



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)



2018 Annual
Report

CHAPTER I Definition	2	CHAPTER XI Corporate Governance Report	124
CHAPTER II Risk Warnings	5	I. Overview of Corporate Governance	124
CHAPTER III Company Profile	6	II. General Meeting	125
I. Profile	6	III. Performance of the Directors	126
II. History	9	IV. Work Performance of Board of Directors and Special Committees	132
III. Staff Profile	11	V. Chairman and General Manager	143
IV. Brief Introduction of the Organs and Branches	12	VI. Securities Transactions by the Directors, Supervisors and Senior Management	145
V. Basic Information about the Industry in Which the Company Operates	17	VII. Performance of Duties by Independent Non-executive Directors	145
VI. Business Briefings of the Company	17	VIII. Supervision on Risk Management and Internal Control System	145
VII. Briefings of our Subsidiaries	18	IX. Other Relevant Matters	148
VIII. Honours Awarded to the Company During the Reporting Period	19	CHAPTER XII Internal Control	152
CHAPTER IV Financial Summary	21	I. Establishment of Internal Control Structure	152
I. Major Accounting Data of the Group	21	II. Implementation and Operation of Internal Control System	152
II. Major Financial Indicators of the Group	21	III. Supervision and Inspection of Internal Control	153
III. Net Capital of the Company and Relevant Risk Control Indicators	22	IV. Conclusion of the Assessment of Internal Control	153
IV. Financial Conditions of the Group of the Latest Five Years	23	CHAPTER XIII Independent Auditor's Report	154
CHAPTER V Chairman Statement	24	CHAPTER XIV Notes to the Consolidated Financial Statements	161
CHAPTER VI Management Discussion and Analysis	25	Consolidated Statements of Comprehensive Income	161
I. Economic and Futures Market Analysis during the Reporting Period	25	Consolidated Statements of Financial Position	163
II. Discussion and Analysis of the Group's Development Plans, Results and Prospects	26	Consolidated Statements of Changes In Equity	165
III. Financial Statement Analysis	34	Consolidated Statements of Cash Flows	166
IV. Employees Structure, Remuneration and Training	56		
V. Changes in Branches and Subsidiaries and Impact on Results	58		
VI. Major Investments and Financing	59		
VII. Replacement of Material Assets, Acquisition, Disposal, Spin-off and Reorganization of Other Companies	60		
VIII. Possible Risks, Uncertainties and Countering Measures	60		
CHAPTER VII Report of the Board of Directors	65		
I. Principal Businesses	65		
II. Results and Dividends	65		
III. Business Review	65		
IV. Directors and Directors' Biographies	66		
V. Directors' and Supervisors' Service Contracts	66		
VI. Interests and Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures	67		
VII. Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares	67		
VIII. Penalty and Rectification Imposed on the Company, Directors, Supervisors and the Senior Management	69		
IX. The Company's Commitment to Social Responsibilities	70		
X. The Listing and Use of Proceeds	72		
XI. Closure of Register of Members	74		
XII. Final Dividend	75		
XIII. Other Disclosures	76		
CHAPTER VIII Report of the Supervisory Committee	80		
I. Routine Work of the Supervisory Committee in 2018	80		
II. Major Work in 2018	81		
III. Review Opinions of the Supervisory Committee on Relevant Matters in 2018	82		
IV. Work Plan of the Supervisory Committee in 2019	83		
CHAPTER IX Directors, Supervisors, Senior Management and Staff	85		
I. Briefings of the Directors, Supervisors and Senior Management	85		
II. Change of the Directors, Supervisors and Senior Management during and after the Reporting Period	97		
III. Remuneration of Directors, Supervisors and Senior Management	98		
IV. Staff and Remuneration	99		
CHAPTER X Significant Events	100		
I. Material Litigations and Arbitrations	100		
II. Significant Acquisitions, Reorganisations and Disposals	100		
III. Connected Transactions	100		
IV. Major Contracts and Their Performance	120		
V. Purchase, Sale or Redemption of Listed Securities	121		
VI. Undertakings of the Controlling Shareholders and Their Performance	121		
VII. Appointment, Change and Dismissal of Auditors	122		

Contents

LUZHENG FUTURES Company Limited

Annual Report 2018

Definition

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

Definition

“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a company established in the PRC on 6 May 1999 with limited liability, 80% of which is owned by Shandong Steel and being one of the Controlling Shareholders of the Company
“Listing Date”	7 July 2015, being the date of listing of H Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), a company established in the PRC on 15 February 2015 with limited liability, which is a wholly-owned subsidiary of the Company
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company established in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the Nomination Committee of the Board of Directors
“OTC Option”	over-the-counter option
“PRC Futures Exchanges”	China Financial Futures Exchange (中國金融期貨交易所), Dalian Commodity Exchange (大連商品交易所), Zhengzhou Commodity Exchange (鄭州商品交易所) and Shanghai Futures Exchange (上海期貨交易所)
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board of Directors
“Reporting Period”	the year ended 31 December 2018
“Risk Control Committee”	the Risk Control Committee of the Board of Directors

Definition

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

Risk Warnings

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

The Company may be mainly exposed to the following risks:

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

With respect to the above potential risks, the Company has managed to prevent such risks by optimizing organization structure, establishing perfect systems and taking effective measures, etc.. Please refer to pages 60 to 64 of this report for the possible risks, uncertainties that the Company may face, and the countering measures taken.

Company Profile

I. PROFILE

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

Registered English Name: LUZHENG FUTURES Company Limited

2. Registered office

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

3. Head office in the PRC

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

4. Principal place of business in Hong Kong

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

5. Board of Directors

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

6. Authorized representatives

Mr. Chen Fang

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

Mr. Liu Yunzhi

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

7. Joint company secretaries

Mr. Meng Tao (resigned on 26 January 2018)

Mr. Liu Yunzhi (appointed on 26 January 2018)

Ms. Ng Wing Shan

8. Auditors

PRC Auditor

PricewaterhouseCoopers Zhong Tian LLP

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

International Auditor

PricewaterhouseCoopers

Certified Public Accountant

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

9. Legal advisers

As to Hong Kong law: Clifford Chance

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

As to PRC law: Jia Yuan Law Office

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

Company Profile

10. Principal banks

China Construction Bank (Jinan Shizhong Sub-branch)

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

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

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

Bank of China (Jinan Branch)

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

Bank of Communications (Jinan Shizhong Sub-branch)

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

Agricultural Bank of China (Wanda Plaza Branch)

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

11. H Share registrar

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

12. Stock code

01461

13. Investor enquiries

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

II. HISTORY

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

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

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

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

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

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

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

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

Company Profile

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

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

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

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

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

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

III. STAFF PROFILE

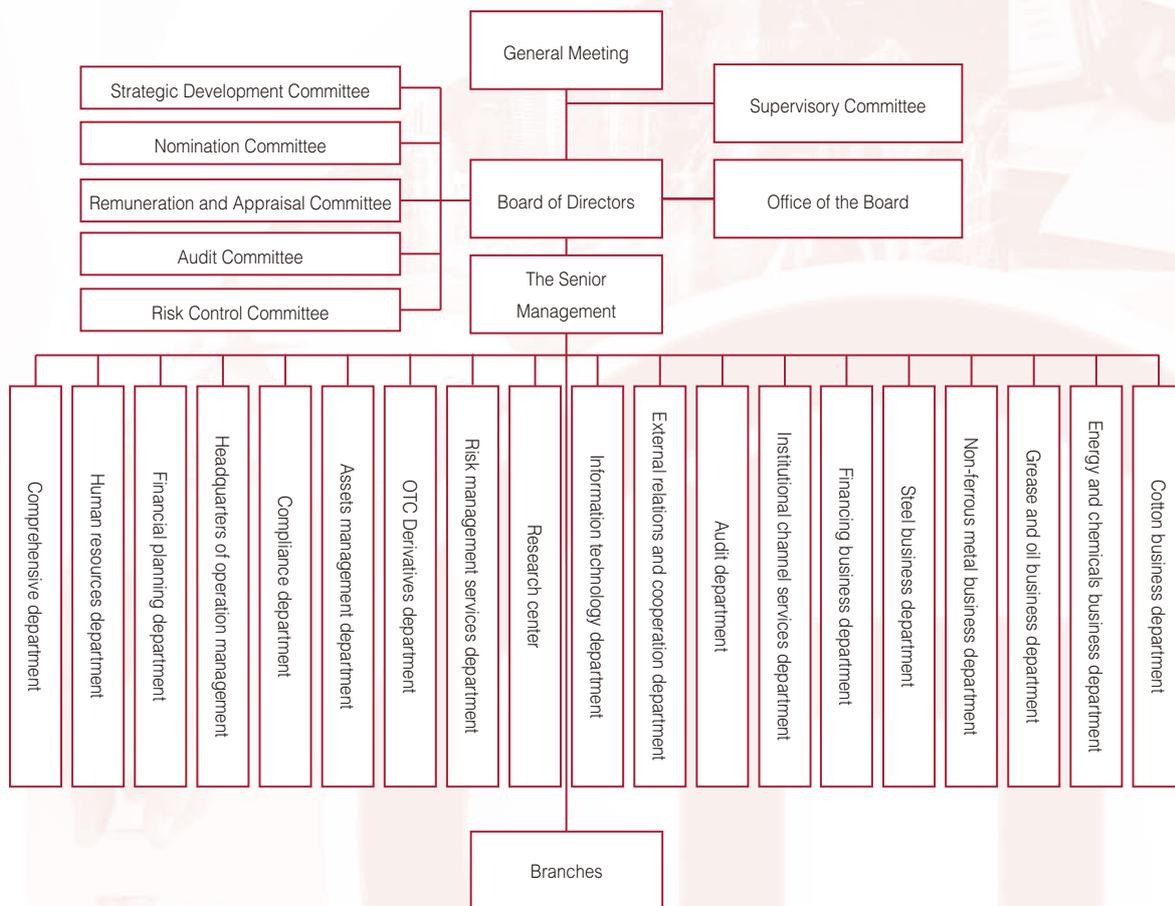
As of 31 December 2018, the Company had 549 employees in total. The breakdown of the composition of the employees is as follows:

	Category	Number	Proportion (%)
By profession	Administrative management	43	7.83
	Financial planning	16	2.91
	Management of brokerage business	42	7.65
	Information technology	27	4.92
	Risk control & Clearing	14	2.55
	Compliance and audit	36	6.56
	Research and development	12	2.19
	Customer services	33	6.01
	Assets management	24	4.37
	Marketing	195	35.51
	Luzheng Trading	68	12.39
	Luzheng Information Technology	6	1.09
	Shandong Exchange Markets Clearing House Co., Ltd	27	4.92
	LUZHENG INTERNATIONAL FUTURES LIMITED	3	0.55
	Jinova S.A.	3	0.55
		Total	549
By age	Below 30	180	32.79
	31 – 35	186	33.88
	36 – 40	92	16.76
	41 – 45	38	6.92
	Above 45	53	9.65
		Total	549
By education background	Post-graduate and above	132	24.04
	Bachelor degree	344	62.66
	College degree and below	73	13.30
		Total	549

Company Profile

IV. BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES

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



Company Profile

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

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Jinan Branch	Zhao Dong	39	18 October 2007	Area B, 4/F, Jihua Building, No.19 Yingxian Street, Tianqiao District, Jinan	0531-81678610
Beijing Branch	Hou Chunmei	7	16 April 2007	Unit 202, 2/F, Block No.99, North Third Ring Road West, Haidian District, Beijing	010-64402919
Shanghai Branch	Ren Yifei	15	13 October 2008	Room 1801, No.438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950
Tianjin Branch	Zhang Wei	10	10 April 2007	Units 2-05, Building 2-2-101, No. 11 Olympic Road Economy and Technology Development Zone, Tianjin	022-66283471
Dalian Branch	Jiang Hong	12	11 February 2003	Units 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No.129 Huizhan Road, Shahekou District, Dalian	0411-84800770
Shenyang Branch	Song Binbin	8	6 November 2007	Units 701-703, Block C, No.161 Nanjing North Street, Heping District, Shenyang	024-23253298

Company Profile

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

Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Weifang Branch	Mo Zhenqiang	10	30 October 2008	4/F, Office Building, No.166 Dongfeng West Road, Weicheng District, Weifang	0536-8263608
Dongying Branch	Fan Chao	8	11 November 2008	Room 417, Room 419, Room 420, Room 422, No. 787, North 1st Road Dongying District, Dongying	0546-8279996
Dezhou Branch	Tang Zhen	7	29 January 2010	11/F, Lijing Building, No.1369 Tianqu Central Road, Decheng District, Dezhou	0534-2617086
Wenzhou Branch	Pang Sen	4	12 August 2011	Unit 103, Block 1-2 Renhe Jiayuan Station Road, Lucheng District, Wenzhou, Zhejiang	0577-85552177
Shenzhen Branch	Lu Zongjian	6	27 December 2011	Unit 03, 25th Floor, Zhaobangji Building, No. 319, Fuhua Road, Gangxia Community, Futian Avenue Futian District, Shenzhen	0755-83509686
Guangzhou Branch	Xu Jie	6	22 October 2012	904 East, No. 30 Tianhe North Road, Tianhe District, Guangzhou	020-38838558
Changsha Branch	Wang Li	8	12 March 2013	Unit 1522, Heart of the City, Northwest of the cross between Furong Road and Chengnan Road, Tianxin District, Changsha	0731-84637766
Chengdu Branch (Completed industrial and commercial deregistration on 26 September 2018)	Fu Qi	0	25 July 2013	Unit 2, 5/F, No.42 Donghuazheng Street, Jinjiang District, Chengdu	028-85970818

Company Profile

Name of branch	Principal	Number of employees	Date of opening	Address of branch (China)	Contact number
Rizhao Office Department	Tong Yanfang	7	26 December 2014	Unit 1203, Block 001, Hangmao Center, No.277 Beijing Road, Rizhao Economy and Technology Development Zone, Rizhao, Shandong	0633-8088272
Shanghai Branch	Liu Jie	7	1 February 2016	Room 1502A, No. 438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	021-61049950-8008
Wuxi Office Department	Dai Qichao	4	26 April 2016	Rooms 901-902, No.2 Wuai Renjia, Wuxi	0510-82728370
Wuhan Branch	Liu Xuwang	5	8 June 2017	Rooms 601, 602, 609, Qingcuiyan Unit 1-2, Qingshan District, Wuhan	027-86681096
Jinan Branch	Niu Baodong	3	27 July 2017	Zone A, 4/F, Main Building, Jihua Building, No.19, Yingxian Street, Tianqiao District, Jinan	0531-81916253
Nanjing Branch	Ye Chunhua	4	3 August 2017	Room 4901-03, No.188, Laoshan District, Jianye District, Nanjing (Room 5803, 58/F (Elevator No.))	025-57626667

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

In 2018, China's futures market made substantial progress in opening-up, with introduction of more instruments to serve the real economy, and further deepened its development and served the national strategy. The year marked the first year in which the market was directly opened up to the outside world. China's futures market successfully introduced foreign traders of iron ore futures and PTA futures after the opening of crude oil futures trading to foreign traders. Meanwhile, "foreign investors are entitled to hold the majority of shares and their shareholding percentage will not be restricted after 3 years", and futures players made unprecedented efforts "to introduce foreign investment". More instruments were introduced to better serve the economy. In 2018, a total of four new varieties of futures were launched to the market, namely crude oil futures, pulp futures, ethylene glycol futures and 2-year treasury bond futures. In addition, China also released the copper futures option. There were 61 varieties of futures and options being traded in China, consisting of 51 varieties of commodity futures, 6 varieties of financial futures and 4 varieties of options. Considerable achievements were made in the innovations of varieties of futures and options, and an open and diversified derivative system was increasingly improved. Trading of stock index futures has restored to normal. The market made unremitting efforts to serve the development strategy of the country. No. 1 Central Document mentioned "futures" for three consecutive years. With a view to implementing the "Strategy of Rural Vitalization" and serving the country's efforts to fight against the poverty, the "insurance + futures" pilot was rapidly expanded.

