and income certificates were classified at level 3 with Discounted Cash Flows Model being applied for the valuation as at 31 December 2021. 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 held at fair value through profit or loss and derivative financial instruments included the following:</p> <ul style="list-style-type: none"> <li>• Understood and evaluated the management procedures and controls over the identification and measurement of valuation of financial instruments.</li> <li>• Assessed the appropriateness of the valuation methodologies applied by the Group and compared methodologies with our knowledge of the current industry practice.</li> <li>• For the valuation of level 1 and level 2 non-derivative instruments, we performed sampling test to verify the reasonableness of fair value by independently obtaining the observable market data and the net asset value provided by relevant asset managers, and comparing the prices used by the Group with these data. For 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.</li> </ul>

## Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Valuation of financial instruments held at fair value through profit or loss and derivative financial instruments</b>	
<p>Valuation of these financial instruments was a key area of audit focus due to the materiality of the balances. For those financial instruments that were classified at level 3, 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"> <li>For the valuation of financial instruments 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, including investment contracts, legal documents, updated trustee's credit assessment reports on the underlying investments, 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 financial instruments that were classified at level 3.</li> </ul> <p>Based on the procedures performed, we found that management's key judgements applied in its fair value measurement were acceptable 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.

### **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 scepticism throughout the audit. We also:

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

## 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, actions taken to eliminate threats or safeguards applied.

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, 24 March 2022

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
<b>Revenue</b>	7	<b>595,492</b>	376,485
Gains/(Losses) on physical commodities trading	8	<b>21,756</b>	(34,747)
Net investment gains	9	<b>108,715</b>	112,582
Other income	10	<b>23,455</b>	34,499
<b>Operating income</b>		<b>749,418</b>	488,819
Staff costs	11	<b>(277,769)</b>	(185,584)
Commission to brokerage agents		<b>(33,128)</b>	(12,936)
Introducing broker commission		<b>(13,532)</b>	(10,247)
Depreciation and amortization	12	<b>(17,407)</b>	(19,206)
Credit impairment losses	13	<b>(656)</b>	(619)
Other operating expenses	14	<b>(133,556)</b>	(147,030)
<b>Operating expenses</b>		<b>(476,048)</b>	(375,622)
<b>Operating profit</b>		<b>273,370</b>	113,197
Share of losses of investments in associates	19	<b>(2,771)</b>	(16,555)
Other (losses)/gains, net	15	<b>(105)</b>	1,248
<b>Profit before income tax</b>		<b>270,494</b>	97,890
Income tax expense	16	<b>(66,139)</b>	(41,117)
<b>Profit for the year</b>		<b>204,355</b>	56,773



## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(1,520)	(1,689)
<b>Other comprehensive income for the year, net of tax</b>		<b>(1,520)</b>	(1,689)
<b>Total comprehensive income for the year</b>		<b>202,835</b>	55,084
Profit attributable to:			
– Shareholders of the Company		204,355	56,834
– Non-controlling interests		–	(61)
		<b>204,355</b>	56,773
Total comprehensive income attributable to:			
– Shareholders of the Company		202,835	55,193
– Non-controlling interests		–	(109)
		<b>202,835</b>	55,084
<b>Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)</b>			
<b>Basic/Diluted</b>	17	<b>0.20</b>	0.06

# Consolidated Statement of Financial Position

As at 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2021	31 December 2020
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	41,297	38,245
Intangible assets		7,148	6,768
Investments in associates	19	25,377	41,235
Other non-current assets	21	21,885	22,559
Deferred income tax assets	22	776	856
Refundable deposits	23	40,608	31,346
Derivative financial assets	26	1,722	–
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss	27	115,021	163,621
<b>Total non-current assets</b>		<b>255,234</b>	306,030
<b>Current assets</b>			
Physical commodities	24	44,995	114,533
Other current assets	25	305,595	122,423
Contract assets		18,835	6,462
Derivative financial assets	26	242,160	90,291
Financial assets at fair value through profit or loss	27	517,558	376,146
Financial assets held under resale agreements	28	121,690	305,038
Deposits with exchange-clearing organizations	29	8,629,011	6,196,152
Bank balances held for clients	30	9,415,547	4,723,619
Cash and bank balances	31	950,033	684,953
<b>Total current assets</b>		<b>20,245,424</b>	12,619,617
<b>Total assets</b>		<b>20,500,658</b>	12,925,647

## Consolidated Statement of Financial Position

As at 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2021	31 December 2020
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	32	1,001,900	1,001,900
Share premium	33	650,630	650,630
Other reserves	33	334,054	282,453
Retained earnings		433,012	304,411
Non-controlling interests		—	—
<b>Total equity</b>		<b>2,419,596</b>	2,239,394
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	22	24,491	6,242
Other non-current liabilities	34	25,449	28,615
Derivative financial liabilities	26	9,008	1,913
<b>Total non-current liabilities</b>		<b>58,948</b>	36,770
<b>Current liabilities</b>			
Other current liabilities	35	817,645	312,592
Provisions	36	877	29,219
Contract liabilities	37	12,344	20,446
Current income tax liabilities		9,394	6,614
Derivative financial liabilities	26	130,994	109,160
Accounts payable to brokerage clients	38	17,050,860	10,171,452
<b>Total current liabilities</b>		<b>18,022,114</b>	10,649,483
<b>Total liabilities</b>		<b>18,081,062</b>	10,686,253
<b>Total equity and liabilities</b>		<b>20,500,658</b>	12,925,647

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2021  
(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		
<b>Balance at 1 January 2021</b>	<b>1,001,900</b>	<b>650,630</b>	<b>282,453</b>	<b>304,411</b>	–	<b>2,239,394</b>
Profit for the year	–	–	–	<b>204,355</b>	–	<b>204,355</b>
Other comprehensive income for the year	–	–	<b>(1,520)</b>	–	–	<b>(1,520)</b>
<b>Total comprehensive income for the year</b>	–	–	<b>(1,520)</b>	<b>204,355</b>	–	<b>202,835</b>
Net appropriation to reserves	–	–	<b>52,109</b>	<b>(52,109)</b>	–	–
Dividends relating to 2020 (Note 40)	–	–	–	<b>(23,645)</b>	–	<b>(23,645)</b>
Others	–	–	<b>1,012</b>	–	–	<b>1,012</b>
<b>Balance at 31 December 2021</b>	<b>1,001,900</b>	<b>650,630</b>	<b>334,054</b>	<b>433,012</b>	–	<b>2,419,596</b>

	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		
<b>Balance at 1 January 2020</b>	<b>1,001,900</b>	<b>650,630</b>	<b>259,037</b>	<b>272,634</b>	461	<b>2,184,662</b>
Profit for the year	–	–	–	56,834	(61)	56,773
Other comprehensive income for the year	–	–	<b>(1,641)</b>	–	(48)	<b>(1,689)</b>
<b>Total comprehensive income for the year</b>	–	–	<b>(1,641)</b>	56,834	(109)	<b>55,084</b>
Net appropriation to reserves	–	–	25,057	<b>(25,057)</b>	–	–
Acquisition of non-controlling interests	–	–	–	–	<b>(352)</b>	<b>(352)</b>
<b>Balance at 31 December 2020</b>	<b>1,001,900</b>	<b>650,630</b>	<b>282,453</b>	<b>304,411</b>	–	<b>2,239,394</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2021	2020
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>270,494</b>	97,890
Adjustments for:		
Depreciation and amortization	<b>17,407</b>	19,206
Impairment losses	<b>2,094</b>	619
Interest expense on lease liabilities	<b>2,105</b>	1,659
Net losses/(gains) on disposal of property and equipment and intangible assets	<b>248</b>	(459)
Net gains on modification of lease agreements	<b>—</b>	(26)
Foreign exchange losses	<b>156</b>	140
Interest income from term deposits	<b>(16,791)</b>	(11,840)
Share of losses of investments in associates	<b>2,771</b>	16,555
	<b>278,484</b>	123,744
<b>Net increase in operating assets:</b>		
Net increase in bank balances held for clients	<b>(4,701,190)</b>	(1,123,722)
Net increase in deposits with exchange-clearing organizations	<b>(2,618,555)</b>	(2,795,743)
Net increase in financial assets at fair value through profit and loss and derivative financial assets	<b>(246,403)</b>	(306,061)
Net decrease/ (increase) in financial assets held under resale agreements	<b>183,348</b>	(274,782)
Net (increase)/decrease in contract assets	<b>(12,373)</b>	5,909
Net (increase)/decrease in other assets	<b>(182,282)</b>	41,066
Net decrease in physical commodities	<b>69,538</b>	194,723
	<b>(7,507,917)</b>	(4,258,610)
<b>Net increase in operating liabilities:</b>		
Net increase in accounts payable to brokerage clients	<b>6,879,408</b>	3,782,194
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	<b>28,929</b>	41,911
Net increase in other liabilities	<b>509,585</b>	56,323
Net (decrease)/increase in contract liabilities	<b>(8,102)</b>	20,446
Net (decrease)/increase in provisions	<b>(28,342)</b>	29,219
	<b>7,381,478</b>	3,930,093
<b>Income tax paid</b>	<b>(53,034)</b>	(18,677)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>99,011</b>	(223,450)