VI. BUSINESS BRIEFINGS OF THE COMPANY

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

Company Profile

VII. BRIEFINGS OF OUR SUBSIDIARIES

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

The business scope of Luzheng Trading Co., Ltd. includes sale and wholesale of agricultural products, metal products, mining products, chemical products and edible oil, import and export activities, and provision of investment consultancy and risk management services.

The business scope of Luzheng Information Technology Co., Ltd. includes the provision of software development, system integration, sale of electronic products and equipment, and information technology consultancy services.

The business scope of Zhongtai Huirong Investment (HK) Company Limited includes import and export activities, investment, capital risk management and technology consultancy services.

The business scope of Shandong Exchange Markets Clearing House Co., Ltd. includes information registration services such as trading venues and varieties of transactions in relevant institutions, market participants, trading contracts, bills and warehouse receipts; unified transaction payment and settlement services and deposit custody services; derivatives business clearing services; warehouse receipts conversion services; warehouse receipts financing services; information technology development services; and financial information services.

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

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

Jinova S.A.'s business scope includes derivatives trading services, risk management and technical advisory services, import and export trade, and investment.

Details are as follows:

Name of the company	Shareholding percentage (%)	Date of establishment	Registered capital	Registered address	Responsible person	Contact number
Luzheng Trading Co., Ltd. (魯証經貿有限公司)	100	2013.4.24	RMB350 million	Room 201, Block A, No.1 Qianwanyilu, Shenzhen - Hong Kong Cooperation Zone, Qianhai, Shenzhen, Guangdong Province, the PRC	Liu Qingbin	+86-531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.2.15	RMB50 million	Room 1515, Floor 15, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC	Pei Yingjian	+86-531-81678620
Zhongtai Huirong Investment (HK) Company Limited (中泰滙融(香港)有限公司)	100	2013.11.21	HK\$118.82 million	Unit 04, 7/F, Bright Way Tower, No. 33 Mong Kok Road, Kowloon, Hong Kong	Liu Qingbin	+86-531-86161199

Name of the company	Shareholding percentage (%)	Date of establishment	Registered capital	Registered address	Responsible person	Contact number
Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算有限公司)	40	2016.10.9	RMB150 million	Floor 16, Building B, Gold Times Square, No. 9999 Jingshi Road, Lixia District, Jinan, Shandong Province, the PRC	Li Xuekui	+86-531-86517060
LUZHENG INTERNATIONAL HOLDING LIMITED	100	2018.4.16	HK\$30 million	Rooms 2608-10, 26/F, Wing On Building, 71 Des Voeux Road Central, Central, Hong Kong	Liang Zhongwei	+852-38997101
LUZHENG INTERNATIONAL FUTURES LIMITED	100	2018.5.17	HK\$15 million	Rooms 2608-10, 26/F, Wing On Building, 71 Des Voeux Road Central, Central, Hong Kong	Liang Zhongwei	+852-38997101
Jinova S.A.	96.6	2018.8.29	CHF3 million	Route de Florissant 114, 1206 Geneva, Switzerland	Yao Honghui	+41-795285957

VIII. HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD

During 2018, the Company has been rated by the CSRC as a Class A (AA) futures firm which makes it rated by the CSRC as a Class A futures firm for ten consecutive years.

The Company was honored, for the sixth time consecutively, as the “Best Futures Firm in China (中國最佳期貨公司)” in the 11th session of the “China Best Futures Institution Selection” (第十一屆中國最佳期貨經營機構評選) as jointly held by the Futures Daily (期貨日報) and the Securities Times (證券時報), and was also granted the awards of “China Futures Firm Gold Management Team (中國期貨公司金牌管理團隊)”, “Best Precision Poverty Alleviation Charity Award (最佳精準扶貧公益獎)”, “Best Brand Establishment and Promotion Award (最佳品牌建設推廣獎)”, “Best Futures IT System Construction Award (最佳期貨IT系統建設獎)”, “Best Risk Management Subsidiary Service Award (最佳風險管理子公司服務獎)”, “Best Futures Derivatives Innovation Business Development Award (最佳期貨衍生工具創新業務發展獎)”, and “Best Helman of China Futures Companies (中國期貨公司最佳掌舵人)”.

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

The Company was honored with “Excellent Member Gold Award (優秀會員金獎)”, “Excellent Industrial Service Award (優秀產業服務獎)”, “Excellent Risk Management Subsidiary” (優秀風險管理子公司) and “Excellent Option Market Cultivation Award (優秀期權市場培育獎)” by the Dalian Commodity Exchange.

Company Profile

The Company was honored with “Excellent Talent Cultivation Member Award (人才培育優秀會員獎)”, “Excellent Technical Support Member Award” (技術支持優秀會員獎) and “Excellent (Sugar) Variety Service Member” ((白糖)品種服務優秀會員) by Zhengzhou Commodity Exchange.

The Company was honored with “Gold Award for Excellent Members” (優秀會員金獎), “Aluminum Industry Service Award” (鋁產業服務獎), “Lead and Zinc Industry Service Award” (鉛、鋅產業服務獎), “Nickel Industry Service Award” (鎳產業服務獎), “Gold Industry Service Award” (黃金產業服務獎), “Steel Industry Service Award” (鋼材產業服務獎), “Fuel Oil and Asphalt Industry Service Award” (燃料油、瀝青產業服務獎) and “Option Market Service Award” (期權市場服務獎) by the Shanghai Futures Exchange.

The Company was honored with “Futures Industry Innovation Award” (期貨業創新獎) and “Outstanding Leader of Futures Industry” (期貨業傑出掌門人) in the 16th China’s Financial Annual Champion Awards held by Hexun.com.

The Company was honored with “National Advanced Unit for Cultural Construction in Financial Sector for 2017-2018” (2017-2018年全國金融系統文化建設先進單位) by Association of Ideological and Political Work of China Financial Institutions.

Financial Summary

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

I. MAJOR ACCOUNTING DATA OF THE GROUP

Unit: RMB'000

Item	2018	2017	Increase/ decrease over corresponding period of last year	2016
Operating income	423,148	465,865	-9.17%	398,915
Operating profit	147,412	207,488	-28.95%	154,809
Profit before income tax	152,745	206,568	-26.06%	154,926
Net profit attributable to shareholders of the Company	117,719	158,631	-25.79%	113,003
Net cash flow from operating activities	334,458	-212,046	257.73%	-270,552

Unit: RMB'000

Item	31 December 2018	31 December 2017	Increase/ decrease over corresponding period of last year	31 December 2016
Total assets	7,900,430	8,828,934	-10.52%	8,204,293
Total liabilities	5,667,104	6,644,231	-14.71%	6,125,765
Total equity attributable to shareholders of the Company	2,208,442	2,156,571	2.41%	2,048,755
Total share capital	1,001,900	1,001,900	0.00%	1,001,900

II. MAJOR FINANCIAL INDICATORS OF THE GROUP

Item	2018	2017	Increase/ decrease over corresponding period of last year	2016
Basic earnings per Share (RMB)	0.12	0.16	-25%	0.11
Diluted earnings per Share (RMB)	0.12	0.16	-25%	0.11
Weighted average return on net asset	5.14%	7.36%	decreased by 2.22 percentage points	5.59%

Financial Summary

Item	31 December 2018	31 December 2017	Increase/ decrease over corresponding period of last year	
			31 December 2017	31 December 2016
Net asset per Share attributable to shareholders of the Company (RMB)	2.20	2.15	2.33%	2.04
Gearing ratio	13.72%	19.98%	decreased by 6.26 percentage points	16.24%

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

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

Indicators	31 December 2018	31 December 2017	Regulatory standard
Net capital (RMB)	1,327,893,600.10	1,342,240,676.68	30,000,000.00
Net capital/total risk capital reserves	829.55%	693.76%	100.00%
Net capital/net assets	63.51%	65.75%	20.00%
Current assets/current liabilities	844.52%	777.03%	100.00%
Liabilities/net assets	10.21%	8.34%	150.00%
Settlement reserve funds (RMB)	181,203,243.18	175,494,527.30	12,000,000.00

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

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

1. Profitability

Unit: RMB'000

Item	2018	2017	2016	2015	2014
Operating income	423,148	465,865	398,915	369,898	322,053
Operating expenses	275,736	258,377	244,106	254,714	219,838
Profit before income tax	152,745	206,568	154,926	124,910	105,612
Net profit attributable to shareholders of the Company	117,719	158,631	113,003	93,583	80,291

2. Assets Condition

Units: RMB'000

Item	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Total assets	7,900,430	8,828,934	8,204,293	7,433,409	5,527,300
Total liabilities	5,667,104	6,644,231	6,125,765	5,455,048	4,254,921
Equity attributable to shareholders of the Company	2,208,442	2,156,571	2,048,755	1,978,361	1,272,379
Total share capital	1,001,900	1,001,900	1,001,900	1,001,900	750,000

3. Key financial indicators

Item	2018	2017	2016	2015	2014
Basic earnings per Share (RMB)	0.12	0.16	0.11	0.11	0.11
Diluted earnings per Share (RMB)	0.12	0.16	0.11	0.11	0.11
Weighted average return on net asset	5.14%	7.36%	5.59%	5.94%	6.53%
Net asset per Share attributable to shareholders of the Company (RMB)	2.20	2.15	2.04	1.97	1.70
Gearing ratio	13.72%	19.98%	16.24%	10.88%	4.11%

Chairman Statement

Dear Shareholders,

2018 marked the 40th anniversary of reform and opening-up in China with great progress being made in the opening-up of the futures market. In the year, with more and more instruments to serve the real economy, the futures market developed further, and was in a better position to serve the national strategy of China in all round. The successful launch of the first international crude oil futures variety was followed by the successful opening of iron ore and PTA futures varieties to foreign traders. Greater harmony was created between futures market and spot market. Such measures as regulation of OTC derivatives, and release of a series of standards for OTC trading system interfaces for securities & futures sector promoted common development of futures market and spot market, and exchange and OTC market, boosting development of the multi-layer bulk commodity derivatives market, allowing for accelerated unleashing of forces that drive the futures industry to serve the national economy on a higher level. Four new varieties of futures were launched onto the market in 2018: crude oil futures, pulp futures, ethylene glycol futures and 2-year treasury bond futures. In addition, China also released the cooper futures option. It could be argued that fruitful results were achieved in the innovation of futures and option variety, and an open and diversified derivative system was being improved increasingly. No. 1 Central Document mentioned “futures” for three consecutive years. With a view to implementing the “Strategy of Rural Vitalization” and serving the country’s efforts to fight against the poverty, the “insurance + futures” pilot was rapidly expanded.

In 2018, under the guidance of governments and regulators at various levels, and thanks to the support and assistance of shareholders, the Company made significant progress amid the overall economic slowdown. Growth of turnover of the futures brokerage business of the Company was obviously faster than the industry average in 2018, with a bigger market share. The Company experienced a rapid development of risk management business, and gradually had a presence in the market and brand influence as well. When it comes to the option business, the Company continued its leading position in the industry, ranked first in the market in terms of trading volume of stock options, among top five in the market in terms of trading volume of soybean meal and sugar options, and among top three in the industry in terms of size of OTC futures business. “Luzheng Brand”, which was derived from research and development of varieties of apple futures, boasts of strong market influence. Internationalization was promoted steadily, and establishment of overseas business platform was completed basically.

China will celebrate the 70th anniversary of the founding of the People’s Republic of China in 2019. The Company will continue to center on its core purpose of serving the real economy, and will further adhere to the strategic target of being a leading comprehensive financial service provider in the futures and derivatives markets, striving to improve its compliant operation and internal risk control competence, steadily propel the business transformation and coordinated development, continuously advance the internationalization strategy, constantly enhance the quality of information disclosure, improve the investor relationship management system, and strictly protect the rights of investors, especially small and medium-sized investors. I always believe that with your support and all employees’ active efforts, the Company will achieve better performance in 2019.

LUZHENG FUTURES Company Limited

Chairman

Chen Fang

27 March 2019

Management Discussion and Analysis

I. ECONOMIC AND FUTURES MARKET ANALYSIS DURING THE REPORTING PERIOD

(1) Economic Conditions

China's economy faced increasing downward pressure in 2018. From the beginning of 2018, the country experienced a substantial decrease in the growth of its domestic demands such as consumption and investment. The growth of social retail goods fell at a faster pace after falling below the 2-year range of consolidation. The growth of the fixed asset investment continued its falling trend and dropped even to 5.3%, and remained at a low level despite the rebound in the fourth quarter. The gun-jumping initiatives implemented before imposing the higher tariff rates played a major role in the rebound of foreign trade growth. Although the current economy mode of China has ceased to be export-oriented economy, the U.S.-China trade friction mounted up the downward pressure on China's economy against the weak domestic demands and great downward pressure on the domestic economy.

Looking forward to 2019, the macro-economy of China will still face a great downward pressure and there are signs of mounting pressure. Despite the recovery of the growth of fixed assets investment for three consecutive months, the overall growth remains at a relatively low level. The falling trend of social retail goods will continue at a faster pace due to insufficient spending power of residents; growth of import and export declines dramatically, and the adverse effects of the trade friction start to emerge. Although the U.S. and China decided to suspend such trade restriction measures as tariff escalation at the G20 Summit, the trade war between U.S. and China is protracted and complicated as it is not only a conflict at the level of trade, but also the struggle for industry and dominance of the world trade rules between these two super powers, and the war will have a far-reaching impact on China's economy.

(2) Futures Market Analysis

In 2018, the cumulative trading volume of the Chinese futures market was 3.029 billion lots, representing a slight decrease of 1.54% as compared with the previous year; the cumulative turnover amounted to RMB210.82 trillion, representing an increase of 12.20% as compared with the previous year. Thanks to the loosening policies for margin, fees and position limits for stock index futures, the trading volume of financial futures increased by 10.63% to 27.21 million lots as compared with the previous year, while cumulative turnover increased by 6.22% to RMB26.1 trillion. As a result of the volatile movements of the overall commodity future market at a high level, the commodity futures suffered a decline of 2.50% in the trading volume and a slight growth of 5.3% in its turnover. Benefiting from the positive effects of the supply-side reform and intensified environmental governance and negative effect of the worries about the slowdown of China's economy, the prices of bulk commodities remained volatile at a high level and dropped after a recovery in 2018, and prices of different products were significantly different. In 2018, the Wenhua CCI declined by 6.55% as compared with the previous year, of which, the index of industrial products experienced a dramatic decrease of 10.21% under the influence of the economy downward, while agricultural products saw a slight increase of 0.39%, which almost remained unchanged as compared with the previous year.

Management Discussion and Analysis

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

As at 31 December 2018, the Company was rated by the CSRC as a Class A (Level AA) futures firm, marking its rating by the CSRC as a Class A futures firm for ten consecutive years. The Company was also named as the “Best Futures Firm in China” (中國最佳期貨公司) for six consecutive times by the Futures Daily (期貨日報) and the Securities Times (證券時報), and was further awarded as the “China Futures Firm Gold Management Team” (中國期貨公司金牌管理團隊), the “Best Precision Poverty Alleviation Charity Award” (最佳精準扶貧公益獎), and the “Provincial Civilized Enterprise” (省級文明單位).

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

(1) Futures Brokerage

Market Analysis:

During the Reporting Period, China's futures market successfully introduced foreign traders of iron ore futures and PTA futures after the opening of crude oil futures trading to foreign traders. Futures players made unprecedented efforts to introduce foreign investment. A total of four new varieties of futures were launched to the market, namely crude oil futures, pulp futures, ethylene glycol futures and 2-year treasury bond futures. In addition, China also released the cooper futures option. By the end of the Reporting Period, there were 61 varieties of futures and options being traded in China, consisting of 51 varieties of commodity futures, 6 varieties of financial futures and 4 varieties of options. Considerable achievements were made in the innovations of varieties of futures and options, and an open and diversified derivative system was increasingly improved. Trading of stock index futures has restored to normal. In terms of one-side trading, cumulative trading volume of China's futures market was 3.029 billion lots, representing a decrease of 1.54% as compared with the previous year; and cumulative turnover amounted to RMB210.82 trillion, up by 12.20% as compared with the previous year.

Development Plans and Results:

In 2018, the Company took the following operating measures in accordance with the development plans established at the beginning of the year, and achieved the following results:

Firstly, the Company actively carried out the option brokerage business to seize market share, thereby maintaining its leading position since the establishment of our option brokerage business. The Company jumped to the first place of the entire market in terms of annual trading volume of stock options with a market share of 7.20% in 2018, and ranked the third place in terms of annual trading volume of sugar options in 2018 with a market share of 7.79%. The annual trading volume of soybean meal options held a 7.31% market share, ranking fifth in the market in 2018.

Management Discussion and Analysis

Secondly, the Company further optimized the layout of outlets, sped up the construction of talent team, and improved business development capabilities. The Company closed down the sales office in Chengdu, and changed the heads of sales offices in Zhengzhou, Linyi and Wuxi.

Thirdly, the Company actively carried on collaborated business. In 2018, net income from collaborated businesses of operating entities of the Company was RMB13.7686 million, which represented a year-on-year increase of 11 times.

In 2018, the Company's end-of-period futures equity amounted to RMB5.374 billion, representing a year-on-year decrease of 11.47%. The stock option business (including stocks) had an end-of-period equity of RMB153 million, representing a year-on-year decrease of 16.39%. The average daily client's futures equity of the Company was RMB6.176 billion, representing a year-on-year decrease of 2.01%. The average daily equity of stock options business (including physical commodities) amounted to RMB152 million. The Company's cumulative trading volume of futures was 93 million lots, representing a year-on-year increase of 0.86% with a market share of 1.54%, and the total trading volume amounted to RMB7.35 trillion, representing a year-on-year increase of 17.38% with a market share of 1.74%. The Company's accumulative trading volume of stock options was 27 million lots, representing a year-on-year increase of 146.70%.

(2) Futures Assets Management Business

Market Analysis:

With the introduction of new asset management regulations in 2018, and under the regulatory orientation characterized of "de-leveraging, multi-layer investment elimination and non-standard asset elimination", size of assets under management has shrunken drastically in the futures industry. As at 31 December 2018, assets under management of futures companies and their subsidiaries were valued at RMB124.9 billion, indicating a decline of RMB120.9 billion or almost 50% as compared with RMB245.8 billion in 2017.

Development Plans and Results:

During the Reporting Period, the Company expanded the size of FOF products, strengthened the internal collaboration and cooperation, and vigorously enhanced the active management capability. In 2018, the Company issued 2 new FOF products, which played a demonstrative role in the joint issuance of products with sales offices. The Company established two active management teams, one for high-volume trading and the other for discretionary trading. By reason of liquidation of FOF products, the Company's asset management business shrank to RMB340 million as at the end of the Reporting Period.

Management Discussion and Analysis

(3) Commodity Trading and Risk Management Business

Market Analysis:

After nearly six-year exploration and practice, the risk management companies constantly improved their business modes, bringing about the increasing size of business. Values of assets and capital strength of the commodity trading and risk management industry were further enhanced. The capabilities and competence to serve real economy were significantly improved. By the end of 2018, assets of 79 risk management companies were valued RMB34.416 billion in aggregate, representing a year-on-year increase of 29%; and paid-in capital amounted to RMB16.966 billion, up by 32% on a year-on-year basis.

Development Plans and Results:

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

During the Reporting Period, the Group carried on the commodity trading business in sectors of ferrous metal, grain and oil by introducing excellent business teams and concentrating its various resources on those sectors. Purchase and sale volume of the aforementioned commodities was more than 506,900 tons in 2018 with an amount of RMB2.673 billion for the year, which represented an increase of RMB137 million or 5.4% as compared with RMB2.536 billion for the corresponding period in 2017. In the commodity trading sector, the Group leveraged on its technical advantages of risk management, pursued innovations in the business mode, and actively promoted cum rights trade mode through a reasonable combination of commodity trading and futures and options. The Group provided value preservation services for counterparties while entering into commodity trading with counterparties, thereby earning recognition from them.

During the Reporting Period, the Group focused on serving real economy and serving agriculture, rural areas and farmers and small and micro enterprises and provided a total financing of RMB616 million for entities through the credit services such as warehouse receipt services and cooperative hedging, which have been filed with and approved by the China Futures Association, and offered liquidity risk management and inventory risk management for customers. The Group has effectively promoted the customer development and services and realized the comprehensive development of a number of businesses such as brokerage business and risk management business.

In 2018, as for OTC products, the Group continued to keep its leading position in the industry in terms of values of OTC option transactions. By the end of the Reporting Period, the Group completed a total of 8,660 OTC options transactions with turnover of option fee amounting to RMB538 million, involving 39 varieties such as crew, ore, rubber, soybean meal and corn. Nominal size of options amounted to RMB61.7 billion, with approximately 10% market share, achieved a fast growth of its OTC business.

Management Discussion and Analysis

The Group actively participated in the “Insurance + Futures” pilot projects of exchanges, and initiated 10 “Insurance + Futures” pilots in provinces such as Heilongjiang, Liaoning, Shandong, Yunnan and Inner Mongolia, involving several varieties such as corn, cotton, soybean, sugar and rubber. With aggregate premium of RMB26.3208 million, increased by RMB17.0363 million as compared with the previous year, those pilots covered 25,369 households, to whom more than RMB8.4 million has been paid as compensation. In particular, as for the corn variety, only a few thousand tons of corns were covered at the beginning of the pilot, and thanks to the continuous exploration over recent years, more than 200,000 tons of corns were currently covered under the pilot, implying that the pilot has extended to all counties in the major grain-producing region. “Huachuan Mode” with great industry influence emerged in the project promotion in Huachuan County of Heilongjiang.

(4) Information Technology Business

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

During the Reporting Period, the Company has on one hand further improved and upgraded its IT systems to satisfy the more complicated requirements of its business and clients. In particular, the Company endeavored to develop a comprehensive online platform that is capable of providing one-stop futures and derivatives solutions. In order to improve its IT competitiveness and meet demands of high-volume business on Ultra Fast Trading (“UFT”) system, the Company provided corresponding UFT system according to the different business situations for different exchanges.

On the other hand, the Company set up Luzheng Information Technology Co., Ltd. (“Luzheng Information Technology”), the only IT subsidiary in the futures industry. Capitalizing on the Company’s strengths in technical maintenance and operation, the Company offered IT maintenance and operation services to medium and small futures firms. As at the end of the Reporting Period, Luzheng Information Technology had provided Operation and Maintenance and Custodian services to two futures firms. At the same time, Luzheng Information Technology established its software development platform and team and developed OTC option business management system and the OTC quotation and clearing platform on its own, which provided strong technical support for the OTC Option Business of Luzheng Trading and Shandong Trading Market Clearing House Co., Ltd. In addition, Luzheng Information Technology has achieved progress in the development of user-end trading software, high-volume trading software, mobile-end service platform and futures information platform.

Management Discussion and Analysis

(5) Registration and Settlement Business

As a financial-based services institution specialized in serving factor transaction markets, Shandong Exchange Markets Clearing House Co., Ltd. (the “House”), which was established and owned as to 40% by the Company through Luzheng Information Technology, is characteristic of both public welfare and business nature, undertook partial regulatory responsibilities with five major basic functions, namely “unified account opening, full registration, centralized settlement, capital supervision and statistics monitoring”. The five major functions ensured “safe capital, real transactions and controllable underlying assets” in the trading venues. In addition, aiming at serving the real economy, the Company is committed to developing itself into a modern clearing institution with strong presence in the trading market and OTC business sector.

As at the end of the Reporting Period, the House had completed access to ten bulk commodity markets in Shandong province and access to one equity trading market on a pilot basis, achieved safe keeping and management of customers’ funds and provided unified registration, settlement check and capital monitoring services to the trading venues. The House actively assisted local financial regulators to carry out frontline supervision, performed a useful role in monitoring electronically and acted as a guardian of the security of the investors’ funds. In 2018, the House cumulatively cleared RMB436.00 billion, involving 36.37 million clearings. At the same time, the House established the ground-breaking OTC business quotation & clearing platform, which has put into operation and mainly provides OTC business participants with third-party customized and specialized quotation, registration and clearing services such as auto-listing of products, confirmation of transactions, supervision of funds and entrusted clearing.

Currently, the House has realized a two-wheel-driven business mode dominated by exchange registration & settlement and OTC quotation & clearing business. The House vigorously innovated financial services and comprehensively facilitated the development of the factor trading market and OTC business.

(6) International Business

In line with its stated internationalization strategy, the Company established LUZHENG INTERNATIONAL HOLDING LIMITED, a wholly-owned subsidiary, in Hong Kong on 16 April 2018, and established LUZHENG INTERNATIONAL FUTURES LIMITED, a wholly-owned subsidiary, on 17 May 2018 through LUZHENG INTERNATIONAL HOLDING LIMITED in Hong Kong. The Group established Jinova S.A. in Geneva, Switzerland, a 96.6%-owned subsidiary, through its subsidiary Zhongtai Huirong Investment (HK) Company Limited on 29 August 2018.

On 6 March 2019, LUZHENG INTERNATIONAL FUTURES LIMITED had obtained the second category (futures contract trading) license from the Securities and Futures Commission of Hong Kong. Holding such license can allow eligible clients to trade futures, options and associated derivative products of the world’s major commodity and financial futures exchanges through LUZHENG INTERNATIONAL FUTURES LIMITED.

As at the end of the Reporting Period, registration, compliance approval and staffing of Jinova S.A. have been completed, and the company is ready for carrying on OTC futures and option business and proprietary trading business.

(7) Main Work Plan for 2019

In 2019, the Group will still act in line with the market development trend and laws of industry development. Taking into account its characteristics, the Group has the following overall plans and development priorities: strengthening concept of compliance and risk control to firmly act within the red line of compliance and the bottom line of risks; further developing brokerage business to improve brokerage business competitiveness; adapting to the new circumstances and new requirements with respect to the asset management regulation by adhering to the essential functions of asset management business and leveraging on advantages and characteristics of the Group's futures asset management; expanding businesses of risk management subsidiary while centering on serving the real economy; intensifying information system development to improve technical security; and promoting the integration of Party building and operation while improving the Party's work style and building clean governance.

By the business lines, the Group's major work plan for 2019 is detailed as follows:

Futures Brokerage Business

First, continue to grasp fundamental customers, fundamental assets, and fundamental services; second, actively introduce the heads of organizations who have good command of our business and strong management ability; third, concentrate the resources of the Company to solve the business support for branches and the ability of branches to master new business and other basic problems, therefore gradually resulting in obvious effect in stages; fourth, optimize the training content of the customer managers along the industry chain, and cultivate a group of large-scale account managers with comprehensive knowledge and exquisite; fifth, increase the stickiness of brokerage customers through research, credit business, and OTC businesses, and guide branches to actively transform into professional integrated service providers.

Management Discussion and Analysis

Futures Asset Management Business

Deeply understand the spirit of the new asset management regulation, thoroughly understand the original purpose of the new regulation, actively introduce the investment and research transaction teams with independent management capabilities, further improve and optimize the business process, and reposition the development direction of the asset management business: First, return to the essence of active management of the asset management business, and refrain from channel-based business; second, take the advantage of futures asset management, and refrain from business that we are not good at; third, adhere to the compliance and risk control, and refrain from non-compliant business that is exposed to risks uncontrollable.

Commodity Trading and Risk Management Business

The Group will further improve the human resource system, double its efforts to develop a more powerful investment research team, and reasonably adjust and allocate research resources for each variety and each line so that the commodity trading and risk management business can receive better support from research. The Company will intensify its efforts to develop its information-based OTC business. Through close communications with Luzheng Information Technology, the Company aims to realize online trading of forwards, swaps and options. The Company will rely on the improving infrastructure to accommodate the rising businesses, and to enhance its capabilities of OTC business hedging, settlement and risk control, thus improving the core competitiveness. At the same time, the Company will deepen its explorations and understanding of derivative instruments like swaps to further enrich portfolio of instruments, thus enhancing the trading quality and service competence of the Company. The Company will make good use of its background and advantages of derivative trading capability and risk management to improve its capability to comprehensively utilize such instruments as futures, options and swaps in connection with the commodity trading and risk management business. The Company will upgrade the customer service mode for the futures and physical commodities businesses in an all-round way to create a future-spot income structure in which equal importance is given to the research investment income and trade service income, thus enhancing capability of the Company to provide better comprehensive service.

Information Technology Business

The Group will take advantage of Luzheng Information Technology's expertise to enhance our core competitiveness and quickly secure market share. First, to improve the operation and maintenance system and improve the operation and maintenance management level. Second, to actively promote the construction of the next-generation core systems to ensure that the system is able to come into use on time. Third, to strengthen the construction of information systems and improve customer service capabilities.

Registration and Settlement Business

As an important provider of basic financial services in Shandong province, under direct leadership of Local Finance Supervision and Administration Office of Shandong Province (the “Office”), and in accordance with its established strategic planning, the House will take serving the real economy as its responsibility and actively carry out the access into trading markets and admission and clearing of OTC members. The House will still strive for developing itself into a modern clearing institution with strong presence in the trading market and OTC business sector. When it comes to the unified registration and settlement in the trading market, the House will continue improving the function of the unified registration and settlement platform, accomplish the task of access into the trading market assigned by the Office, and will vigorously explore the access into bulk commodity trading market of other provinces other than Shandong Province. When it comes to OTC business quotation and clearing, the House will, through the established OTC business quotation and clearing platform, expand the OTC clearing business by intensifying the market promotion, and actively absorbing OTC clearing members. When it comes to information technology service, the House will satisfy the demands for software development and system operation and maintenance required for development of such businesses as the unified registration settlement and OTC quotation and clearing. At the same time, the House will make efforts to widen the scope of information technology service so as to provide all-round information technology services such as trading software development and system operation and maintenance agency for trading markets of Shandong province and other provinces. The House will actively explore the creation of cloud-end technology service platform. When it comes to the building of bulk commodity trading market, the House will actively explore and analyze the development mode and trading mechanism of the bulk commodity trading market, provide comprehensive specialized consultancy and guidance service, and facilitate the strengthening and expansion of exchanges in Shandong province to better serve the development of real economy and replace old growth drivers with new ones.