## Consolidated Statement of Cash Flows

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2021	2020
<b>Cash flows from investing activities</b>		
Proceeds from disposal of an associate	19,099	–
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	977	2,088
Interest received from term deposits	6,080	11,840
Proceeds on maturity of term deposits	280,000	3,135
Payment for purchases of term deposits	(580,000)	–
Purchases of property and equipment, intangible assets and other long-term assets	(17,540)	(7,584)
Capital injection to an associate	(5,000)	–
Payment for acquisition of non-controlling interests	–	(352)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(296,384)</b>	9,127
<b>Cash flows from financing activities</b>		
Repayment of lease liabilities	(9,649)	(9,428)
Dividends paid to shareholders	(23,645)	–
<b>Net cash outflow from financing activities</b>	<b>(33,294)</b>	(9,428)
<b>Net decrease in cash and cash equivalents</b>	<b>(230,667)</b>	(223,751)
<b>Cash and cash equivalents at beginning of year</b>	<b>811,805</b>	1,035,696
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(156)</b>	(140)
<b>Cash and cash equivalents at end of year (Note 39)</b>	<b>580,982</b>	811,805

The financial statements on pages 143 to 149 were approved by the Board of Directors on 24 March 2022 and were signed on its behalf:

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(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 Hong Kong Stock Exchange 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, basis trading, warehouse receipt services, cooperative hedging services, market-making services, over-the-counter derivatives business, information technology consulting services and other business activities as permitted by the CSRC.

The consolidated financial statements were authorized for issue by the Board of Directors on 24 March 2022.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (the “IFRS”), which collectively include International Accounting Standards (“IAS”) and related interpretations issued by the International Accounting Standards Board (the “IASB”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622; and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 certain financial assets and financial liabilities (including derivative instruments) measured at fair value.

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

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 early for their annual reporting period commencing 1 January 2021:

Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
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The amendments listed above 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, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

## 3 Accounting year

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

## 4 Summary of significant accounting policies

### 4.1 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 comprehensive income, statement of changes in equity and statement of financial position respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.1 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 4.15.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.1 Principles of consolidation and equity accounting (Continued)

#### (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.

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.

### 4.2 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.3 Foreign currency translation

#### (1) Functional and presentation currency

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

#### (2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.4 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.

### 4.5 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.5 Financial assets (Continued)

#### (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.

#### ***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 SPPI, 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 losses are presented as separate line item in the statement of comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.5 Financial assets (Continued)

#### (3) Measurement (Continued)

##### *Debt instruments (Continued)*

- 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.

##### *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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

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

#### 4.5 Financial assets (Continued)

##### (4) Impairment (Continued)

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.

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 IFRS9 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 2021

(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.6 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 "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 2021  
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## 4 Summary of significant accounting policies (Continued)

### 4.7 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.

### 4.8 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).

### 4.9 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 2021

(All amounts in RMB'000 unless otherwise stated)

## 4 Summary of significant accounting policies (Continued)

### 4.10 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.

### 4.11 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.

### 4.12 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 2021  
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### 4 Summary of significant accounting policies (Continued)

#### 4.12 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 4.15.

#### 4.13 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 4.15.

## Notes to the Consolidated Financial Statements

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

#### 4.14 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.

#### 4.15 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.

#### 4.16 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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## 4 Summary of significant accounting policies (Continued)

### 4.17 Revenue recognition

#### (1) Commission and fee income

The Group provides 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 is 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 is 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.

### 4.18 Government grants

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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## 4 Summary of significant accounting policies (Continued)

### 4.19 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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

#### (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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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## 4 Summary of significant accounting policies (Continued)

### 4.19 Current and deferred income tax (Continued)

#### (2) Deferred income tax (Continued)

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.

### 4.20 Leases

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.

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.

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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

#### 4.20 Leases (Continued)

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.

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 without a purchase option. Low-value assets comprise IT-equipment and small items of office furniture.

As at 31 December 2021, 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.

#### 4.21 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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## 4 Summary of significant accounting policies (Continued)

### 4.22 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

### 4.23 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.

### 4.24 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.

## Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

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

#### 4.25 Assets segregated for brokerage clients

Pursuant to requirements of the CSRC, funds deposited by brokerage clients relating to exchange traded futures and options 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.

#### 4.26 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 futures and options transactions and include gains and losses on open positions 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.

# Notes to the Consolidated Financial Statements

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## 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, Binomial Model and 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 2021

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### 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:

	<b>Tax basis</b>	<b>Tax rate</b>
Corporate income tax/ Profit tax	Taxable profit	25%/16.5%
Value added tax ("VAT")	Taxable value added (VAT payable is calculated based on VAT-output less deductible VAT-input)	13%/9%/6%
Value added tax ("VAT") <sup>(1)</sup>	Taxable value added (VAT payable is calculated based on VAT-output)	3%/1%
City construction and maintenance tax	VAT paid	7%

(1) 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%. Pursuant to the 'Announcement on the Value-Added Tax Policy of Supporting Individual Industrial and Commercial Households Resuming Work and Business', 'Announcement on extending the implementation period of the VAT reduction and exemption policy for small-scale taxpayers' and 'Announcement on Continuing the Implementation of Some Preferential Tax and Fee Policies in Response to the Epidemic' jointly issued by the Ministry of Finance and the State Administration of Taxation, a few branches are subject to a preferential VAT rate of 1%.

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### 7 Revenue

	Year ended 31 December	
	2021	2020
Net commission and fee income <sup>(1)</sup>	75,459	70,890
Net interest income <sup>(2)</sup>	196,488	145,490
Net refunds of trading fees <sup>(3)</sup>	323,545	160,105
	<b>595,492</b>	<b>376,485</b>

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

	Year ended 31 December	
	2021	2020
<b>Commission and fee income</b>		
Futures and Option brokerage service	451,590	314,752
Settlement and clearing service income from other futures firms	21,792	30,553
Investment consultancy service	307	208
Asset management service	—	37
	<b>473,689</b>	<b>345,550</b>
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	376,438	244,107
Settlement and clearing service expense to exchange-clearing organizations	21,792	30,553
	<b>398,230</b>	<b>274,660</b>
<b>Net commission and fee income</b>	<b>75,459</b>	<b>70,890</b>

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For the year ended 31 December 2021  
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### 7 Revenue (Continued)

#### (2) Net interest income

	Year ended 31 December	
	2021	2020
<b>Interest income</b>		
Interest income from deposits with banks	231,521	148,184
Interest income from deposits with exchange-clearing organizations	57,456	46,002
Interest income from financial assets held under resale agreements	1,565	2,480
	<b>290,542</b>	196,666
<b>Interest expense</b>		
Interest expense to brokerage clients	91,325	48,438
Interest expense on lease liabilities	2,105	1,659
Interest expense on settlement and clearing services to other futures firms	624	1,079
	<b>94,054</b>	51,176
<b>Net interest income</b>	<b>196,488</b>	145,490

#### (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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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### 8 Gains/(Losses) on physical commodities trading

	Year ended 31 December	
	2021	2020
Sales proceeds	1,521,637	787,076
Costs of purchases	(1,499,881)	(821,823)
	21,756	(34,747)

### 9 Net investment gains

	Year ended 31 December	
	2021	2020
Net realized gains/(losses) of		
– Financial assets at fair value through profit or loss	12,989	(14,998)
– Financial liabilities at fair value through profit or loss	–	(23,360)
– Derivative financial instruments	33,805	69,261
Unrealized fair value changes of		
– Financial assets at fair value through profit or loss	719	17,581
– Financial liabilities at fair value through profit or loss	–	24,304
– Derivative financial instruments	60,126	21,761
– Physical commodities	(6,256)	5,094
Dividends from financial assets at fair value through profit or loss	7,332	12,939
	108,715	112,582

### 10 Other income

	Year ended 31 December	
	2021	2020
Exchange service income	21,212	32,326
Software service income	366	28
Other	1,877	2,145
	23,455	34,499



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For the year ended 31 December 2021  
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### 11 Staff costs

	Year ended 31 December	
	2021	2020
Salaries and bonus	225,796	154,227
Other social securities	19,731	12,859
Pension	24,235	8,594
Labour union charge and employee education charge	4,512	6,715
Other welfares	3,495	3,189
	<b>277,769</b>	<b>185,584</b>

#### (1) The five highest paid individuals

For the year ended 31 December 2021, the five highest paid individuals do not include any of the directors and supervisors (2020: same). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2021	2020
Salaries, allowances and other welfares	8,854	6,599
Bonus	2,055	1,015
	<b>10,909</b>	<b>7,614</b>