International Business

Depending on development and needs of its business, LUZHENG INTERNATIONAL FUTURES LIMITED will select some major futures exchanges across the world and then apply for trading and clearing membership of those exchanges, with an aim at providing comprehensive trading and clearing services, sound market access service and perfect risk management solutions for customers. Following the development plan characterized by internationalization strategy of the Company being listed on the Main Board of Hong Kong Stock Exchange, and taking the lead in international development of the Company, LUZHENG INTERNATIONAL FUTURES LIMITED will provide all-round commodity and financial derivative services in a global scale for customers, particularly enterprises with real activities. LUZHENG INTERNATIONAL FUTURES LIMITED will strengthen the internal management, and strictly control business process in strict compliance with the regulatory requirements, aiming at establishing a streamlined business team with extensive experiences in trading and management of international derivative.

Management Discussion and Analysis

On the top of establishment of organizations, compliance structuring, and staffing of teams, Jinova S.A. will leverage on its advantages of talents, technology, location and time zone to carry on multiple businesses including OTC futures and options business, proprietary trading business, physical commodities intermediary business, consultancy business and channel business as soon as possible with a view to providing customers with all-round risk management services utilizing global derivative and linking with global market.

III. FINANCIAL STATEMENT ANALYSIS

(1) Profitability Analysis

During the Reporting Period, the Group experienced a significant growth of commodity and risk management business income thanks to the Group's efforts to promote the business transformation and further optimize the business structure. Due to the intensified competition, as well as the unobvious synergy effects of innovative business and brokerage business, income from brokerage business of the Group declined, resulting in a decrease in net profits.

At the end of the Reporting Period, the Group achieved operating income of RMB423.148 million, which represented a decrease of 9.17% as compared with RMB465.865 million in 2017; operating expense of RMB275.736 million, which represented an increase of 6.72% as compared with RMB258.377 million in 2017; and profit attributable to shareholders amounting to RMB117.719 million, which represented a decrease of 25.79% as compared with RMB158.631 million in 2017. Earnings per share attributable to shareholders of the Company were RMB0.12.

(2) Asset Structure and Asset Quality

At the end of the Reporting Period, affected by the decrease in customers' equity and liquidation of structured entities, both total assets and total liabilities of the Group declined by different degrees.

At the end of the Reporting Period, the Group's assets totalled RMB7.9 billion, decreased by 10.52% as compared with RMB8.829 billion at the end of 2017. The Group's liabilities totalled RMB5.667 billion, decreased by 14.70% as compared with RMB6.644 billion at the end of 2017. Net assets attributable to shareholders were RMB2.208 billion, increased by 2.36% as compared with RMB2.157 billion at the end of 2017.

At the end of the Reporting Period, the Group's total assets were as follows: non-current assets were RMB206 million, which represented a decrease of 49.26% as compared with RMB406 million at the end of 2017, and current assets were RMB7.695 billion, which represented a decrease of 8.64% as compared with RMB8.423 billion at the end of 2017. The significant changes in the non-current assets was mainly due to the decrease in the available-for-sale financial assets. During the Reporting Period, there was no indication of material impairment of assets of the Group.

Management Discussion and Analysis

At the end of the Reporting Period, liabilities excluding accounts payable to brokerage clients were RMB355 million, representing a decrease of 34.98% as compared with RMB546 million at the end of 2017. The Group's gearing ratio was 13.72%, decreased by 6.26 percentage points as compared with 19.98% at the end of 2017. During the Reporting Period, most products that were consolidated as structure entities were liquidated, resulting in a decline of the gearing ratio.

(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 2018 complied with the regulatory requirements of the CSRC.

(5) Cash Flow Situation

During the Reporting Period, net cash inflow generated from operating activities of the Group was RMB334 million, representing an increase of RMB546 million from the net outflow of RMB212 million in 2017; net cash inflow generated from investing activities was RMB482 million, representing an increase of RMB267 million from the net inflow of RMB215 million in 2017; net cash outflow generated from financing activities was RMB343 million, representing an increase of RMB323 million as compared with net cash outflow of RMB20 million generated from financing activities for 2017; and net increase in cash and cash equivalents was RMB474 million, representing an increase of RMB490 million as compared with the net decrease of RMB16 million in 2017, which was mainly due to the increase in net cash flow generated from operation and investments.

Management Discussion and Analysis

(6) Items of Income Statement

During the Reporting Period, the Group's profit before income tax amounted to RMB152,745 thousand, representing a year-on-year decrease of RMB53,823 thousand or 26.06%. The summary of the financial results is as follows:

Stated in RMB'000	Year ended 31 December	
	2018	2017
Commission and fee income	277,713	303,568
Commission and fee expense	(231,171)	(236,904)
Net commission and fee income	46,542	66,664
Interest income	214,705	218,430
Interest expense	(19,373)	(15,159)
Net interest income	195,332	203,271
Gains on physical commodities trading	3,093	7,948
Net investment gains	56,357	55,719
Other income	121,824	132,263
Operating income	423,148	465,865
Staff costs	(137,009)	(133,863)
Commission to brokerage agents	(3,469)	(7,679)
Introducing broker commission	(6,081)	(7,670)
Depreciation and amortization	(11,699)	(9,977)
Credit impairment losses	(513)	(544)
Other operating expenses	(116,965)	(98,644)
Operating expenses	(275,736)	(258,377)

Management Discussion and Analysis

Stated in RMB'000	Year ended 31 December	
	2018	2017
Operating profit	147,412	207,488
Share of losses of investment in associates	(1,848)	(752)
Other gains/(losses), net	7,181	(168)
Profit before income tax	152,745	206,568
Income tax expense	(39,031)	(49,603)
Profit for the year	113,714	156,965
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
– Changes in fair value	–	164
– Income tax effect of changes in fair value	–	(41)
– Amounts reclassified to profit or loss upon disposal or impairment	–	(1,528)
Currency translation differences	1,278	(1,294)
Other comprehensive income for the year, net of income tax	1,278	(2,699)
Total comprehensive income	114,992	154,266

Management Discussion and Analysis

Stated in RMB'000	Year ended 31 December	
	2018	2017
Profit attributable to:		
– Shareholders of the Company	117,719	158,631
– Non-controlling interests	(4,005)	(1,666)
	113,714	156,965
Total comprehensive income attributable to:		
– Shareholders of the Company	118,998	155,907
– Non-controlling interests	(4,006)	(1,641)
	114,992	154,266
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)		
Basic/Diluted	0.12	0.16

Management Discussion and Analysis

1. Operating Income

During 2018, the Group achieved total operating income of RMB423,148 thousand, which represented a year-on-year decrease of 9.17%, among which, net commission and fee income, net interest income and net investment gains amounted to RMB46,542 thousand, RMB195,332 thousand and RMB56,357 thousand respectively. The income structure of the Group is as follows:

Stated in RMB'000	Year ended 31 December				Increase/growth rate in 2018 as compared with 2017	
	2018		2017		Amount	%
	Amount	(%)	Amount	(%)		
Net commission and fee income	46,542	11.00%	66,664	14.31%	(20,122)	(30.18%)
Net interest income	195,332	46.16%	203,271	43.63%	(7,939)	(3.91%)
Gains on physical commodities trading	3,093	0.73%	7,948	1.71%	(4,855)	(61.08%)
Net investment gains	56,357	13.32%	55,719	11.96%	638	1.15%
Other income	121,824	28.79%	132,263	28.39%	(10,439)	(7.89%)
Total operating income	423,148	100.00%	465,865	100.00%	(42,717)	(9.17%)

Management Discussion and Analysis

(1) Net commission and fee income

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

Stated in RMB'000	Year ended 31 December	
	2018	2017
Commission and fee income		
Futures brokerage service	272,616	297,485
Settlement and clearing service income from other futures firms	4,158	2,065
Asset management service	930	3,982
Investment consultancy service	9	36
	277,713	303,568
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	227,013	234,839
Settlement and clearing service expense to exchange-clearing organizations	4,158	2,065
	231,171	236,904

During the Reporting Period, the Group achieved commission and fee income of RMB46,542 thousand, representing a year-on-year decrease of 30.18%.

Commission and fee income decreased by RMB25,855 thousand, representing a year-on-year decrease of 8.52%, while commission and fee expense decreased by RMB5,733 thousand, representing a decrease of 2.42%. Therefore, after consolidating income and expense factors, net commission and fee income decreased by 30.18%.

Management Discussion and Analysis

(2) Net interest income

During the Reporting Period, the Group achieved net interest income of RMB195,332 thousand, representing a year-on-year decrease of 3.91%. The composition of the Group's net interest income in 2018 is as follows:

Stated in RMB'000	Year ended 31 December	
	2018	2017
Interest income		
Interest income from deposits with banks	198,265	202,991
Interest income from financial assets held under resale agreements	8,325	8,679
Interest income from deposits with exchange-clearing organizations	8,115	6,760
	214,705	218,430
Interest expense		
Interest expense to brokerage clients	14,669	13,687
Interest expense on financial assets sold under repurchase agreements	3,297	–
Interest expense on settlement and clearing services to other futures firms	997	416
Interest expense on borrowings	410	1,056
	19,373	15,159

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

Interest income decreased by RMB3,725 thousand, representing a year-on-year decrease of 1.71%, which was primarily due to a decrease in the market interest rates.

Interest expense increased by RMB4,214 thousand, representing a year-on-year increase of 27.8%, which was primarily due to an increase in interests payable in relation to financial assets sold under repurchase agreements.

Management Discussion and Analysis

(3) Net investment gains

During the Reporting Period, the Group achieved net investment gains of RMB56,357 thousand, representing a year-on-year increase of 1.15%. The composition of the Group's investment gains in 2018 is as follows:

Stated in RMB'000	Year ended 31 December	
	2018	2017
Dividends from financial assets at fair value through profit or loss	43,369	1,071
Net realized gains from derivative financial instruments ⁽¹⁾	39,712	24,854
Interest income from financial assets at amortized cost	171	–
Net realized gains from disposal of available-for-sale financial assets	–	6,334
Dividends and interest income from available-for-sale financial assets	–	20,578
Net realized (losses)/gains ⁽²⁾ from disposal of financial assets at fair value through profit or loss	(263)	6,065
Unrealized fair value change of financial instruments at fair value through profit or loss and derivative financial instruments		
– Financial assets at fair value through profit or loss	(16,377)	3,974
– Financial liabilities at fair value through profit or loss	(29,841)	(203)
– Derivative financial instruments	19,586	(6,954)
	56,357	55,719

(1) This item represents gains from futures, exchange traded options and OTC derivatives transactions related to commodities and financial futures.

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

(4) Other income

Stated in RMB'000	Year ended 31 December	
	2018	2017
Income from refunds of trading fees ⁽¹⁾	97,083	111,115
Income from exchange service fees	14,879	10,529
Income from cooperative hedging fees	5,864	6,004
Income from software service fees	1,194	1,680
Other income	2,804	2,935
	121,824	132,263

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

2. Operating expenses

During 2018, the Group's operating expenses amounted to RMB275,736 thousand, representing a year-on-year increase of RMB17,359 thousand or 6.72%. The breakdown is as follows:

Stated in RMB'000	Year ended 31 December				Increase/decrease in 2018 compared with 2017	
	2018		2017		Amount	%
	Amount	(%)	Amount	(%)	Amount	%
Staff costs	137,009	49.68%	133,863	51.81%	3,146	2.35%
Commission to brokerage agents	3,469	1.26%	7,679	2.97%	(4,210)	(54.82%)
Introducing broker commission	6,081	2.21%	7,670	2.97%	(1,589)	(20.72%)
Depreciation and amortization	11,699	4.24%	9,977	3.86%	1,722	17.26%
Credit impairment losses	513	0.19%	544	0.21%	(31)	(5.70%)
Other operating expenses	116,965	42.41%	98,644	38.18%	18,321	18.57%
Total operating expenses	275,736	100.00%	258,377	100.00%	17,359	6.72%

Management Discussion and Analysis

(1) Staff costs

Stated in RMB'000	Year ended 31 December	
	2018	2017
Salaries and bonus	106,764	107,649
Other social security	12,490	10,934
Pension	11,932	10,020
Labor union funds and employee education funds	4,794	4,844
Other welfare	1,029	416
	137,009	133,863

(2) Depreciation and amortization

Stated in RMB'000	Year ended 31 December	
	2018	2017
Depreciation of property and equipment	7,432	6,263
Amortization of long-term prepaid expenses	2,081	2,081
Amortization of intangible assets	2,186	1,633
	11,699	9,977

(3) Credit impairment losses

Stated in RMB'000	Year ended 31 December	
	2018	2017
Net impairment losses on bank balances	599	–
Impairment losses on receivables	(86)	544
	513	544

(4) Other operating expenses

Stated in RMB'000	Year ended 31 December	
	2018	2017
Insurance expenses	20,900	8,718
Marketing and distribution expenses	16,836	16,550
Office expenses	16,212	21,721
Consulting expenses	14,886	13,461
Rentals	14,553	13,422
Information system maintenance fees	13,286	8,898
Professional service expenses	6,723	3,757
Property maintenance fee	4,508	4,310
Auditors' remuneration – Audit services	1,650	1,650
Tax and surcharges	1,319	1,798
Futures Investors Protection Fund	410	402
Other expenses	5,682	3,957
	116,965	98,644

Other operating expenses increased by RMB18,321 thousand, representing a year-on-year increase of 18.57%, which was primarily due to the increase in insurance expenses of the “futures + insurance” business this year and to the increase in the royalty fee of future business related software.

Management Discussion and Analysis

(7) Items of Assets

As at 31 December 2018, the Group's total assets were RMB7,900,430 thousand, representing a year-on-year decrease of 10.52%, among which cash assets amounted to RMB6,452,059 thousand, representing a year-on-year decrease of 11.86%; financial investment assets amounted to RMB1,057,783 thousand, representing a year-on-year decrease of 14.45%; and other assets amounted to RMB390,588 thousand, representing a year-on-year increase of 43.59%. The Group's total assets are as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Cash assets	6,452,059	7,320,428	(868,369)	(11.86%)
Financial investment assets	1,057,783	1,236,483	(178,700)	(14.45%)
Other assets	390,588	272,023	118,565	43.59%
Total	7,900,430	8,828,934	(928,504)	(10.52%)

Management Discussion and Analysis

1. Cash assets

As at 31 December 2018, the Group's cash assets decreased by RMB868,369 thousand, representing a year-on-year decrease of 11.86%. The composition of the Group's cash assets is as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Margin deposits held in exchange-clearing organizations	2,387,336	2,737,775	(350,439)	(12.80%)
Bank balances held for clients	3,256,333	3,782,507	(526,174)	(13.91%)
Cash and bank balances	808,390	800,146	8,244	1.03%
Total cash assets	6,452,059	7,320,428	(868,369)	(11.86%)

Changes of cash assets mainly represent to changes of money held for clients. Bank balances held for clients amounted to RMB3,256,333 thousand, representing 41.22% of the Group's total assets and a year-on-year decrease of RMB526,174 thousand or 13.91%. Cash and bank balances amounted to RMB808,390 thousand, representing 10.23% of the Group's total assets and a year-on-year increase of RMB8,244 thousand or 1.03%.

Management Discussion and Analysis

2. Financial investment assets

As at 31 December 2018, the Group's financial investment assets decreased by RMB178,700 thousand, representing a year-on-year decrease of 14.45%. The composition of the Group's financial investment assets is as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Available-for-sale financial assets ⁽¹⁾	–	488,406	(488,406)	(100.00%)
Financial assets at fair value through profit or loss ⁽²⁾	637,492	526,967	110,525	20.97%
Financial assets at fair value through other comprehensive income	1,400	–	1,400	–
Investments in associates	43,643	45,491	(1,848)	(4.06%)
Derivative financial assets	37,930	63,087	(25,157)	(39.88%)
Financial assets held under resale agreement ⁽³⁾	337,318	112,532	224,786	199.75%
Total assets of financial investment	1,057,783	1,236,483	(178,700)	(14.45%)

Management Discussion and Analysis

(1) Available-for-sale financial assets:

Due to the implementation of the new standards for financial instruments, the Group no longer has available-for-sale financial assets in 2018.