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

	Year ended 31 December	
	2021	2020
RMB1,000,001 to RMB1,500,000	–	3
RMB1,500,001 to RMB2,000,000	3	2
RMB2,000,001 to RMB2,500,000	1	–
RMB2,500,001 to RMB3,000,000	1	–
	<b>5</b>	<b>5</b>

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

## Notes to the Consolidated Financial Statements

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### 12 Depreciation and amortization

	Year ended 31 December	
	2021	2020
Depreciation of right-of-use assets	7,631	8,671
Depreciation of property and equipment	6,888	7,609
Amortization of intangible assets	1,521	1,384
Amortization of long-term prepaid expenses	1,367	1,542
	<b>17,407</b>	19,206

### 13 Credit impairment losses

	Year ended 31 December	
	2021	2020
Net impairment losses on bank balances	504	(499)
Net impairment losses on accounts receivable	100	(847)
Net impairment losses on other receivables	52	1,965
	<b>656</b>	619

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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### 14 Other operating expenses

	Year ended 31 December	
	2021	2020
Marketing and distribution expenses	35,989	25,716
Information system maintenance fees	23,778	19,438
Office expenses	19,063	14,098
Insurance expenses	17,105	27,340
Consulting expenses	6,568	2,736
Rentals	4,693	3,903
Professional service expenses	4,143	7,000
Property maintenance fee	3,598	3,444
Taxes and surcharges	3,095	2,014
Membership fees and annual fees	2,929	1,737
Auditors' remuneration		
– PwC	1,851	1,740
– Other auditors	116	519
Futures Investors Protection Fund	868	503
Provisions (Note 36)	–	29,219
Other expenses	9,760	7,623
	<b>133,556</b>	<b>147,030</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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### 15 Other (losses)/gains, net

	Year ended 31 December	
	2021	2020
Gains from disposal of affiliates	322	–
Government grants	758	1,185
Donation	(1,454)	(801)
Foreign exchange losses	(156)	(140)
Others	425	1,004
	<b>(105)</b>	1,248

### 16 Income tax expense

	Year ended 31 December	
	2021	2020
Current tax	47,810	16,952
Deferred tax	18,329	24,165
	<b>66,139</b>	41,117

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

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

## Notes to the Consolidated Financial Statements

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### 16 Income tax expense (Continued)

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

	Year ended 31 December	
	2021	2020
Profit before income tax	270,494	97,890
Tax calculated at applicable tax rates applicable to profits in the respective areas	67,548	24,820
Items deducted for tax purposes but not subtracted to arrive at taxable income	(5,064)	(2,469)
Tax losses for which no deferred income tax asset is recognized	312	2,853
Utilisation of previously unrecognized tax losses	(190)	–
Reversal of previously recognized deferred income tax assets	–	9,411
Income not subject to tax	(830)	(864)
Items not deductible for tax purposes	4,397	7,366
Adjustments in respect of prior years	(34)	–
	<b>66,139</b>	41,117

### 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	
	2021	2020
Profit attributable to shareholders of the Company (in RMB thousands)	204,355	56,834
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	<b>0.20</b>	0.06

#### 17.2 Diluted earnings per share

For the year ended 31 December 2021, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (2020: same).

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For the year ended 31 December 2021  
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### 18 Property, plant and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
At 1 January 2021	40,073	4,509	46,934	91,516
Additions	–	2,199	8,966	11,165
Disposals	–	(523)	(7,524)	(8,047)
At 31 December 2021	40,073	6,185	48,376	94,634
<b>Accumulated depreciation</b>				
At 1 January 2021	(12,779)	(3,465)	(37,027)	(53,271)
Additions	(1,350)	(492)	(5,046)	(6,888)
Disposals	–	54	6,768	6,822
At 31 December 2021	(14,129)	(3,903)	(35,305)	(53,337)
<b>Carrying amount</b>				
At 31 December 2021	25,944	2,282	13,071	41,297
<b>Cost</b>				
At 1 January 2020	40,073	8,788	46,488	95,349
Additions	–	584	3,754	4,338
Disposals	–	(4,863)	(3,308)	(8,171)
At 31 December 2020	40,073	4,509	46,934	91,516
<b>Accumulated depreciation</b>				
At 1 January 2020	(11,535)	(7,447)	(33,774)	(52,756)
Additions	(1,244)	(492)	(5,873)	(7,609)
Disposals	–	4,474	2,620	7,094
At 31 December 2020	(12,779)	(3,465)	(37,027)	(53,271)
<b>Carrying amount</b>				
At 31 December 2020	27,294	1,044	9,907	38,245

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### 19 Investment in associates

Set out below are the associates of the Group as at 31 December 2021 which have share capital consisting solely of ordinary shares held directly by the Group.

Nature of investment in associates as at 31 December 2021:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Shandong Board of Trade Co., Ltd. (山東大宗商品交易中心有限公司) ("Shandong BOT") <sup>(1)</sup>	Rizhao, the PRC	29.5%	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") <sup>(2)</sup>	Jinan, the PRC	34.97%	Registration, settlement and derivatives clearing	Equity

The Group's associate, Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. ("Luzheng Fengtong"), has finished its liquidation on 29 October 2021.

The tables below provide summarized financial information for associates. The information disclosed reflects the amounts presented in the financial statements of these associates instead of the Group's share of those amounts.

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### 19 Investment in associates (Continued)

#### (1) Shandong BOT

The registered capital of Shandong BOT is RMB120 million as at 31 December 2021. The Group holds 29.5% of its equity and accounts for the associate using equity method.

	Shandong BOT	
	31 December 2021	31 December 2020
Current assets	176,611	139,269
Non-current assets	25,936	40,962
<b>Total assets</b>	<b>202,547</b>	180,231
Current liabilities	155,174	144,652
Non-current liabilities	621	721
<b>Total liabilities</b>	<b>155,795</b>	145,373
Net assets attributable to parent company	21,845	34,858
Group's share in %	29.5%	29.5%
Interest in the associate and carrying value	6,444	10,283
Reconciliation to carrying amounts		
At 1 January	10,283	27,634
Share of losses for the year	(3,839)	(17,351)
At 31 December	6,444	10,283
Revenue	253,748	555,066
Losses attributable to parent company for the period	(12,938)	(58,818)
Other comprehensive income	–	–
<b>Total comprehensive income</b>	<b>(12,938)</b>	(58,818)



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### 19 Investment in associates (Continued)

#### (2) Lu Clearing

The registered capital of Lu Clearing is RMB71.5 million as at 31 December 2021. The Group holds 34.97% of its equity and accounts for the associate using equity method.

	Lu Clearing	
	31 December 2021	31 December 2020
Current assets	2,440,788	1,674,553
Non-current assets	6,409	6,615
<b>Total assets</b>	<b>2,447,197</b>	1,681,168
Current liabilities	2,406,274	1,652,219
Non-current liabilities	–	–
<b>Total liabilities</b>	<b>2,406,274</b>	1,652,219
Net assets	40,923	28,949
Group's share in %	34.97%	40.00%
Adjustments <sup>(a)</sup>	(619)	(643)
<b>Interest in the associate and carrying value</b>	<b>18,933</b>	10,937
Reconciliation to carrying amounts		
At 1 January	10,937	11,537
Share of profits/(losses) for the year	1,984	(600)
Capital injection	5,000	–
Other changes in equity, that are not recorded in other comprehensive income	1,012	–
<b>At 31 December</b>	<b>18,933</b>	10,937
Revenue	16,371	8,462
Profits/(Losses) for the period	5,474	(1,475)
Other comprehensive income	–	–
<b>Total comprehensive income</b>	<b>5,474</b>	(1,475)

(a) Adjustments arise from the elimination of internal transactions between the Group and the associate.

## Notes to the Consolidated Financial Statements

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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 are all ordinary shares, and the percentage of ownership held by the Group represent 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 Capital Management Co., Ltd. (魯証資本管理有限公司) ("Luzheng Capital")	Shenzhen, the PRC	24 April 2013	Limited company	RMB750,000,000/ RMB750,000,000	100%	Directly	Commodity trading, 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
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	RMB34,000,000/ 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

The Company's subsidiaries, Jinova S.A. and Luzheng International Futures Limited, have finished their liquidation on 11 October 2021 and 22 April 2021 respectively.

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### 21 Other non-current assets

	31 December 2021	31 December 2020
Right-of-use assets <sup>(1)</sup>	18,913	20,012
Leasehold improvements <sup>(2)</sup>	1,868	1,598
Long-term prepaid expenses	1,104	949
	<b>21,885</b>	22,559

**(1) Changes in right-of-use assets are analyzed as follows:**

	Buildings	
	31 December 2021	31 December 2020
<b>Cost</b>		
At 1 January	33,009	24,682
Additions		
– New lease contracts	6,978	20,848
Disposals		
– Modifications to lease agreements	–	(12,521)
– Others	(8,854)	–
At 31 December	<b>31,133</b>	33,009
<b>Accumulated depreciation</b>		
At 1 January	(12,997)	(7,262)
Additions		
– Charges	(7,631)	(8,671)
Disposals		
– Modifications to lease agreements	–	2,936
– Others	8,408	–
At 31 December	<b>(12,220)</b>	(12,997)
<b>Carrying amount</b>		
At 31 December	<b>18,913</b>	20,012

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### 21 Other non-current assets (Continued)

(2) Changes in leasehold improvements are analyzed as follows:

	Year ended 31 December	
	2021	2020
At 1 January	1,598	1,211
Additions	1,006	1,582
Disposals	–	–
Amortization	(736)	(1,195)
At 31 December	1,868	1,598

### 22 Deferred income tax assets and liabilities

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

	Year ended 31 December	
	2021	2020
At 1 January	856	18,915
Income statement charge	(80)	(18,059)
At 31 December	776	856

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

	Year ended 31 December	
	2021	2020
At 1 January	6,242	11
Income statement charge	18,249	6,231
At 31 December	24,491	6,242

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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	Impairment	Accrued expenses	Depreciation and amortization	Total
<b>As at 1 January 2021</b>	7,840	1,518	–	1,025	450	856	11,689
Income statement charge	19,393	5,858	2,825	243	(200)	(80)	28,039
<b>As at 31 December 2021</b>	27,233	7,376	2,825	1,268	250	776	39,728
<b>As at 1 January 2020</b>	11,852	1,149	9,556	866	–	–	23,423
Income statement charge	(4,012)	369	(9,556)	159	450	856	(11,734)
<b>As at 31 December 2020</b>	7,840	1,518	–	1,025	450	856	11,689

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### 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	Changes in fair value of physical commodities	Interest receivable	Others	Total
<b>As at 1 January 2021</b>	12,191	1,657	3,216	11	17,075
Income statement charge	34,561	(1,492)	13,309	(10)	46,368
<b>As at 31 December 2021</b>	<b>46,752</b>	<b>165</b>	<b>16,525</b>	<b>1</b>	<b>63,443</b>
<b>As at 1 January 2020</b>	293	–	4,215	11	4,519
Income statement charge	11,898	1,657	(999)	–	12,556
<b>As at 31 December 2020</b>	12,191	1,657	3,216	11	17,075

Deferred income tax assets are recognized for tax loss carrying forward to the extent that the realization of the related tax benefit through future taxable profits is probable. At 31 December 2021, the unused tax losses RMB11,146 thousand incurred by Luzheng International Holding and RMB58,167 thousand incurred by Zhongtai Hui Rong were not recognized in deferred tax assets as they are not likely to generate sufficient taxable profit in the foreseeable future (31 December 2020, Luzheng International Holding: RMB10,884 thousand, Zhongtai Hui Rong: RMB42,529 thousand).

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### 22 Deferred income tax assets and liabilities (Continued)

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

	31 December 2021	31 December 2020
Deferred income tax assets	(38,952)	(10,833)
Deferred income tax liabilities	(38,952)	(10,833)

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

	31 December 2021	31 December 2020
Deferred income tax assets	776	856
Deferred income tax liabilities	24,491	6,242

### 23 Refundable deposits

	31 December 2021	31 December 2020
Deposits placed with the China Financial Futures Exchange	29,203	20,116
Deposits placed with the China Securities Depository and Clearing	11,405	11,230
	40,608	31,346

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### 24 Physical commodities

	31 December 2021	31 December 2020
Carrying amount	44,624	107,906
Change in fair value	371	6,627
	44,995	114,533

As at 31 December 2021, trading commodities with carrying amount of RMB4,701 thousand are placed as collateral of margin deposits on futures exchanges (31 December 2020: RMB3,159 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 46.

The fair value hierarchy of physical commodities held by the Group is set out below.

As at 31 December 2021	Level 1	Level 2	Level 3	Total
Physical commodities	–	44,995	–	44,995

As at 31 December 2020	Level 1	Level 2	Level 3	Total
Physical commodities	–	114,533	–	114,533

There are no transfers between any levels during the year.

Physical commodities have 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 2021	31 December 2020
Accounts receivable <sup>(1)</sup>	222,020	48,047
Prepayments	50,057	25,891
Deposit for derivatives trading	13,182	27,687
Other receivables	20,336	20,798
	<b>305,595</b>	122,423

#### (1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2021		31 December 2020	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	188,728	(254)	42,126	(433)
3 months to 1 year	32,992	(551)	5,465	(195)
Over 1 year	2,463	(1,358)	2,519	(1,435)
	<b>224,183</b>	<b>(2,163)</b>	50,110	(2,063)

The impairment allowance for accounts receivable as at 31 December 2020 reconciles to the closing impairment allowance as at 31 December 2021 as follows:

	Year ended 31 December 2021
Closing impairment allowance as at 31 December 2020	(2,063)
Increase in impairment allowance recognized in profit or loss during the year	(126)
Decrease in impairment allowance recognized in profit or loss during the year	26
	<b>(2,163)</b>
Closing impairment allowance as at 31 December 2021	<b>(2,163)</b>

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### 26 Derivative financial instruments

	31 December 2021		
	Notional amount	Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	526,995	1,722	9,008
<b>Current</b>			
OTC options	9,911,287	212,756	100,485
Exchange traded options	1,721,743	25,013	22,432
Futures contracts <sup>(1)</sup>	7,303,390	–	–
Forward contracts	1,581,561	4,391	8,077
	20,517,981	242,160	130,994
	21,044,976	243,882	140,002
	31 December 2020		
	Notional amount	Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	102,000	–	1,913
<b>Current</b>			
OTC options	11,658,641	76,286	75,862
Exchange traded options	1,166,341	10,955	30,820
Futures contracts <sup>(1)</sup>	3,981,594	–	–
Forward contracts	344,110	3,050	2,478
	17,150,686	90,291	109,160
	17,252,686	90,291	111,073

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(All amounts in RMB'000 unless otherwise stated)

### 26 Derivative financial instruments (Continued)

#### (1) Futures contracts

	31 December 2021		31 December 2020	
	Notional amount	Fair value	Notional amount	Fair value
Futures contracts	7,303,390	(38,734)	3,981,594	(7,874)
Less: Cash paid as settlement		38,734		7,874
Net position		-		-

The Group settles its gains or losses from its open futures positions on a daily basis, with the corresponding receipts and payments included in "deposits with exchange-clearing organizations".

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For the year ended 31 December 2021  
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### 27 Financial assets at fair value through profit or loss

	31 December 2021	31 December 2020
Non-current		
Private securities investment funds	<b>89,176</b>	49,693
Asset management schemes	<b>9,871</b>	–
Trust schemes	<b>6,004</b>	12,914
Income certificates	<b>5,012</b>	101,014
Mutual funds	<b>4,958</b>	–
	<b>115,021</b>	163,621
Current		
Income certificates	<b>206,869</b>	113,346
Asset management schemes	<b>136,972</b>	115,636
Private securities investment funds	<b>131,246</b>	60,434
Mutual funds	<b>31,760</b>	–
Trust schemes	<b>7,152</b>	45,892
Bank wealth management products	<b>3,551</b>	40,831
Listed equity securities	<b>8</b>	7
	<b>517,558</b>	376,146
	<b>632,579</b>	539,767

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### 28 Financial assets held under resale agreements

	31 December 2021	31 December 2020
Analysed by asset type:		
– Debt securities	–	222,575
– Warehouse receipts <sup>(1)</sup>	121,690	82,463
	<b>121,690</b>	<b>305,038</b>

- (1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2021, the Group has accepted collateral with a fair value of RMB157,706 thousand (31 December 2020: RMB135,280 thousand). These collateral are all re-pledged for margin deposits (31 December 2020: no collateral are re-pledged).

### 29 Deposits with exchange-clearing organizations

	31 December 2021	31 December 2020
Clients' deposits		
– Clients' margin deposits	6,767,561	4,440,011
– Clients' unrestricted deposits	1,626,032	1,335,027
Proprietary clearing settlement funds	235,418	421,114
	<b>8,629,011</b>	<b>6,196,152</b>
<b>Represented by</b>		
Deposits with Shanghai Futures Exchange	2,730,883	1,295,054
Deposits with Dalian Commodity Exchange	1,916,547	1,852,382
Deposits with China Financial Futures Exchange	1,816,732	1,630,254
Deposits with Zhengzhou Commodity Exchange	1,040,164	705,514
Deposits with China Securities Depository and Clearing Co., Ltd.	764,670	497,085
Deposits with Shanghai International Energy Exchange	360,015	215,863
	<b>8,629,011</b>	<b>6,196,152</b>

As at 31 December 2021, clients' margin deposits on futures exchanges include government bonds amounting to RMB2,471 million (31 December 2020: nil). Under clearing rules, futures exchanges accept government bonds as a part of margin deposits. These government bonds are ultimately provided by the Group's brokerage customers and stated in "accounts payable to brokerage clients" (Note 38).