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017
Non-current – Unlisted		
At fair value		
Trust schemes	–	256,368
Collective asset management schemes	–	7,052
At cost		
Investment in futures exchange memberships	–	1,400
	–	264,820
Current – Unlisted		
At fair value		
Collective asset management schemes	–	81,938
Trust schemes	–	131,625
Other wealth management products	–	10,023
	–	223,586
	–	488,406

Management Discussion and Analysis

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

	31 December 2018	31 December 2017
Non-current assets		
Trust schemes	31,683	–
Private securities investment funds	29,597	–
	61,280	–
Current assets		
Trust schemes	405,456	384,866
Collective asset management schemes	98,325	24,856
Private securities investment funds	67,299	84,648
Bank wealth management products	5,128	11,037
Listed equity securities	4	1,530
Open-ended funds	–	20,030
	576,212	526,967
	637,492	526,967

(3) Financial assets held under resale agreements

At 31 December 2018, the Group's financial assets held under resale agreements was RMB337,318 thousand, representing an increase of RMB224,786 thousand as compared with last year, primarily due to increase of Treasury Bond reverse repo.

	31 December 2018	31 December 2017
Analysed by asset type:		
– Debt securities	260,000	92,800
– Warehouse receipts ⁽¹⁾	77,318	19,732
	337,318	112,532

Management Discussion and Analysis

- (1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2018, the Group has accepted collateral that can be re-pledged with a fair value of RMB100,018 thousand (31 December 2017: RMB25,620 thousand). The collateral with a fair value of RMB28,782 thousand (31 December 2017: RMB7,490 thousand) is re-pledged for margin deposits and the collateral with a fair value of RMB23,375 thousand (31 December 2017: nil) is re-pledged for financial assets sold under repurchase agreements.

3. Other assets

As at 31 December 2018, the Group's other assets amounted to RMB390,588 thousand, representing a year-on-year increase of RMB118,565 thousand or 43.59%. The composition of the Group's other assets is as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Property, plant and equipment	44,748	44,966	(218)	(0.48%)
Intangible assets	15,398	14,735	663	4.50%
Other non-current assets	2,668	3,432	(764)	(22.26%)
Deferred income tax assets	11,009	7,017	3,992	56.89%
Refundable deposits	25,683	25,599	84	0.33%
Contract assets	13,895	–	13,895	–
Physical commodities	199,769	62,397	137,372	220.16%
Other current assets	77,418	113,877	(36,459)	(32.02%)
Total other assets	390,588	272,023	118,565	43.59%

Management Discussion and Analysis

(8) Items of Liabilities

As at 31 December 2018, the Group's total liabilities amounted to RMB5,667,104 thousand, representing a year-on-year decrease of RMB977,127 thousand or 14.71%, among which accounts payable to brokerage clients amounted to RMB5,312,076 thousand, representing a year-on-year decrease of 12.9%. The Group's key changes of total liabilities are as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Deferred income tax liabilities	2,438	2,573	(135)	(5.25%)
Other non-current liabilities	5,983	3,810	2,173	57.03%
Borrowings	10,328	13,000	(2,672)	(20.55%)
Other current liabilities	182,529	114,460	68,069	59.47%
Financial assets sold under repurchase agreement	32,346	–	32,346	–
Current income tax liabilities	19,788	14,074	5,714	40.60%
Derivative financial liabilities	62,506	70,684	(8,178)	(11.57%)
Financial liabilities at fair value through profit or loss	39,110	326,899	(287,789)	(88.04%)
Accounts payable to brokerage clients	5,312,076	6,098,731	(786,655)	(12.90%)
Total liabilities	5,667,104	6,644,231	(977,127)	(14.71%)

1. Accounts payable to brokerage clients

As at 31 December 2018, the Group's accounts payable to brokerage clients amounted to RMB5,312,076 thousand, representing 93.74% of the Group's total liabilities and a year-on-year decrease of RMB786,655 thousand or 12.9%. The composition of the Group's accounts payable to brokerage clients is as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Domestic				
Individual clients	2,636,251	3,035,819	(399,568)	(13.16%)
Corporate clients	2,675,825	3,062,912	(387,087)	(12.64%)
Overseas	–	–	–	–
Total	5,312,076	6,098,731	(786,655)	(12.9%)

2. Financial liabilities at fair value through profit or loss

	As at 31 December 2018	As at 31 December 2017
Financial liabilities designated at fair value through profit or loss		
Payable to a holder of a consolidated SE ⁽¹⁾	29,841	–
Payable to clients for cooperative hedging business	7,355	10,637
Interests of holders of consolidated SEs	1,914	316,262
	39,110	326,899

- (1) The Company has a contract with China Merchants Bank Co., Ltd. ("CMB Bank"), which is an investor of a trust scheme named CR Trust-Huiquan Wantai FOF No. 2. Pursuant to the contract, the Company is obliged to compensate CMB Bank for any under performance of the scheme until the rate of return per annum of CMB Bank's entrusted funds reaches an agreed level. There is a disagreement between the Company and CMB Bank regarding the enforceability of certain terms of the contract. The Company is in negotiation with CMB Bank and no compensations had been made. As of 31 December 2018, the amount payable to a holder of a consolidated SE represents the fair value of the contract which is determined by the management of the Company to reflect the best estimation of its potential obligation of payment based on full exposure and probability of execution after taking into consideration legal advice provided by external legal counsel.

Management Discussion and Analysis

(9) Items of Equity

As at 31 December 2018, the Group's total equity amounted to RMB2,233,326 thousand, representing a year-on-year increase of 2.23%. The composition of Group's equity is as follows:

Stated in RMB'000	As at 31 December 2018	As at 31 December 2017	31 December 2018 compared with 31 December 2017	
			Amount	%
Share capital	1,001,900	1,001,900	–	–
Share premium	650,630	650,630	–	–
Other reserves	241,744	209,798	31,946	15.23%
Retained earnings	314,168	294,243	19,925	6.77%
Total equity attributable to shareholders of the Company	2,208,442	2,156,571	51,871	2.41%
Non-controlling interests	24,884	28,132	(3,248)	(11.55%)
Total equity	2,233,326	2,184,703	48,623	2.23%

(10) Charges over Assets

As at 31 December 2018, trading commodities with carrying amount of RMB66,290 thousand are placed as collateral of margin deposits on futures exchanges by the Group (31 December 2017: RMB3,603 thousand).

As at 31 December 2018, trading commodities with carrying amount of RMB12,364 thousand are placed as collateral of secured short-term borrowings by the Group (31 December 2017: nil).

As at 31 December 2018, trading commodities with carrying amount of RMB21,194 thousand are placed as collateral of financial assets sold under repurchase agreements by the Group (31 December 2017: nil).

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

The foreign currency assets and liabilities held by the Group are not material compared with the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions is not significant. Therefore, the Group considers that its foreign exchange risk is immaterial. As at 31 December 2018, the Group does not use any derivative financial instruments to hedge the exchange risk.

(12) Contingent Liabilities and Commitments

The Group had no contingent liabilities as at 31 December 2018.

(13) Gearing Ratio

Item	As at 31 December 2018	As at 31 December 2017	Increase/ decrease in 2018 compared with the same period of 2017	As at 31 December 2016
Gearing ratio (%)	13.72	19.98	decreased by 6.26 percentage points	16.24

Management Discussion and Analysis

IV. EMPLOYEES STRUCTURE, REMUNERATION AND TRAINING

As at 31 December 2018, the Group had 549 employees in total. The composition of employees is as follows:

Category		Number	Percentage (%)
By profession	Administrative management	43	7.83
	Financial planning	16	2.91
	Management of brokerage business	42	7.65
	Information technology	27	4.92
	Risk control and settlement	14	2.55
	Compliance and auditing	36	6.56
	Research and development	12	2.19
	Customer services	33	6.01
	Assets management	24	4.37
	Marketing	195	35.51
	Luzheng Trading Co., Ltd.	68	12.39
	Luzheng Information Technology Co., Ltd.	6	1.09
	Shandong Exchange Markets Clearing House Co., Ltd.	27	4.92
	LUZHENG INTERNATIONAL FUTURES LIMITED	3	0.55
	Jinova S.A.	3	0.55
Total		549	100
By age	Below 30	180	32.79
	31-35	186	33.88
	36-40	92	16.76
	41-45	38	6.92
	Above 45	53	9.65
Total		549	100
By education background	Post-graduate and above	132	24.04
	Bachelor degree	344	62.66
	College degree and below	73	13.30
Total		549	100

Management Discussion and Analysis

The total remuneration expenses of the Group in 2018 were RMB137,009 thousand, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2018	2017
Salaries and bonus	106,764	107,649
Other social security	12,490	10,934
Pension	11,932	10,020
Labor union funds and employee education funds	4,794	4,844
Other welfare	1,029	416
	137,009	133,863

The five highest paid individuals

For the year ended 31 December 2018, the five highest paid individuals do not include any of the directors and supervisors (2017: including one supervisor). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and other welfares	5,508	5,186
Bonus	3,017	8,953
	8,525	14,139

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

	Year ended 31 December	
	2018	2017
RMB1,000,001 to RMB1,500,000	3	–
RMB1,500,001 to RMB2,000,000	1	–
RMB2,000,001 to RMB2,500,000	1	1
RMB2,500,001 to RMB3,000,000	–	3
RMB3,000,001 to RMB3,500,000	–	1
	5	5

Management Discussion and Analysis

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

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

During the Reporting Period, the Company devoted more efforts in developing the training system, offered more trainings on the Company's rules and regulations, and focused on business line training. The trainings centered around the needs of employees and needs of business development. In 2018, a total of 111 internal trainings were held, covering the Company's rules and regulations, types of futures, options, compliance, information technology, OTC derivatives, asset management, risk management-related subsidiary business, key account manager training along the industry chain, new employee trainings, middle and high level management and many other aspects. In addition, employees were selected to participate in 41 external training sessions organized by exchanges, associations, industry organizations, etc., including trainings on types of futures, options derivatives, finance, compliance, information technology and other business training.

V. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

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

1. Details on changes in branches of the Company

On 26 September 2018, the Company completed the de-registration of Chengdu Sales Office with the Industrial and Commercial Bureau.

On 30 January 2018, the Company completed the relocation of the Tianjin Sales Office in the same city. On 5 March 2018, the Rizhao sales office was relocated in the same city. On 7 June 2018, the Shenzhen Sales Office was relocated in the same city, the Dongying Sales Office was relocated in the same city on 24 July 2018.

2. Details on changes in subsidiaries of the Group

During the Reporting Period, the Company established LUZHENG INTERNATIONAL HOLDING LIMITED, a wholly-owned subsidiary, in Hong Kong on 16 April 2018, and established a wholly-owned subsidiary LUZHENG INTERNATIONAL FUTURES LIMITED in Hong Kong on 17 May 2018 through LUZHENG INTERNATIONAL HOLDING LIMITED.

During the Reporting Period, on 29 August 2018, the Group established Jinova S.A., a 96.6%-owned subsidiary, in Geneva, Switzerland through Zhongtai Huirong Investment (HK) Company Limited.

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

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

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

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

As at the date of this report, LUZHENG INTERNATIONAL HOLDING LIMITED, LUZHENG INTERNATIONAL FUTURES LIMITED and Jinova S.A. have not actually undertaken business. There were only preliminary expenses, the effect of LUZHENG INTERNATIONAL HOLDING LIMITED (including LUZHENG INTERNATIONAL FUTURES LIMITED) and Jinova S.A. on the results amounted to -RMB344,300 and -RMB1,625,400, respectively.

VI. MAJOR INVESTMENTS AND FINANCING

(1) Major investments

On 12 March 2018, the Company used its listing proceeds of RMB50 million for the capital increase of Luzheng Trading.

(2) Major financing

During the Reporting Period, the Group's accumulated external borrowings amounted to RMB10,304,000 through three 90-day borrowings at an annual interest rate of 8.5% in the form of pledge with Sichuan Tianfu Bank Co., Ltd.

Management Discussion and Analysis

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

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

VIII. POSSIBLE RISKS, UNCERTAINTIES AND COUNTERING MEASURES

(1) Possible major risks

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

1. **Market Risk:** the risk of incurring losses due to the changes in market price and interest rate. The major risks faced by the Group are the price risk of equity-based assets, price risk of commodities and interest rate risk. Along with the development and advancement in the option business of the Group in 2019, we may also encounter several risks in option market such as hedge risk and pricing risk.
2. **Credit Risk:** the risk of incurring losses resulting from the failure of a counterparty to perform its contractual obligations. The major risks that the Group may encounter are default risk and settlement risk.
3. **Liquidity Risk:** the capital liquidity risk due to insufficient capital to meet the obligations of the liabilities or payment settlement during operation; the trading liquidity risk due to the failure to buy or dispose of option, physical commodity and option contract at the market prices.
4. **Operational Risk:** the risk related to a series of non-financial issues, including unsatisfactory performance of internal operation process, staff, system and losses resulting from external incidents.
5. **Compliance Risk:** the risk that is closely related to operational risk and reputation risk, which is the risk that the Group or its staff may face legal sanction, regulatory measure and disciplinary punishment and may incur economic losses and reputation harm due to the violation of laws, regulations and regulatory rules of our business activities or by our staff.

(2) Countering measures adopted

1. General countering measures adopted

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

The Company has established a four-level risk management structure: the first level comprises the Board and the supervisory committee of the Company ("Supervisory Committee"); the second level comprises the risk control committee, the audit committee, the asset management investment decision committee and treasury operations investment decision committee of the Company; the third level comprises the compliance department and the audit department of the Company; and the fourth level comprises the Company's business departments and branches of the Company.

(2) *Consistently improving the corporate governance structure*

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

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

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

(4) *Consistently improving the risk awareness*

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

Management Discussion and Analysis

2. Countering measures against major risks

(1) *Market Risk*

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

(2) *Credit Risk*

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

(3) Liquidity Risk

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

(4) Operational Risk

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

Management Discussion and Analysis

- (v) The Company strictly implements rewards and punishments for entities or individuals that cause operational risks or effectively avoid operational risks. It can effectively respond to the operational risks that have occurred, and actively reflect and rectify internally to avoid similar risks.

(5) Compliance Risk

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

Report of the Board of Directors

I. PRINCIPAL BUSINESSES

As of 31 December 2018, the Company was a futures company. The Group's business scope covered commodity futures brokerage, basis trading, warehouse receipt services, cooperation insurance, OTC derivatives business, market-maker, business information technology consultancy services, financial futures brokerage, futures investment and consultancy, futures asset management, commodity trading registration and settlement services as well as other business activities permitted by the CSRC.

II. RESULTS AND DIVIDENDS

Please refer to Chapter XIV of this report for the details of the Group's results for the year ended 31 December 2018.

The Board of Directors recommends the payment of a final dividend (the "2018 Final Dividend") of RMB0.055 (tax inclusive) per Share for the year ended 31 December 2018. The total amount of dividends to be distributed is RMB55,104,500 (The total amount of final dividends distributed for the year ended 31 December 2017 was RMB67,127,300). The distribution of the 2018 Final Dividend shall come into effect upon the approval by the Shareholders at the 2018 annual general meeting (the "AGM") to be held on 20 June 2019. After the 2018 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 is expected to distribute the 2018 Final Dividend on or about 1 August 2019.