## Notes to the Consolidated Financial Statements

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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 licenced futures firms. The Company records these funds as bank balances held for clients or deposits with exchange-clearing organizations under current assets, and recognizes them as due to clients given that the Company is held liable for any loss or misappropriation of these funds. Bank balances held for clients for transaction and settlement purposes are subject to regulatory oversight by large state-owned commercial banks and joint-stock commercial banks in the PRC, pursuant to CSRC regulations.

### 31 Cash and bank balances

	31 December 2021	31 December 2020
Cash	24	25
Term deposit with banks	591,073	280,362
Demand deposit with banks	198,427	394,770
Deposit with securities and futures brokers	161,113	9,896
Less:		
Credit impairment allowance	(604)	(100)
	<b>950,033</b>	684,953

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 2021, there are no term deposits with banks with restricted use (31 December 2020: same).

## 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 2021	31 December 2020
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900

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### 33 Share premium and reserves

	Other reserves					Total
	Share premium	Surplus reserve <sup>(1)</sup>	Capital reserve	Other risk reserves <sup>(2)</sup>	Currency translation differences	
<b>As at 1 January 2021</b>	<b>650,630</b>	<b>69,573</b>	–	<b>211,452</b>	<b>1,428</b>	<b>933,083</b>
Appropriation to surplus reserve	–	<b>15,926</b>	–	–	–	<b>15,926</b>
Appropriation to general risk reserve	–	–	–	<b>15,926</b>	–	<b>15,926</b>
Appropriation to futures risk reserve	–	–	–	<b>20,257</b>	–	<b>20,257</b>
Currency translation differences	–	–	–	–	<b>(1,520)</b>	<b>(1,520)</b>
Changes in the equity of an associate, that are not recorded in other comprehensive income	–	–	<b>1,012</b>	–	–	<b>1,012</b>
<b>As at 31 December 2021</b>	<b>650,630</b>	<b>85,499</b>	<b>1,012</b>	<b>247,635</b>	<b>(92)</b>	<b>984,684</b>
As at 1 January 2020	650,630	62,749	–	193,219	3,069	909,667
Appropriation to surplus reserve	–	6,824	–	–	–	6,824
Appropriation to general risk reserve	–	–	–	6,824	–	6,824
Appropriation to futures risk reserve	–	–	–	11,409	–	11,409
Currency translation differences	–	–	–	–	(1,641)	(1,641)
As at 31 December 2020	650,630	69,573	–	211,452	1,428	933,083

#### (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.



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### 33 Share premium and reserves (Continued)

#### (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 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 2021	31 December 2020
Lease liabilities	11,098	19,824
Other non-current liabilities	14,351	8,791
	<b>25,449</b>	28,615

### 35 Other current liabilities

	31 December 2021	31 December 2020
Payable to counterparties of OTC options <sup>(1)</sup>	627,060	189,503
Salaries, bonus, allowance and benefits payables <sup>(2)</sup>	128,230	83,444
Lease liabilities	7,967	253
Payable to Futures Investors Protection Fund	909	539
Other payables	53,479	38,853
	<b>817,645</b>	312,592

(1) Aging of payable to counterparties of OTC options are all within one year.

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### 35 Other current liabilities (Continued)

#### (2) Salaries, bonus, allowance and benefits payables

	1 January 2021	Current year charge	Current year payment	31 December 2021
Salaries and bonus	60,230	225,796	(172,228)	113,798
Other welfare	1,000	3,495	(4,495)	–
Other social securities	80	19,731	(19,741)	70
Pension	7,617	24,235	(31,764)	88
Labour union funds and employee education funds	14,517	4,512	(4,755)	14,274
	<b>83,444</b>	<b>277,769</b>	<b>(232,983)</b>	<b>128,230</b>

	1 January 2020	Current year charge	Current year payment	31 December 2020
Salaries and bonus	33,507	154,227	(127,504)	60,230
Other welfare	–	3,189	(2,189)	1,000
Other social securities	94	12,859	(12,873)	80
Pension	110	8,594	(1,087)	7,617
Labour union funds and employee education funds	10,306	6,715	(2,504)	14,517
	<b>44,017</b>	<b>185,584</b>	<b>(146,157)</b>	<b>83,444</b>

### 36 Provisions

	1 January 2021	Accrual	Payment	31 December 2021
Compensation on asset management schemes	29,219	–	(28,342)	877

The Group acted as the asset manager of five asset management schemes which were established between November 2017 and May 2018, and all distributed by a joint stock commercial bank. These schemes incurred certain losses, and subsequently commenced their liquidation process in December 2018. To properly cope with the issue, starting from February 2021, the Group worked with the distributor bank to negotiate with those investors holding the schemes at the liquidation commencement date. By 31 December 2021, the Group had successfully reached agreement with a majority of investors, and paid RMB28,342 thousand accordingly. The remaining balance of RMB877 thousand represents the best estimate of the Group's exposure to the investors who have not reached the agreement. The Group also believes the possibility of further outflow of resources to other parties involved is very low.

The Group is taking active actions as asset manager including arbitrations and legal actions to further reduce losses.

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### 37 Contract liabilities

	31 December 2021	31 December 2020
Advance for physical commodities trading	12,344	20,446

### 38 Accounts payable to brokerage clients

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at exchange-clearing organizations by the Company.

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

### 39 Cash and cash equivalents

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

	31 December 2021	31 December 2020
Cash and bank balances (Note 31)	950,033	684,953
Proprietary deposit with exchange-clearing organizations (Note 29)	235,418	421,114
Less:		
Term deposits with original maturity over three months	(591,073)	(280,362)
Minimum clearing settlement funds required by exchange-clearing organizations	(14,000)	(14,000)
Add:		
Credit impairment allowance	604	100
	580,982	811,805

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### 40 Dividends

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

- (I) Making up cumulative losses from prior years, if any;
- (II) 10% of the Company's profit is appropriated to the non-distributable statutory surplus reserve;
- (III) 10% of the Company's profit is appropriated to the non-distributable general risk reserve;
- (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 2021 was RMB23,645 thousand, or RMB 0.0236 per share (2020: nil).

### 41 Cash flow information

#### (1) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 December 2021	31 December 2020
Net debt		
Cash and cash equivalents	580,982	811,805
Liquid investments <sup>(i)</sup>	36,726	7
Borrowings – repayable within one year	–	–
Net debt	617,708	811,812
Cash and liquid investments	617,708	811,812
Gross debt – fixed interest rates	–	–
Net debt	617,708	811,812

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### 41 Cash flow information (Continued)

#### (1) Net debt reconciliation (Continued)

	Other assets		Liabilities from financing activities	Total
	Cash	Liquid investments <sup>(i)</sup>	Borrowings due within 1 year	
<b>Net debt as at 1 January 2021</b>	811,805	7	–	811,812
Cash flows	(230,667)	36,719	–	(193,948)
Foreign exchange adjustments	(156)	–	–	(156)
<b>Net debt as at 31 December 2021</b>	<b>580,982</b>	<b>36,726</b>	<b>–</b>	<b>617,708</b>

- (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.

### 42 Contingent liabilities

One investor of the five asset management schemes described in Note 36 filed a demand for arbitration to Jinan Arbitration Commission claiming RMB855 thousand against the Group. In addition, by 31 December 2021, the remaining investors still under negotiation suffer a total loss of RMB25 million. There are no other material contingencies involved by the Group.

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### 43 Related party transactions

#### 43.1 Related parties

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

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2021:

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
Qilu Zhongtai Property Co., Ltd. ("Qilu Zhongtai Property")	Controlled by the controlling shareholder of the Company
Shandong Yongtong Industrial Co., Ltd. ("Shandong Yongtong")	Controlled by the controlling shareholder of the Company
Zhongtai International Securities Co., Ltd. ("Zhongtai International Securities")	Controlled by the controlling shareholder of the Company
Zhongtai International Asset Management Co., Ltd. ("Zhongtai International 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 Iron and Steel Group Yongfeng Lingang Co., Ltd. ("Yongfeng Lingang")	Controlled by Laigang Yongfeng Group
Shandong Steel Group Co., Ltd. ("Shandong Steel Group") <sup>(1)</sup>	The ultimate controlling shareholder of the Company
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The Shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laiwu Iron and Steel Group Lunan Mining Co., Ltd. ("Lunan Mining")	Controlled by Laiwu Steel
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Laiwu Iron and Steel Group Xintai Copper Co., Ltd. ("Xintai Copper")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. ("Shandong Steel")	Controlled by Shandong Steel Group
Lu Clearing	Associate invested by the Group
Luzheng Fengtong	Associate invested by the Group

(1) Shandong Steel Group is the ultimate controlling shareholder of the Company. The registered address is Building 4, Shuntai Plaza, 2000 Shunhua Road, Jinan, PRC

## Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

### 43 Related party transactions (Continued)

#### 43.2 Related party transactions and balances

##### 43.2.1 The Company's direct controlling shareholder

###### *Transactions during the year*

	Year ended 31 December	
	2021	2020
Introducing broker commission expense <sup>(1)</sup>	13,532	10,247
Income from providing brokerage service	3,775	5,203
Investment income	29,340	13,635
Interest expense	2,955	–
Consulting Information expense	1,642	–
Rental expense	863	100
Commission expense for stocks trading	11	24

- (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 2021	31 December 2020
Derivative financial assets	38,370	3,554
Cash and bank balances	160,133	106
Right-of-use assets	716	–
Settlement of options receivable	787	–
Lease liabilities	864	–
Other current liabilities		
– Introducing broker commission payable	15,127	10,922
– Rental expense payable	800	–
– Other payables	43	43
Derivative financial liabilities	2,833	685
Accounts payable to brokerage clients	818,279	498,852

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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	
	2021	2020
Income from providing brokerage service	463	908
Interest income from bank deposit – Laishang Bank	17,251	12,481
Purchase of asset management schemes managed by Zhongtai Asset Management	87,000	21,500
Purchase of funds managed by Zhongtai International Securities	–	3,030
Purchase of funds managed by Zhongtai International Asset Management	3,107	–
Purchase of asset managements and funds managed by Wanjia Funds	10,000	–
Proceeds from disposal of asset management schemes managed by Zhongtai Asset Management	68,953	797
Proceeds from disposal of asset management schemes managed by Wanjia Funds	5,000	–
Cost of purchase of physical commodities		
– Laigang Yongfeng	255,693	32,179
– Shandong Steel	82,578	–
Sales proceeds of equipment and services		
– Lu Clearing	94	254
Rental expense		
– Qilu Zhongtai Property	289	408
Rental income		
– Lu Clearing	226	132
Investment income from OTC derivatives		
– Yongfeng Trade	1,649	120



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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 2021	31 December 2020
Accounts payable to brokerage clients	20,486	15,036
Cash and bank balances – Laishang Bank	677,770	282,997
Asset management schemes and funds managed by Zhongtai Asset Management	77,440	66,953
Funds managed by Zhongtai International Asset Management	4,592	–
Funds managed by Wanjia Funds	4,958	–
Other current assets		
Prepayments		
– Laigang Yongfeng	313	949
– Qilu Zhongtai Property	88	88
Other receivables		
– Lu Clearing	1	254
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	
	2021	2020
Key management compensation	10,010	8,716

There is no loan or advance to key management during the years ended 31 December 2021 and 2020.

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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 futures and options 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 are no changes 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 2021					
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	Total
Revenue						
– external	567,273	10,937	–	17,282	–	595,492
– internal	6,750	–	–	–	(6,750)	–
Gains on physical commodities trading						
– external	–	21,756	–	–	–	21,756
Net investment gains						
– external	–	87,675	–	21,040	–	108,715
– internal	–	(6,814)	–	–	6,814	–
Other income						
– external	–	667	–	22,788	–	23,455
– internal	–	3,396	–	8,983	(12,379)	–
<b>Total operating income</b>	<b>574,023</b>	<b>117,617</b>	<b>–</b>	<b>70,093</b>	<b>(12,315)</b>	<b>749,418</b>
<b>Total operating expenses</b>						
– external	(264,536)	(72,656)	(886)	(137,970)	–	(476,048)
– internal	(3,396)	(7,790)	–	(1,514)	12,700	–
Share of losses of investment in associates	–	(4,753)	–	1,982	–	(2,771)
Other gains/(losses), net	–	1,340	–	(1,445)	–	(105)
<b>Profit before income tax</b>	<b>306,091</b>	<b>33,758</b>	<b>(886)</b>	<b>(68,854)</b>	<b>385</b>	<b>270,494</b>
<b>Total assets</b>	<b>18,144,907</b>	<b>1,604,606</b>	<b>11</b>	<b>2,282,063</b>	<b>(1,530,929)</b>	<b>20,500,658</b>
<b>Total liabilities</b>	<b>(17,885,595)</b>	<b>(855,099)</b>	<b>(952)</b>	<b>(77,439)</b>	<b>738,023</b>	<b>(18,081,062)</b>
<b>Supplemental information</b>						
Depreciation and amortization	11,516	4,314	13	2,171	(607)	17,407
Credit impairment losses	556	126	–	(26)	–	656
Capital expenditure	13,568	2,006	–	7,704	–	23,278

## Notes to the Consolidated Financial Statements

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### 44 Segment analysis (Continued)

	Year ended 31 December 2020					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	
Revenue						
– external	354,109	8,994	15	13,367	–	376,485
– internal	(4,349)	–	–	–	4,349	–
Losses on physical commodities trading						
– external	–	(34,747)	–	–	–	(34,747)
Net investment gains						
– external	–	76,115	–	36,467	–	112,582
– internal	–	24,413	–	–	(24,413)	–
Other income						
– external	–	1,561	–	32,938	–	34,499
– internal	–	–	–	4,586	(4,586)	–
<b>Total operating income</b>	349,760	76,336	15	87,358	(24,650)	488,819
<b>Total operating expenses</b>						
– external	(177,450)	(49,114)	(35,522)	(113,536)	–	(375,622)
– internal	–	–	–	(2,396)	2,396	–
Share of losses of investment in associates	–	(15,955)	–	(600)	–	(16,555)
Other gains/(losses), net	–	(214)	–	1,462	–	1,248
<b>Profit before income tax</b>	172,310	11,053	(35,507)	(27,712)	(22,254)	97,890
<b>Total assets</b>	10,988,999	1,090,154	31	1,956,419	(1,109,956)	12,925,647
<b>Total liabilities</b>	(10,458,634)	(363,017)	(29,105)	(156,243)	320,746	(10,686,253)
<b>Supplemental information</b>						
Depreciation and amortization	12,437	2,989	95	4,148	(463)	19,206
Credit impairment losses	464	173	–	(18)	–	619
Capital expenditure	11,978	15,916	–	1,364	–	29,258

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(All amounts in RMB'000 unless otherwise stated)

## 45 Financial risk management

### 45.1 Risk management policies and structure

#### (1) Summary

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

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

#### (2) Policies and structure for the Company

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee; (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.1 Risk management policies and structure (Continued)

##### (3) Policies and structure of Luzheng Capital, a major subsidiary of the Group

Luzheng Capital'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, derivative financial assets, contract assets, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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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 broker 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 and/or reduce positions when necessary. Since trading rules set a daily limit move for every futures contract, 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 requests 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.



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For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.2 Credit risk (Continued)

The Group maintains an ECL model to recognize a loss allowance for 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 4.5(4)).

##### (1) Forward-looking information incorporated in the ECL models

Both the assessment of SICR and the calculation of ECL allowances incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables regarding credit risk for each portfolio.

In 2021, the key economic variables used by the Group is the growth rate of GDP. Under the 2022 baseline scenario, the average forecast value is about 5.10%, the optimistic scenario forecast is 0.50 percentage points higher than the baseline, and the pessimistic scenario forecast is 0.50 percentage points lower than the baseline.

The weightings assigned to each economic scenario at 31 December 2021 are as follows:

	Base	Optimistic	Pessimistic
All portfolios	60%	20%	20%

##### (2) Impairment of financial 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 are no unfavourable current conditions and forecast of future economic conditions for these assets at 31 December 2021. Therefore, their credit risk is considered low and the expected credit loss is limited.

For financial assets held under resale agreements, the Group receives sufficient debt securities or warehouse receipts as collateral. Therefore, the expected credit loss is immaterial.

All of these assets are classified under stage 1.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.2 Credit risk (Continued)

##### (3) 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 2021	31 December 2020
Refundable deposits	40,608	31,346
Other current assets	239,617	81,058
Contract assets	18,835	6,462
Derivative financial assets	243,882	90,291
Financial assets at fair value through profit or loss	632,571	536,379
Financial assets held under resale agreements	121,690	305,038
Deposits with exchange-clearing organizations	8,629,011	6,196,152
Bank balances held for clients	9,415,547	4,723,619
Bank balances	950,009	684,928
	<b>20,291,770</b>	12,655,273

##### (4) Credit risk from brokerage service

	31 December 2021		31 December 2020	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Client Risk Ratio				
Below 80%	3,833,564	11,432,554	3,163,717	8,745,719
80%-100%	2,906,558	3,124,922	1,196,124	1,351,273
Above 100%	27,439	21,569	80,170	74,460
	<b>6,767,561</b>	<b>14,579,045</b>	4,440,011	10,171,452
Coverage ratio		<b>215%</b>		229%

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For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

##### 45.3.1 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to physical commodities, investments in equity securities, derivatives, asset management schemes, private securities investment funds and trust schemes with the underlying investments in equity instruments. 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 facing 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.

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For the year ended 31 December 2021  
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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, while a negative result indicates otherwise.

	Year ended 31 December	
	2021	2020
Profit before income tax		
Increase by 5%	(18,724)	6,011
Decrease by 5%	36,259	(7,801)

##### 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, financial assets held under resale agreements 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, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations.

Finance departments of the Company and its subsidiaries monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

##### 45.3.2 Interest rate risk (Continued)

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
<b>As at 31 December 2021</b>							
Refundable deposits	40,608	-	-	-	-	-	40,608
Other current assets	-	-	-	-	-	239,617	239,617
Contract assets	-	-	-	-	-	18,835	18,835
Derivative financial assets	-	-	-	-	-	243,882	243,882
Financial assets at fair value through other comprehensive income	-	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	-	30,960	175,910	5,012	6,004	414,693	632,579
Financial assets held under resale agreements	-	121,690	-	-	-	-	121,690
Deposits with exchange-clearing organizations	1,861,450	-	-	-	-	6,767,561	8,629,011
Bank balances held for clients	9,415,547	-	-	-	-	-	9,415,547
Cash and bank balances	370,033	-	580,000	-	-	-	950,033
<b>Sub-total</b>	<b>11,687,638</b>	<b>152,650</b>	<b>755,910</b>	<b>5,012</b>	<b>6,004</b>	<b>7,685,988</b>	<b>20,293,202</b>
Other non-current liabilities	-	-	-	(10,137)	(961)	(14,351)	(25,449)
Other current liabilities	(699)	(1,398)	(5,870)	-	-	(677,161)	(685,128)
Accounts payable to brokerage clients	(7,146,549)	-	-	-	-	(9,904,311)	(17,050,860)
Derivative financial liabilities	-	-	-	-	-	(140,002)	(140,002)
<b>Sub-total</b>	<b>(7,147,248)</b>	<b>(1,398)</b>	<b>(5,870)</b>	<b>(10,137)</b>	<b>(961)</b>	<b>(10,735,825)</b>	<b>(17,901,439)</b>
<b>Interest rate sensitivity gap</b>	<b>4,540,390</b>	<b>151,252</b>	<b>750,040</b>	<b>(5,125)</b>	<b>5,043</b>	<b>(3,049,837)</b>	<b>2,391,763</b>

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For the year ended 31 December 2021  
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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	Over 3 years	Non- interest bearing	Total
<b>As at 31 December 2020</b>							
Refundable deposits	31,346	-	-	-	-	-	31,346
Other current assets	-	-	-	-	-	81,058	81,058
Contract assets	-	-	-	-	-	6,462	6,462
Derivative financial assets	-	-	-	-	-	90,291	90,291
Financial assets at fair value through other comprehensive income	-	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	35,871	71,165	93,033	101,014	9,532	229,152	539,767
Financial assets held under resale agreements	275,343	29,695	-	-	-	-	305,038
Deposits with exchange-clearing organizations	1,756,141	-	-	-	-	4,440,011	6,196,152
Bank balances held for clients	4,723,619	-	-	-	-	-	4,723,619
Cash and bank balances	404,734	219	280,000	-	-	-	684,953
<b>Sub-total</b>	<b>7,227,054</b>	<b>101,079</b>	<b>373,033</b>	<b>101,014</b>	<b>9,532</b>	<b>4,848,374</b>	<b>12,660,086</b>
Other non-current liabilities	-	-	-	(15,673)	(4,152)	(8,790)	(28,615)
Other current liabilities	-	(217)	(36)	-	-	(225,755)	(226,008)
Accounts payable to brokerage clients	(5,217,868)	-	-	-	-	(4,953,584)	(10,171,452)
Derivative financial liabilities	-	-	-	-	-	(111,073)	(111,073)
<b>Sub-total</b>	<b>(5,217,868)</b>	<b>(217)</b>	<b>(36)</b>	<b>(15,673)</b>	<b>(4,152)</b>	<b>(5,299,202)</b>	<b>(10,537,148)</b>
<b>Interest rate sensitivity gap</b>	<b>2,009,186</b>	<b>100,862</b>	<b>372,997</b>	<b>85,341</b>	<b>5,380</b>	<b>(450,828)</b>	<b>2,122,938</b>

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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	
	2021	2020
Net interest income		
Increases by 25bps	11,896	5,374
Decreases by 25bps	(11,896)	(5,374)

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 2021, the Group held cash and cash equivalents of approximately RMB581 million that are expected to readily generate cash inflows for managing liquidity risk (2020: RMB812 million).

The tables below present the cash flows payable by the Group for financial liabilities by remaining contractual maturities as at 31 December 2021 and 2020. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for clients.

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 31 December 2021</b>						
<b>Non-derivative cash flow</b>						
Other non-current liabilities	-	-	-	-	(27,779)	(27,779)
Other current liabilities	(661,866)	(16,138)	(1,685)	(7,098)	-	(686,787)
Accounts payable to brokerage clients	(17,050,860)	-	-	-	-	(17,050,860)
	(17,712,726)	(16,138)	(1,685)	(7,098)	(27,779)	(17,765,426)
<b>Derivative cash flow</b>						
(a) total inflow	-	51,859	19,564	129,492	13,894	214,809
(b) total outflow	-	(31,876)	(46,221)	(40,880)	(1,894)	(120,871)

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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
<b>As at 31 December 2020</b>						
<b>Non-derivative cash flow</b>						
Other non-current liabilities	–	–	–	–	(24,861)	(24,861)
Other current liabilities	(213,051)	(12,826)	(2,144)	(6,290)	–	(234,311)
Accounts payable to brokerage clients	(10,171,452)	–	–	–	–	(10,171,452)
	(10,384,503)	(12,826)	(2,144)	(6,290)	(24,861)	(10,430,624)
<b>Derivative cash flow</b>						
(a) total inflow	–	104,830	9,628	176,585	2,164	293,207
(b) total outflow	–	(55,687)	(21,560)	(147,639)	(272)	(225,158)

#### 45.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiary to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiary;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

## Notes to the Consolidated Financial Statements

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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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(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 and 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).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2021 and 2020.

As at 31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Asset management schemes	–	146,843	–	146,843
– Trust schemes	–	7,152	6,004	13,156
– Private securities investment funds	–	220,422	–	220,422
– Listed equity securities	8	–	–	8
– Mutual funds	36,718	–	–	36,718
– Bank wealth management products	–	3,551	–	3,551
– Income certificates	–	–	211,881	211,881
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	214,478	–	214,478
– Exchange traded options	25,013	–	–	25,013
– Forward contracts	–	4,391	–	4,391
	<b>61,739</b>	<b>596,837</b>	<b>219,285</b>	<b>877,861</b>
Derivative financial liabilities				
– OTC options	–	(109,493)	–	(109,493)
– Exchange traded options	(22,432)	–	–	(22,432)
– Forward contracts	–	(8,077)	–	(8,077)
	<b>(22,432)</b>	<b>(117,570)</b>	<b>–</b>	<b>(140,002)</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(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 2020	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Asset management schemes	–	115,636	–	115,636
– Trust schemes	–	45,892	12,914	58,806
– Private securities investment funds	–	110,127	–	110,127
– Listed equity securities	7	–	–	7
– Bank wealth management products	–	–	40,831	40,831
– Income certificates	–	–	214,360	214,360
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	76,286	–	76,286
– Exchange traded options	10,955	–	–	10,955
– Forward contracts	–	3,050	–	3,050
	10,962	350,991	269,505	631,458
Derivative financial liabilities				
– OTC options	–	(77,775)	–	(77,775)
– Exchange traded options	(30,820)	–	–	(30,820)
– Forward contracts	–	(2,478)	–	(2,478)
	(30,820)	(80,253)	–	(111,073)

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

### 46 Fair value of financial assets and liabilities (Continued)

#### 46.2 Financial instrument measured at fair value (Continued)

##### (1) 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 2021, asset management schemes, trust schemes, bank wealth management products 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, Binomial Model, Kirk 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 2021, there are no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2020: same).

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For the year ended 31 December 2021  
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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

A financial instrument is included in level 3 if one or more of the significant inputs is not based on observable market data.

As at 31 December 2021, trust schemes and income certificates 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.

The following table presents the changes in level 3 instruments for the years ended 31 December 2021 and 2020.