III. BUSINESS REVIEW

A review of the business for the year and a discussion on future development of the Group are set out from pages 25 to 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 34 to 55 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 100 to 123 of this report. Major risks and uncertainties that may be faced by the Group are set out in pages 60 to 64. Major relationship with employees, customers and suppliers were set out on pages 56 to 58 and page 77 of this report, respectively.

Report of the Board of Directors

IV. DIRECTORS AND DIRECTORS' BIOGRAPHIES

(i) Directors

During the Reporting Period and up to the end of the Reporting Period, the Directors of the Company are as follows: Mr. Chen Fang (chairman of the Board) and Mr. Liang Zhongwei as executive Directors; Mr. Yin Ge, Mr. Li Chuanyong, Mr. Liu Feng and Mr. Lv Xiangyou (resigned on 9 August 2018) as non-executive Directors; Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. LI Dapeng as independent non-executive Directors.

Mr. Lv Xiangyou resigned as a non-executive director of the Company with effect on 9 August 2018, due to the relevant requirements of the Shandong Provincial State-owned Assets Supervision and Administration Commission and other working arrangement.

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

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

(ii) Directors' biographies

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

V. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

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

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

As at 31 December 2018, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be owned under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executive of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, are as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) ⁽¹⁾	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. ^{(1), (2)}	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. ⁽²⁾	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) ⁽³⁾	H Shares	Beneficial owner	18,681,000 (long position)	1.86%	6.74%
Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) ⁽³⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Advisory Limited ⁽³⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%

Report of the Board of Directors

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
CITIC Capital Finance (Cayman) Limited ⁽³⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Global Services Holdings Limited ⁽³⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Holdings Limited ⁽³⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CM International Capital Limited ⁽⁴⁾	H Shares	Beneficial owner	18,211,000 (long position)	1.82%	6.57%
CMIG International Capital Limited (中民投國際資本有限公司) ⁽⁴⁾	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) ⁽⁴⁾	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%

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 2018.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.91% of the equity interest in Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 80% 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) CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) directly holds 18,681,000 (long position) H Shares of the Company. Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壺盛鑫諮詢有限公司) holds 100% of the equity interest in CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司), and CITIC Capital Advisory Limited holds 100% of the equity interest in Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壺盛鑫諮詢有限公司); CITIC Capital Finance (Cayman) Limited holds 100% of the equity interest in CITIC Capital Advisory Limited. CITIC Capital Global Services Holdings Limited holds 100% of the equity interest in CITIC Capital Finance (Cayman) Limited, and CITIC Capital Holdings Limited holds 100% of the equity interest in CITIC Capital Global Services Holdings Limited. Therefore, CITIC Capital Holdings Limited, CITIC Capital Global Services Holdings Limited, CITIC Capital Finance (Cayman) Limited, CITIC Capital Advisory Limited and Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壺盛鑫諮詢有限公司) are deemed to be interested in the 18,681,000 (long position) H Shares held by CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) for the purpose of Part XV of the SFO.
- (4) 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 2018, the Directors of the Company are not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

On 3 January 2018, the Company concluded the Treasury Bond reverse repo of a client due to loopholes in the trading system, and was ordered to correct by the Shandong Securities Regulatory Bureau.

Save as disclosed above, for the year ended 31 December 2018, none of the Directors, Supervisors and senior management of the Company has been penalized by regulatory authorities.

Report of the Board of Directors

IX. THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

(1) THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

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

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

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

In 2018, the Company had no material environmental or other social security issues.

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

By the end of 2018, the Company had signed partner assistance agreements with 4 national poverty-stricken counties (Huachuan County of Heilongjiang Province, Yanchang County of Shaanxi Province, Mengla County of Yunnan Province, and Makit County of Xinjiang Province). With the assistance of the Company, which has invested more than RMB20 million cumulatively, 153 people from 62 registered poor households have been lifted out of poverty.

In November 2018, as a response to the change in personnel and the needs of work, and with a view to further promoting its targeted poverty alleviation, the Company, with reference to the "Program of Zhongtai Securities for Precision Poverty Alleviation (2018-2020)" (《中泰證券精準扶貧攻堅方案(2018-2020)》) and on the basis of consideration and analysis, decided to adjust personnel of its certain poverty alleviation leadership group and working group. The poverty alleviation working group carried out work in the name of the poverty alleviation office (the "Poverty Alleviation Office"). The poverty alleviation leadership group is headed by the secretary of the Party Committee and the chairman of the Board of Directors of the Company, and the leadership group is to make decisions on major issues regarding poverty alleviation, and the Poverty Alleviation Office is to organize the implementation of those decisions. Thanks to the strong organizational assurance, the Company attained solid results in the poverty alleviation.

Report of the Board of Directors

In 2018, the Company, acting in accordance with the poverty alleviation plan of the people's government of Huachuan County and on the basis of actual needs in the county, actively coordinated resources of all parties, carefully formulated the service protocol characterized by "insurance+futures+basis spread purchase", and provided the guaranteed price services for the 400,000 mu corn area (yield up to 240,000 tons), which covered all corn growers intending to buy the insurance for their corns throughout the county. The Company strengthened staffing, and improved pricing hedging ability and physical commodity supporting ability to ensure the successful implementation of the project. After its continuous practice in Huachuan over the three years, the Company considers that it is absolutely feasible to shake off the poverty at county level by means of "insurance+futures", and this mode should be replicated in a wider range to help more impoverished areas to achieve the strategic goal of "eradicating poverty".

On 16 August 2018, China Futures Association and the government of Huachuan County held a professional poverty alleviation training in Huachuan. During the training, experts from the Financial Research Institute of the People's Bank of China, China National Grain and Oils Information Center and the Poverty Alleviation Office of the CSRC highly valued the effectiveness of the Huchuan poverty alleviation mode characterized by "Insurance+Futures" in serving agriculture, rural areas and farmers and helping to alleviate poverty.

In August 2018, the Company participated in the "Pomegranate Seed Program", a special training for backbone pre-primary school teachers (Makit) organized by the Poverty Alleviation Office of the CSRC, the Broadcasting and Hosting Practice Training Base of the State Administration of Radio, Film and Television, the people's government of Makit County of Xinjiang, Shanghai Stock Exchange, and Shenzhen Stock Exchange. Such institutions as Zhongzheng Jiaotong cumulatively donated RMB1 million (including RMB400,000 donated by the Company) to assist and cultivate backbone pre-primary school teachers in the county.

In August 2018, the Company initiated the "Vocational Skills Training for Poor Students" program with its controlling shareholder Zhongtai Securities to help students from registered poor households to participate in a three-month vocational skills training in Shandong Lanxiang Vocational School with a view to raising the employment capability of young people from impoverished areas, thus improving their financial conditions of such individuals and families, and achieving the goal of "training one person and lifting one family out of poverty".

In October 2018, the Company participated in the precision assistance activities under "Long-term Futures Cooperation Program" organized by China Futures Association and the People's Government of Yanchang County of Shaanxi Province. As a part of the precision assistance activity, the Company signed the "Precision Assistance Memorandum" with the People's Government of Yanchang County, Shaanxi Province. Under the memorandum, the Company will grant industrial support funds of RMB350,000 to Xuejiayayuan Village, Qilicun Sub-district, Yanchang County for such projects aiming to improve quality and efficiency of apples such as acquisition weed cutter, trimming tool and branch bending rope. The project is expected to increase income of 386 persons in 130 households (including 72 persons in 24 poor households).

Report of the Board of Directors

In 2018, the Company selected to purchase employment welfare products from impoverished areas. Our employees demonstrated their care and support for the impoverished areas by purchasing local characteristic agricultural products at RMB755,700. They bought real green products, and made their contributions to lift farmers in those areas out of poverty. At the same time, we actively assisted farmers in the impoverished areas to find a way out for their high-quality agricultural products by identifying the relevant demands for their products and helped poor local people to increase their income.

On 27 October 2018, the Company signed a partner assistance agreement with Makit County. Under the partner assistance agreement, the Company will donate RMB1 million to Makit County for enhancing the capacity of the red date processing production line. The project can create at least 100 job opportunities and help at least 40 local registered poor households to shake off poverty.

X. THE LISTING AND USE OF PROCEEDS

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

Report of the Board of Directors

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

Prior to the announcement of the Company dated 13 April 2018, the proceeds raised were utilized for the purposes set out in the section headed “Future Plans and Use of Proceeds” of the Company’s prospectus dated 23 June 2015 as follows:

Unit: RMB'000

Title of the committed project	Whether there were changes in the project	The amount of raised proceeds to be invested during the Reporting Period	The accumulated amount of raised proceeds actually invested	The percentage of the accumulated amount of raised proceeds actually invested (%)
Establishment of light branches and recruitment of staff	No	0	1,137.719	0.18
Capital contribution to Luzheng Trading	No	50,000	230,000	35.58
Investment in IT	No	7,272.247	36,005.273	5.57
Replenishing working capital	No	0	64,600	10.00

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

Report of the Board of Directors

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

Unit: RMB'000

Title of the committed project	Whether there were changes in the project	The amount of raised proceeds invested during the Reporting Period	The accumulated amount of raised proceeds actually invested	The percentage of the accumulated amount of raised proceeds actually invested (%)	Net proceeds
Establishment of light branches and recruitment of staff	Yes	0	1,137.719	0.18	0
Capital contribution to Luzheng Trading	No	50,000	230,000	35.58	89,559.35
Investment in IT	Yes	7,272.247	36,005.273	5.57	0
Replenishing working capital	No	225,178.79	289,778.79	44.82	0

As at the end of the Reporting Period, the Company deposited its unused proceeds raised in large commercial banks. The Company intends to utilize the net proceeds raised in the amount and usages as prescribed in the Prospectus and the Board Resolution in due course in 2019.

XI. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM to be held on 20 June 2019 and their entitlement to the 2018 Final Dividend, the register of members of the Company will be closed respectively from 21 May 2019 to 20 June 2019, both days inclusive, and from 27 June 2019 to 2 July 2019, both days inclusive, during which no transfers of shares shall be effected. Shareholders whose names appear on the Company's register of members on 20 June 2019 will be entitled to attend and vote at the AGM, and Shareholders whose names appear on the Company's register of members on 2 July 2019 will be entitled to receive the 2018 Final Dividend. In order for holders of H shares of the Company to qualify for attending and voting at the AGM, documents of transfers of shares must be lodged with H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 20 May 2019. In order for holders of H shares of the Company to qualify for receiving the 2018 Final Dividend subject to the approval of Shareholders at AGM, documents of transfers of shares must be lodged with H Share registrar of the Company at the aforementioned address, no later than 4:30 p.m. on 26 June 2019.

XII. FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.055 (tax inclusive) per share for the year ended 31 December 2018. The total amount of dividends to be distributed is RMB55,104,500 (The total amount of dividends distributed for the year ended 31 December 2017 was RMB67,127,300). The distribution proposal of the 2018 Final Dividend shall become effective upon the approval of the Shareholders at the AGM to be held on 20 June 2019. The 2018 Final Dividend will be paid to domestic Shareholders in RMB and H Shareholders in Hong Kong dollars upon approval. The actual amount to be distributed in Hong Kong dollars shall be calculated on the basis of the average benchmark exchange rate between RMB and Hong Kong dollars as announced by the People's Bank of China for the five working days prior to the date of the AGM. The Company expected to distribute the 2018 Final Dividend on or about 1 August 2019.

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

For non-resident enterprise holders of H shares, i.e., any Shareholders who hold the Company's shares in the name of non-individual Shareholders, including but not limited to HKSCC Nominees Limited, other nominees, trustees, or holders of H shares registered in the name of other groups 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)).

Report of the Board of Directors

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.

XIII. OTHER DISCLOSURES

(1) Permitted Indemnity Provision

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

(2) Management Contract

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

(3) Environment Policies and Performance

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

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

(4) Compliance of Laws and Regulations

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

(5) Relationship with Key Stakeholders

1. Employees

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

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

2. Major customers and suppliers

The Company provides services for the various individual and institutional customers. The Company's large customers include institutional and high-net-worth individuals. All customers are located in China, mainly in Shandong Province. For the year ended 31 December 2018, the revenue from the five largest customers of the Company represented less than 30% of operating cost. As far as the Directors are aware, as at the date of this report, none of the Directors, Supervisors, their respective close associates or any Shareholders who owned more than 5% of the Company's number of issued shares had any interest in the five largest customers of the Company.

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

(6) Directors' Competing Business

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

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

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

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 36 to the consolidated financial statements and the consolidated statements of changes in equity in this report.

(10) Pre-Emptive Rights

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

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

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

(12) Property and Equipment

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

(13) Public Float

For the year ended 31 December 2018, the public float of the Company was in compliance with the minimum public float requirement of 25% of the Stock Exchange.

(14) Share Capital

As at 31 December 2018, 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 35 to the consolidated financial statements of this report.

(15) Issuance of Debentures

The Company had no issued debentures for the year ended 31 December 2018.

(16) Donation

In October 2018, the Company participated in the precision assistance activities under “Long-term Futures Cooperation Program” organized by China Futures Association and the People’s Government of Yanchang County of Shaanxi Province. As a part of the precision assistance activity, the Company signed the “Precision Assistance Memorandum” with the People’s Government of Yanchang County, Shaanxi Province. Under the memorandum, the Company will grant industrial support funds of RMB350,000 to Xuejiayayuan Village, Qilicun Sub-district, Yanchang County for purchasing weed cutter, trimming tool and branch bending rope with an aim to improve the quality of apples and bring more income. The project is expected to help 386 persons in 130 households (including 72 persons in 24 poor households) to increase income.

On 27 October 2018, the Company signed a partner assistance agreement with Makit County, Xinjiang Uyghur Autonomous Region. Under the partner assistance agreement, the Company will donate RMB1 million to Makit County for enhancing the capacity of the red date processing production line.

For details, please refer to “IX. The Company’s Commitment to Social Responsibilities” of this chapter.

By order of the Board
Chairman
Chen Fang
27 March 2019

Report of the Supervisory Committee

In 2018, the Supervisory Committee seriously performed its duties of supervision and inspection, and continued to strengthen their capacity-building, paid attention to and supervised the Company's operating activities, financial status, execution of major decisions, and also supervised the legal compliance of the Company and the performance of the Directors and senior management's responsibilities in strict compliance with the requirements of the Company Law of the PRC, the Listing Rules, the Articles of Association, the Rules of Procedure of the Supervisory Committee of the Company, and other relevant laws and regulations.

I. ROUTINE WORK OF THE SUPERVISORY COMMITTEE IN 2018

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

(I) The sixth meeting of the second session of the Supervisory Committee was held on 22 March 2018, at which the following seven proposals were approved by voting on site:

1. The "Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for the Year 2017" (《關於魯証期貨股份有限公司2017年度總經理工作報告的議案》);
2. The "Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited for the Year 2017" (《關於魯証期貨股份有限公司2017年度監事會工作報告的議案》);
3. The "Proposal on the Annual Results Announcement of LUZHENG FUTURES Company Limited for the Year 2017" (《關於魯証期貨股份有限公司2017年度業績公告的議案》);
4. The "Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度報告(國際財務報告準則)的議案》);
5. The "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for for the Year 2017" (《關於魯証期貨股份有限公司2017年度報告(中國企業會計準則)的議案》);
6. The "Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for for the Year 2017" (《關於魯証期貨股份有限公司2017年度利潤分配方案的議案》); and
7. Proposal to be submitted to the general meeting to consider the remuneration plan of the chairman of the Supervisory Committee.