	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
<b>Balance at 1 January 2021</b>	<b>1,400</b>	<b>268,105</b>	<b>–</b>
Acquisition	–	242,914	–
Disposal	–	(268,105)	–
Unrealized gains recognized in net investment gains	–	(25,029)	–
<b>Balance at 31 December 2021</b>	<b>1,400</b>	<b>217,885</b>	<b>–</b>
Including: unrealized gains recognized in profit or loss attributable to balances held at end of year	–	(25,029)	–



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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	Financial liabilities at fair value through profit or loss
Balance at 1 January 2020	1,400	76,669	(24,305)
Acquisition	–	264,425	–
Disposal	–	(76,669)	–
Unrealized gains recognized in net investment gains	–	3,680	24,305
Balance at 31 December 2020	1,400	268,105	–
Including: unrealized gains recognized in profit or loss attributable to balances held at end of year	–	3,680	–

Financial instruments	Fair value at 31 December 2021	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – trust schemes, income certificates	217,885	Expected future cash flows  Expected recovery date  Discount rates that correspond to the expected risk level	The higher the expected future cash flows, the higher the fair value  The earlier the recovery date, the higher the fair value  The lower the discount rate, the higher the fair value

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(All amounts in RMB'000 unless otherwise stated)

### 47 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2021					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments – futures contracts	–	(38,734)	(38,734)	38,734	–

As at 31 December 2020					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments – futures contracts	–	(7,874)	(7,874)	7,874	–

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing organizations for un-settled trades.

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### 48 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include asset management schemes, mutual funds, private securities investment funds, bank wealth management products, and trust schemes. The Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 31 December 2021, 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 2020: same). The related carrying amount and the maximum exposure were as follows:

	31 December 2021	31 December 2020
Financial assets at fair value through profit or loss	420,691	325,400

For the years ended 31 December 2021 and 2020, the income from these unconsolidated structured entities held by the Group is as follows:

	Year ended 31 December	
	2021	2020
Net investment gains	18,009	32,291

As at 31 December 2021, the Group provided no financial support to these unconsolidated SEs, and there are no plans of providing financial support by the Group to these unconsolidated SEs (31 December 2020: same).

### 49 Events occurring after the reporting period

A dividend in respect of the year ended 31 December 2021 of RMB0.018 per share, amounting to a total dividend of RMB18,034 thousand, is proposed by the Board of Directors on 24 March 2022 and is to be approved at the annual general meeting on 28 June 2022. These financial statements do not reflect this dividend payable.

## Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

### 50 Statement of financial position and reserve movement of the Company

	31 December 2021	31 December 2020
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	39,054	37,234
Intangible assets	8,007	5,952
Investment in subsidiaries	790,578	786,578
Other non-current assets	12,708	10,282
Refundable deposits	40,608	31,346
Financial assets at fair value through other comprehensive income	1,400	1,400
Financial assets at fair value through profit or loss	110,010	163,621
<b>Total non-current assets</b>	<b>1,002,365</b>	1,036,413
<b>Current assets</b>		
Other current assets	36,974	20,781
Contract assets	18,835	6,462
Financial assets at fair value through profit or loss	507,776	366,156
Financial assets held under resale agreements	–	220,175
Deposits with exchange-clearing organizations	8,629,010	6,196,152
Bank balances held for clients	9,415,547	4,723,619
Cash and bank balances	780,172	344,493
<b>Total current assets</b>	<b>19,388,314</b>	11,877,838
<b>Total assets</b>	<b>20,390,679</b>	12,914,251

## Notes to the Consolidated Financial Statements

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### 50 Statement of financial position and reserve movement of the Company (Continued)

	Notes	31 December 2021	31 December 2020
<b>Equity and liabilities</b>			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Other reserves	Note (1)	333,134	281,025
Retained earnings	Note (1)	441,941	338,179
<b>Total equity</b>		<b>2,427,605</b>	2,271,734
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		8,136	12
Other non-current liabilities		12,544	20,146
<b>Total non-current liabilities</b>		<b>20,680</b>	20,158
<b>Current liabilities</b>			
Other current liabilities		155,033	97,889
Provisions		877	29,219
Current income tax liabilities		9,367	6,587
Derivative financial liabilities		–	–
Accounts payable to brokerage clients		17,777,117	10,488,664
<b>Total current liabilities</b>		<b>17,942,394</b>	10,622,359
<b>Total liabilities</b>		<b>17,963,074</b>	10,642,517
<b>Total equity and liabilities</b>		<b>20,390,679</b>	12,914,251

The statement of financial position of the Company was approved by the Board of Directors 24 March 2022 and was signed on its behalf:

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
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### 50 Statement of financial position and reserve movement of the Company (Continued)

#### (1) Reserve movement of the Company

	Retained earnings	Other reserves
<b>Balance at 31 December 2019</b>	283,586	255,968
Profit for the year	79,650	–
Other comprehensive income for the year	–	–
<b>Total comprehensive income</b>	79,650	–
Net appropriation to reserves	(25,057)	25,057
Dividends recognized as distribution	–	–
<b>Balance at 31 December 2020</b>	338,179	281,025
Profit for the year	<b>179,516</b>	–
Other comprehensive income for the year	–	–
<b>Total comprehensive income</b>	<b>179,516</b>	–
Net appropriation to reserves	<b>(52,109)</b>	<b>52,109</b>
Dividends recognized as distribution	<b>(23,645)</b>	–
<b>Balance at 31 December 2021</b>	<b>441,941</b>	<b>333,134</b>

## Notes to the Consolidated Financial Statements

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### 51 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 2021 and 2020 are set out below:

Name	Year ended 31 December 2021				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
<b>Executive Directors</b>					
Zhong Jinlong <sup>(1)</sup>	–	–	–	–	–
Liang Zhongwei	410	60	114	30	614
<b>Chief Executive</b>					
Liu Qingbin	740	118	143	–	1,001
<b>Non-executive Directors</b>					
Liu Hongsong <sup>(2)(8)</sup>	–	–	–	–	–
Liu Feng	50	–	–	–	50
Hu Kainan <sup>(2)</sup>	–	–	–	–	–
Ming Gang	48	–	–	–	48
Wang Chuanshun	119	–	–	–	119
Gao Zhu	119	–	–	–	119
Li Dapeng <sup>(3)</sup>	89	–	–	–	89
Zheng Jianping	119	–	–	–	119
Liu Xinyi <sup>(2) (4)</sup>	–	–	–	–	–
<b>Supervisors</b>					
An Tie <sup>(1) (5)</sup>	–	–	–	–	–
Wang Hairan <sup>(7)</sup>	338	58	85	102	583
Tan Saojie <sup>(2)</sup>	–	–	–	–	–
Lin Zongheng	305	53	61	138	557
Liu Pu	319	60	84	84	547
Hu Yuyue	71	–	–	–	71
Mou Yong	71	–	–	–	71
Yu Xuehui	71	–	–	–	71
	<b>2,869</b>	<b>349</b>	<b>487</b>	<b>354</b>	<b>4,059</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021  
(All amounts in RMB'000 unless otherwise stated)

### 51 Benefits and interests of directors, supervisors and chief executive (Continued)

Name	Year ended 31 December 2020				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
<b>Executive Directors</b>					
Zhong Jinlong <sup>(1)</sup>	–	–	–	–	–
Liang Zhongwei	437	42	70	–	549
<b>Chief Executive</b>					
Liu Qingbin	831	68	89	–	988
<b>Non-executive Directors</b>					
Liu Hongsong <sup>(2)(8)</sup>	–	–	–	–	–
Liu Feng	50	–	–	–	50
Hu Kainan <sup>(2)</sup>	–	–	–	–	–
Ming Gang	48	–	–	–	48
Wang Chuanshun	119	–	–	–	119
Gao Zhu	119	–	–	–	119
Li Dapeng <sup>(3)</sup>	119	–	–	–	119
Zheng Jianping	121	–	–	–	121
<b>Supervisors</b>					
Li Xuekui <sup>(6)</sup>	847	42	84	–	973
An Tie <sup>(1)(5)</sup>	–	–	–	–	–
Hu Yuyue	71	–	–	–	71
Mou Yong	71	–	–	–	71
Wang Hairan <sup>(7)</sup>	273	40	44	74	431
Tan Saojie <sup>(2)</sup>	–	–	–	–	–
Yu Xuehui	71	–	–	–	71
Lin Zongheng	281	34	26	54	395
Liu Pu	260	38	43	60	401
	3,718	264	356	188	4,526



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### 51 Benefits and interests of directors, supervisors and chief executive (Continued)

- (1) Zhong Jinlong and An Tie are appointed by Zhongtai Securities and their emoluments are paid by Zhongtai Securities. No allocations of the emoluments between the shareholder and the Group have been made during the year.
- (2) These non-executive directors and supervisors are appointed by shareholders of the Company and their emoluments for the years ended 31 December 2021 and 2020 were paid by the respective shareholders.
- (3) Li Dapeng ceased to be a non-executive director from 7 October, 2021.
- (4) Liu Xinyi has been appointed to be a non-executive director from 17 June, 2021.
- (5) An Tie has been appointed to be a supervisor from 18 June, 2020 and to be Chairman of the Supervisory Board from 3 November, 2020.
- (6) Li Xuekui ceased to be Chairman of the Supervisory Board from 3 November, 2020.
- (7) Wang Hairan has been appointed to be a supervisor from 3 November, 2020.
- (8) Liu Hongsong ceased to be a non-executive director from 10 March, 2021.