(ii) The seventh meeting of the second session of the Supervisory Committee was held on 23 August 2018, at which the following three proposals were approved by voting on site:

1. The “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2018” (《關於魯証期貨股份有限公司截至2018年6月30日止六個月之中期業績公告的議案》);
2. The “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018中期報告的議案》);
3. The “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年中期利潤分配方案的議案》)).

II MAJOR WORK IN 2018

(i) Strengthened supervision and inspection of daily operating activities of the Company

During the Reporting Period, in order to better understand the Company’s operating activities and its operation status, the Supervisory Committee strengthened the daily supervision and inspection. Firstly, the Supervisory Committee conducted on-site supervision and inspection of 10 branches of the Company located in Tianjin, Dalian, Jining, Rizhao, Shanghai, Shenyang, Dongying, Linyi, Wuxi, and Zhengzhou by means of on-site discussion, and inspection of documents. Secondly, the Supervisory Committee conducted special internal audit and inspection of asset management business of the Company and business of risk management of its subsidiaries. The supervision and inspection revealed problems and the Supervision Committee put forward the relevant opinions and suggestions.

(ii) Paid close attention to financial position and major investments of the Company

During the Reporting Period, the Supervisory Committee periodically reviewed financial report of the Company to promptly know its assets and liabilities, cash flow, operating results and other financial information, and paid constant attention to risk monitoring indicators of the Company such as the liquidity of the Company’s self-owned capital and customers’ margin deposits, and net capital. The Supervisory Committee also carried out supervision and inspection on the legality and compliance of the major investment decision-making procedures of the Company from time to time, ensuring that decision regarding all major investments of the Company was made through the established decision-making procedures.

Report of the Supervisory Committee

(iii) Intensified the supervision and inspection of performance of duties of Directors and senior management

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

(iv) Improved own capability

During the Reporting Period, the Supervisory Committee was equipped with one full-time employee to effectively carry out its daily work. In addition, in response to the standard requirements of the Hong Kong Stock Exchange for operation of listed companies, the Supervisory Committee, on the basis of actual situation of the Company, organized its members to learn the latest regulatory policies and regulations, and to familiarize the relevant laws and regulations on listing, thus further enhancing the ability of the Supervisory Committee to discharge its duties.

III. REVIEW OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS IN 2018

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

- (i) The Supervisory Committee believed that: during the Reporting Period, the overall operating activities of the Company were in compliance with related laws, regulations and related requirements of regulatory policies; the Board practically implemented all resolutions and key decision-making procedures conformed to the requirements of the Company Law of the PRC and the Articles of Association; the Directors and senior management of the Company tried their best in performing their duties pursuant to national laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association or injure the interest of the Company when discharging their duties in the Company.
- (ii) The Supervisory Committee believed that: during the Reporting Period, the financial system of the Company was sound, and the financial operation was standardized. The financial statements prepared by the Company truly, objectively and accurately reflect financial condition of the Company. PricewaterhouseCoopers LLP issued an unqualified audit report and gave an objective reflection to the financial conditions and operation results of the Company in 2018.

Report of the Supervisory Committee

- (iii) The Supervisory Committee believed that: during the Reporting Period, the development of new businesses and the increasing scale of the Company required the internal control to be further improved because the supporting system is not sound and some of its execution is insufficient.
- (iv) The Supervisory Committee believed that: during the Reporting Period, the transactions between the Company and its Controlling Shareholder Zhongtai Securities and its connected persons, were in line with the general market transaction principles. The price was fair and the information disclosure was complete. All the relevant procedures were performed to ensure that the transactions were fair and reasonable, without injuring the interest of the Company and its minority Shareholders.
- (v) The Supervisory Committee believed that: during the Reporting Period, there were no illegal external guarantees, debt restructurings, non-monetary transactions, asset replacements, major acquisitions or sales of assets found. There were no situations that injured the interests of the Shareholders of the Company or resulted in the loss of assets of the Company.
- (vi) The Supervisory Committee believed that: during the Reporting period, the Company's "Inside Information Management System" was effectively implemented, and played a supervisory, controlling, and guiding role in the daily operation and management of the Company. The Company could, when dealing with periodic report preparation, profit distribution, and external investment, implement such issues in accordance with the relevant regulations and strictly control the scope of insiders. There were no such incidents as disclosure of secrets, insider transactions, or illegal trading of the Company's Shares by Directors, Supervisors, senior management and other insiders.

IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2019

(i) To perform duties and missions, while shouldering the responsibility

The Supervisory Committee will center on the Company's operation and development, and continuously strengthen its means of supervision and expand its working methods. It will continue to strengthen its supervision of the Company's legal operation, financial management, establishment and implementation of internal control system, connected transactions, external investment and guarantees and other major issues in strict accordance with the relevant national laws and regulations, normative documents and regulations of the Company. It will deepen its understanding of the specific situation at all levels to analyze and solve the problems. By moving forward the supervisory threshold, the supervisory function of the Supervisory Committee will be effectively brought into play around the three basic stages namely pre-event supervision, on-going supervision and post-event supervision.

Report of the Supervisory Committee

(ii) To optimize supervision system for more effective supervision

The Supervisory Committee will continue to improve the effective communication mechanism between the Supervisory Committee and departments such as discipline inspection, audit, risk control and compliance to promote the establishment of the grand supervision system, thus giving full play to the role of the Company's internal supervision resources. At the same time, the Supervisory Committee will give full play to the external supervisory role of third-party institutions such as accounting firms to further enhance the effectiveness of supervision.

(iii) To prevent and defuse risks, and expand functional denotation

The Supervisory Committee will play an immune system role for the Company by coordinating and properly Greatness maintaining the relationship between business development and risk prevention and control to promote the Company's comprehensive ability of risk pre-research and pre-judgment and full-coverage disposal of risk so as to play a more prominent supervisory role in risk prevention and compliance management, thus supervising and restricting the Company's decision-making process of "Three Importance and One Greatness".

(iv) To improve the duty performance through self-building

The Supervisory Committee has been equipped with one full-time employee to effectively carry out its daily work and improve its supervisory effectiveness. In addition, members of the Supervisory Committee will continuously strengthen the study of relevant laws, administrative regulations and financial knowledge so as to improve their ability and overall quality to identify, analyze and solve problems. The Supervisory Committee will effectively enhance the pertinence and effectiveness of supervision work in order to push the work of the Supervisory Committee to a new level.

By order of the Supervisory Committee

Chairman

Li Xuekui

27 March 2019

Directors, Supervisors, Senior Management and Staff

I. BRIEFINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

(I) The Board

Executive Directors

Mr. Chen Fang (陳方) (without former name), aged 59, joined the Company in September 2006. At present, he is the secretary to the party committee, the Chairman of the Board and an executive Director of the Company, and serves as a party committee member and a vice president of Zhongtai Securities, the chairman of Industry Development Committee of the Dalian Commodity Exchange, a member of Strategic Advisory Committee of Dalian Commodity Exchange, a member of the Case Review Committee of China Financial Futures Exchange, deputy chairman of China Futures Association Social Responsibility Committee, deputy chairman of the Financial Committee of Shandong Provincial High-level Talent Development Promotion Committee, and director of Shandong Futures Association. Mr. Chen Fang served in several positions including the deputy director of the experimental center, the deputy director of the center of environmental science and the deputy dean of the department of environmental engineering in succession in Shandong University from December 1978 to July 2000; served as the deputy office manager of Shandong Province Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資有限公司) and participated in the preparation and establishment of Zhongtai Securities from July 2000 to May 2001; served as the general manager of the research and development center, and the general manager and vice president of Beijing Branch in succession in Zhongtai Securities since May 2001; served as a party committee member of Zhongtai Securities from May 2013 to December 2015; served as the Chairman of the Board of the Company since September 2006; served as the secretary to the party committee of the Company from November 2008 to July 2014; served as the secretary of the Disciplinary Committee of the Company from June 2010 to August 2016; served as the chairman of the board of directors of Luzheng Trading from April 2013 to August 2015; served as the secretary to the party committee of the Company since August 2016; and served as a party committee member of Zhongtai Securities since January 2017. Mr. Chen Fang served as the vice president of Shandong Securities and Futures Association from March 2007 to April 2009; served as the president of Shandong Futures Association from April 2009 to August 2017; served as part-time vice president of China Futures Association from September 2014 to September 2018; served as the chairman of Industrial Varieties Committee of Dalian Commodity Exchange since March 2012; served as vice chairman of Financial Committee of Shandong Provincial Association for the Promotion of High-level Talent Development since June 2016; served as a member of the Case Review Committee of China Financial Futures Exchange since August 2016; served as a member of the Strategy Advisory Committee of Dalian Commodity Exchange since June 2017; served as member of Shandong Futures Association since August 2017; and served as vice chairman of Social Responsibility Committee of China Futures Association since November 2018. Mr. Chen Fang graduated from Shandong Open University majoring in electronics and obtained a college diploma in February 1982; graduated from school of management of Shandong University majoring in political economics and obtained the graduation certificate for post graduates in June 2000; and graduated from the Nanyang Business School of Nanyang Technological University, Singapore, majoring in management economics and obtained a master degree in July 2000.

Directors, Supervisors, Senior Management and Staff

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

Non-executive Directors

Mr. Yin Ge (尹戈) (without former name), aged 38, joined the Company in June 2016. At present, he is a non-executive Director of the Company, the general manager of Guangdong branch of Zhongtai Securities and a member of the brokerage business management committee (operation and management department) of Zhongtai Securities. Mr. Yin Ge served as the deputy general manager of the innovative business department of Weifang branch of Tiantong Securities from January 2002 to January 2004; held several positions in Zhongtai Securities from January 2004 to February 2005, including the deputy general manager and general manager of the business department of the Qingdao Yan'an Third Road branch, the general manager of the business department of the Qingdao Hong Kong Middle Road branch, the person in charge of the preparation for establishment of the Qingdao branch, the general manager, the committee secretary, the general manager of department of over-the-counter market management and the general manager of the headquarters of retail business of the Qingdao branch; served as the general manager of the operation management department and a member of the brokerage business management committee of Zhongtai Securities since February 2015; and served as a non-executive Director of the Company since June 2016. Mr. Yin Ge graduated from the Management Cadres' Academy of the Agricultural Bank in Wuhan (武漢農行管理幹部學院) majoring in finance and obtained a college diploma in July 2000; and graduated from Shanghai University of Finance and Economics majoring in management science and engineering and obtained a postgraduate diploma in July 2002.

Directors, Supervisors, Senior Management and Staff

Mr. Li Chuanyong (李傳永) (without former name), aged 50, joined the Company in December 2012. At present, he is a non-executive Director of the Company as well as the deputy manager of Yongfeng Group Co., Ltd. (永鋒集團有限公司). Mr. Li Chuanyong served in several positions in succession in Yongfeng Group Co., Ltd. from June 2003 to April 2005, including the manager of the steel mill, the deputy general manager and the director of the iron works; served as the deputy general manager of Yongfeng Group Co., Ltd. since April 2005; and served as a non-executive Director of the Company since December 2012. Mr. Li Chuanyong graduated from Anshan Institute of Iron & Steel Technology majoring in metal pressure and processing and obtained a bachelor degree in July 1990. Mr. Li Chuanyong obtained the qualification of senior engineer issued by the Personnel Department of Heilongjiang Province in September 2000.

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

Directors, Supervisors, Senior Management and Staff

Independent Non-executive Directors

Mr. Gao Zhu (高竹) (without former name), aged 56, joined the Company in December 2012. At present, he is an independent non-executive Director of the Company as well as the deputy chairman of UOB Investment (China) Limited (大華大陸投資有限公司). Mr. Gao Zhu served as the deputy general manager of Minmetals Investment & Development Co., Ltd. (五礦投資發展有限公司) from June 2002 to October 2010; served as the chairman of the board of directors of Minmetals Haiqin Futures Co., Ltd. (五礦海勤期貨有限公司) from August 2003 to November 2010; served as deputy chairman of the board of directors of Minmetals Star Futures Brokerage Co., Ltd. (五礦實達期貨經紀有限公司) from August 2003 to November 2010; served as the general manager and the deputy chairman of the board of directors of Minmetals Securities Co., Ltd. (五礦證券有限公司) from September 2010 to November 2011; served as the president of UOB Investment (China) Limited from November 2011 to April 2016; served as an independent director of AVIC Futures Co., Ltd. (中航期貨有限公司) from December 2012 to October 2018; served as independent director of AVIC Futures Co., Ltd. since December 2014 to October 2018; served as independent non-executive Director of the Company since December 2012; and served as the deputy chairman of UOB Investment (China) Limited since April 2016. Mr. Gao Zhu graduated from University of Science and Technology Beijing majoring in industrial management engineering and obtained his highest degree – a master degree in July 1988. Mr. Gao Zhu obtained the qualification of senior international business executive issued by the Occupation Qualification Review Committee for Senior International Business Expertise under the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999.

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

Directors, Supervisors, Senior Management and Staff

Mr. Wang Chuanshun (王傳順) (without former name), aged 53, joined the Company in December 2012. At present, he serves as an independent non-executive Director of the Company, and serves as the director of Shandong Branch of Ruihua Certified Public Accountants (瑞華會計師事務所山東分所), independent director of Shandong Aofu Environmental Protection Technology Co., Ltd., independent director of Qingdao Gancheng Technology Co., Ltd., independent director of Shandong Taihe Water Treatment Technology Co., Ltd. and independent director of Huadian International Power Co., Ltd.. Mr. Wang Chuanshun served as a division member in Shandong Audit Office from July 1990 to November 1994; served as deputy director of audit department of Shandong Accounting Firm (山東會計師事務所) from November 1994 to December 1998; served as vice general manager and senior accountant in Shandong Zhengyuan Hexin Accounting Firm (山東正源和信會計師事務所) from January 1999 to December 2004; served as director of Shandong Branch of Ruihua Certified Public Accountants since January 2005; and served as an independent non-executive Director in the Company since December 2012; served as an independent director of Shandong Aofu Environmental Protection Technology Co., Ltd. since March 2015; served as an independent director of Qingdao iTechene Technologies Co., Ltd. since March 2015; served as an independent director of Shandong Taihe Water Treatment Technologies Co., Ltd. since June 2015; and served as an independent director of Huadian Power International Corporation Limited since June 2016. Mr. Wang Chuanshun graduated from Shandong Agricultural University majoring in management of agricultural economy and obtained a bachelor degree in July 1987; graduated from Southwest Agricultural University and obtained a master degree in July 1990, with research orientation of accounting and audit. Mr. Wang Chuanshun obtained the qualification of senior accountant issued by the Department of Personnel of Shandong Province in November 1997, and obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in June 2000.

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

Directors, Supervisors, Senior Management and Staff

(II) The Supervisory Committee

Mr. Li Xuekui (李學魁) (without former name), aged 55, joined the Company in September 2006. At present, he is the secretary of the Disciplinary Committee, a member of the Party Committee, the chairman of the Supervisory Committee and a staff representative Supervisor of the Company, as well as serves as the chairman and general manager of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司). Mr. Li Xuekui served in succession as a teacher and deputy director of academic affairs section of Shandong Banking School of the People's Bank of China (中國人民銀行山東銀行學校) from July 1983 to March 2001; served as the associate professor of Financial College of Shandong Polytechnic University (山東輕工業學院金融職業學院) from March 2001 to November 2002; served in succession in several positions in Zhongtai Securities from November 2002 to September 2006, including the assistant to the department manager, deputy general manager to the department and general manager to the department; served as the executive deputy general manager of the Company from September 2006 to August 2008; served as the general manager of the Company from August 2008 to August 2016; served as a party committee member of the Company since March 2009; served as the secretary of the Disciplinary Committee of the Company since August 2016; served as a staff representative Supervisor and the chairman of the Supervisory Committee of the Company since August 2016; from October 2016 to January 2018, he served as the general manager of Shandong Exchange Markets Clearing House Co., Ltd. (山東交易市場清算所有限公司); served as the chairman of Shandong Exchange Markets Clearing House Co., Ltd. since October 2016. Mr. Li Xuekui served as a council member of Shandong Futures Association since April 2009; the standing director of Shandong Futures Association since September 2013. Mr. Li Xuekui graduated from Shaanxi Finance College (陝西財經學院) majoring in finance and obtained a bachelor degree in June 1989; graduated from Asia International Open University (Macau) majoring in business administration and obtained a master degree in October 2008. Mr. Li Xuekui obtained the title of associate professor issued by the Office of Educational System Professional Title Reform Group of Shandong Province (山東省教育系統職稱改革領導小組辦公室) in March 2001.

Ms. Ding Mei (丁玫) (without former name), aged 53, joined the Company since June 2016. At present, she serves as a Supervisor of the Company and is the general manager of Jinan Energy Investment Co., Ltd. (濟南市能源投資有限責任公司). Ms. Ding Mei was the deputy officer of the Auditing Department of Jinan (濟南市審計局) from July 1986 to December 1992 and served as the deputy officer of the Foreign Economic Relations and Trade Commission of Jinan (濟南市對外經濟貿易委員會) between December 1992 and August 2000. She has been the deputy general manager of Jinan Energy Investment Co., Ltd. from August 2000 to August 2016; served as a Supervisor of the Company since June 2016; and served as the general manager of Jinan Energy Investment Co., Ltd. since August 2016. Ms. Ding Mei graduated from Shandong University majoring in computer application in July 1986. Ms. Ding Mei obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業資格高級評審委員會) in October 2002.

Directors, Supervisors, Senior Management and Staff

Mr. Hu Yuyue (胡俞越) (without former name), aged 58, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, and he is also the consultant to the drafting group of Futures Law in the National People's Congress, the director of institute of securities and futures of Beijing Technology and Business University, a part-time professor of China Agricultural University, Central South University and Qingdao University, a standing director of the Capital Enterprise Reform and Development Society, the director of the Beijing University for Business Administration, a member of the Advisory Committee of Zhengzhou Commodity Exchange, a member of the Product Committee of Shanghai Futures Exchange, deputy director of the Expert Committee of the Research Institute of Dalian Commodity Exchange, a consulting expert of Shanghai Stock Exchange, deputy director of the Financial Work Committee of China Market Society, deputy director of Expert Committee of CFLP Bulk Commodity Market and an independent director of seven companies (please see below for details of these companies). Mr. Hu Yuyue served in several positions in succession in the department of economics of Beijing College of Commerce from August 1983 to April 1999, including teaching assistant, lecturer, associate professor and the director of the teaching and research office of trade and economics; served as a professor of the school of economics and the director of securities and futures institute in Beijing Technology and Business University since May 1999; served as an independent director of Minmetals & Jingyi Futures Co., Ltd. (五礦經易期貨有限公司) since April 2006; served as an independent director of Nanhua Futures Co., Ltd. (南華期貨股份有限公司) since April 2013; served as an independent director of Shanghai Ganglian Ecommerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300226) since May 2014; served as an independent director of Beijing Ctrowell Technology Corporation Limited (北京康拓紅外技術股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 300455) since October 2014, served as an independent director of Shanxi Zhangze Electric Power Co., Ltd (山西漳澤電力股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 000767) since May 2016; served as an independent director of Zhejiang Juhua Co., Ltd (浙江巨化股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600160) since November 2016; served as an independent director of Beijing Urban Construction Investment & Development Co., Ltd. (北京城建集團有限責任公司) (listed in Shanghai Stock Exchange; stock code: 600266) since July 2018; served as a member of the Product Committee of Shanghai Futures Exchange since March 2005; and served as the Supervisor of the Company since June 2015. Mr. Hu Yuyue was granted by the Ministry of Education of the PRC the "Research Achievement Award of the Second National Regular Institutions of Higher Learning in Social Science" in December 1998; rewarded as "Excellent Young Elite Teacher in Beijing" by Beijing Municipal Education Commission in 1998; selected to the "Hundred Theoretical Talents Plan for the New Century in Beijing" by Beijing Committee of the Communist Party of China in 2001; and was entitled by Beijing Federation of Trade Unions "Hu Yuyue Securities and Futures Research Team – Municipal Staff Innovation Studio" (胡俞越證券期貨研究團隊 – 市級職工創新工作室) in 2011. Mr. Hu Yuyue graduated from Nanjing University majoring in history and obtained a bachelor degree in July 1983. Mr. Hu Yuyue was granted the title of professor by Beijing High Professional Technical Title Review Committee in September 1999.

Directors, Supervisors, Senior Management and Staff

Mr. Mu Yong (牟勇) (without former name), aged 42, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center (北京金石農業產業投資基金管理中心), the Managing Director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司), the representative of the Beijing Fruit Industry Development Fund (北京市果樹產業發展基金) and the representative of the Beijing Foreign Economic and Trade Development Guidance Fund (北京外經貿發展引導基金). Mr. Mu Yong served as a staff member in Sichuan Branch of King & Wood Mallesons (金杜律師事務所) from February 2000 to August 2000; served as a legal consultant of Beijing Capital Management Company Limited (北京首創資產管理有限公司) from July 2003 to March 2005; served in succession as level-4 assistant, level-3 assistant, principal staff member and deputy director of the CSRC from March 2005 to May 2013; served as the general manager of Shanxi Dianshi Equity Investment Co., Ltd. (山西典石股權投資管理有限公司) from June 2013 to December 2014; served as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center since January 2014; served as the Managing Director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) since June 2015, the representative of the Beijing Fruit Industry Development Fund (北京市果樹產業發展基金) since March 2016 and the representative of the Beijing Foreign Economic and Trade Development Guidance Fund (北京外經貿發展引導基金) since April 2016 and served as an independent Supervisor of the Company since June 2015. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law, and obtained a master degree in July 2003.

Mr. Wang Hairan (王海然) (without former name), aged 40, joined the Company in July 2007. At present, he is a staff representative Supervisor of the Company as well as the secretary general of Shandong Futures Association. Mr. Wang Hairan served in several positions in succession in Sanlong Futures Brokerage Co., Ltd. (三隆期貨經紀有限公司) from December 1999 to February 2007, including an employee of the trading department, dealer of Dalian Commodity Exchange, and the deputy manager of the trading department and manager of audit department; served as the office manager of Sanlong Industrial Group (三隆實業集團) from March 2007 to June 2007; served in succession as an employee and the person in charge in the compliance and audit department of the Company from July 2007 to January 2009; served as the deputy manager of Beijing business department of the Company from January 2009 to August 2010; served in succession as an employee and the deputy manager of the compliance and audit department of the Company from August 2010 to April 2014; served as the manager of the compliance and audit department of the Company from April 2014 to July 2017; and served as a staff representative Supervisor of the Company since June 2015, and the secretary general of Shandong Futures Association since August 2017. Mr. Wang Hairan graduated from Shandong University, WeiHai majoring in economic law, and obtained the certificate of college degree in July 1999; graduated from Shandong University majoring in business administration, and obtained the bachelor diploma in January 2008.

Directors, Supervisors, Senior Management and Staff

Mr. Yu Zhanyong (虞戰勇) (without former name), aged 47, joined the Company since April 2008. At present, he serves as an employee representative Supervisor, a member of the Discipline Committee and the general manager of the compliance and audit department of the Company. Mr. Yu Zhanyong served as the accountant of the financial department, director assistant, and the chief accountant of the second external architect company under the headquarters of Shandong Sanjian Group Co., Ltd. (山東三箭置業集團總公司) from July 1994 to September 1999; served as the director of financial section and the manager of the general affairs department of Shandong Xingye United Group Co., Ltd. (山東興業聯合集團有限公司) from October 1999 to July 2005; served as the financial manager of Shandong Shengkai Properties Co., Ltd. (山東聖凱置業有限公司) from April 2006 to March 2008; served as the business manager of the financial planning department of the Company from April 2008 to May 2011; served as the deputy general manager of the audit department of the Company from June 2011 to May 2014; served as the general manager of the Guangzhou branch from May 2014 to July 2016; served as the principal of the audit department of the Company from July 2016 to July 2017; also has been a member of the Discipline Committee of the Company since October 2016, and served as general manager of the compliance and audit department of the Company since July 2017. Mr. Yu Zhanyong graduated from Shandong Water Conservancy Vocational College (山東水利專科學校) majoring in technical economics and finance and obtained college diploma in July 1994; graduated from China University of Political Science and Law (中國政法大學) majoring in law and obtained the bachelor diploma in January 2007; graduated from the Ocean University of China (中國海洋大學) majoring in accounting and obtained the bachelor diploma in January 2015. Mr. Yu Zhanyong obtained the qualification of intermediate accountant issued by the Ministry of Finance of the PRC in May 2004, and obtained the qualification of the corporate legal advisor issued by the Ministry of Personnel of the PRC, the Ministry of Justice of the PRC and the State-owned Assets Management Committee of the State Council in March 2004.

(III) Senior Management

Mr. Liu Qingbin (劉慶斌), aged 49, joined the Company in May 2014. At present, he is a party committee member and the general manager of the Company, the chairman of Luzheng Trading, the director of Zhongtai Huirong Investment (HK) Company Limited, and a member of the chairman of the supervisory committee of Zhengzhou Commodity Exchange and a member of the China Futures Association, and chairman of the Legal Committee of the Council. Mr. Liu Qingbin served as a staff of Jinan First Machine Tool Plant (濟南第一機床廠) from July 1992 to July 1997; served as a section member of Jinan Securities Administration Office (濟南市證券監管辦公室) from July 1997 to August 1998; served as a section member, deputy principal section member of Department of Integration, deputy principal section member and principal section member of Department of Intermediary Supervision of Jinan Securities Administration Office of the CSRC in succession from August 1998 to March 2004; served as a principal section member and the deputy director of Institutional Supervision Division, and deputy director and director of Futures Supervision Division of the Shandong Regulatory Bureau of CSRC (中國證監會山東監管局) in succession from March 2004 to August 2008; served as a department cadre and the director of company supervision department I of Futures Supervision Division, and director of the audit office and director of the general office of Futures Supervision Division II of CSRC in succession from August 2008 to April 2014; served as the secretary to the party committee of the Company from June 2014 to August 2016; served as the chairman of Luzheng Trading and the director of Zhongtai Huirong Investment (HK) Company Limited since August 2015; and served as the general manager of the Company since August 2016; served as a member of council of Zhengzhou Commodity Exchange since April 2017; served as chairman of the Supervisory Committee of Zhengzhou Commodity Exchange since September 2017; served as a member director of China Futures Association since September 2018; and served as the chairman of Legal Committee of the Council of China Futures Association since November 2018. Mr. Liu Qingbin graduated from Luoyang Institute of Technology (洛陽工學院) majoring in marketing and obtained a bachelor degree in July 1992. Mr. Liu Qingbin acquired the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province (山東省註冊會計師協會) in January 2005, and obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業職務高級評審委員會) in February 2005.

Directors, Supervisors, Senior Management and Staff

Mr. Liu Yunzhi (劉運之), aged 49, joined the Company in January 2007. At present, he is a party committee member, the deputy general manager, the chief financial officer, the secretary to the Board and a joint company secretary of the Company, as well as a non-executive director of Luzheng Trading and a member of the Talent Development Committee of China Futures Association. Mr. Liu Yunzhi served as a director of the Auditing Firm of the Audit Office of Shandong Province (山東省審計廳審計師事務所) from July 1993 to December 1999; served as a director and the departmental manager in Shandong Shenyuan CPA LLP (山東申元有限責任會計師事務所) from January 2000 to May 2001; served as the departmental manager and deputy senior accountant of Shandong Zhengyuan Hexin (Limited) Certified Public Accountants (山東正源和信有限責任會計師事務所) from June 2001 to January 2002; served as the deputy general manager of the planning and finance department of Zhongtai Securities from January 2002 to January 2007; served as general manager of Jinan business department of the Company from October 2007 to August 2008; served as the deputy general manager of the Company since January 2008; served as the financial officer of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. He has served as secretary to the Board of Directors and Joint Company Secretary of the Company since January 2018, and as a member of the Talent Development Committee of China Futures Association since February 2019. Mr. Liu Yunzhi graduated from Jiangxi Finance College (江西財經學院) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) a master degree majoring in business administration in April 2008. Mr. Liu Yunzhi obtained the qualification of senior auditor issued by the High Review Commission of Professional Title in Auditing of Shandong Province (山東省審計專業資格高級評審委員會) in May 2002; obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in December 2009; and obtained the qualification of asset valuer issued by the Ministry of Finance of the PRC in October 1999.

Ms. Jiang Hui (姜輝), aged 47, joined the Company in December 2008. At present, she is the deputy general manager of the Company, as well as a non-executive director of Luzheng Trading. Ms. Jiang Hui served as an employee of Heilongjiang Tobacco Futures Co., Ltd. (黑龍江煙草期貨有限公司) from October 1995 to October 1996; served as an employee in Changchun Gaosida Futures Co., Ltd. (長春高斯達期貨有限公司) from October 1996 to December 1999; served as the manager of Dalian business department of Yunnan Binhai Futures Co., Ltd. (雲南濱海期貨有限公司) from December 1999 to January 2001; served as the manager of Dalian business department of Dalian Wanheng Futures Co., Ltd. (大連萬恒期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a non-executive director of Luzheng Trading since April 2013. Ms. Jiang Hui graduated from Shenyang Sport University (瀋陽體育學院) majoring in physical education and obtained a bachelor degree in July 1992.

Directors, Supervisors, Senior Management and Staff

Mr. Pei Yingjian (裴英劍), aged 45, joined the Company in November 2006. At present, he is the deputy general manager, as well as the supervisor of information and technology department of the Company and an executive director of Luzheng Information Technology and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. and a member of the Information Technology Committee of China Futures Association. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of Yingda International Trust Co., Ltd. (英大國際信託有限公司) from September 1994 to August 1998; served as the director of the securities department of Shandong International Trust Corporation (山東省國際信託有限公司) from August 1998 to May 2001; served as the director of information and technology department of Zhongtai Securities from May 2001 to November 2006; served in several positions in succession in the Company from November 2006 to April 2015, including an employee of the information and technology department and general manager of information and technology department; served as the information and technology supervisor of the Company since July 2010; served as the deputy general manager of the Company since July 2012; served as an executive director of Luzheng Information Technology since February 2015; He served as and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. since September 2016 and a member of the Information Technology Committee of China Futures Association since February 2019. Mr. Pei Yingjian graduated from Jinan Machinery University for Employees (濟南機械職工大學) majoring in foreign trade and economy, and obtained the college diploma in July 1994; graduated from Yunnan University majoring in computer science and technology, and obtained a bachelor degree in January 2009. Mr. Pei Yingjian obtained the qualification of engineer issued by Intermediate Review Committee of Shandong Provincial Economic and Trade Commission for Engineering Technology Titles (山東省經濟貿易委員會工程技術職務中級評審委員會) in November 2005.

Directors, Supervisors, Senior Management and Staff

Mr. Liu Jianmin (劉建民), aged 49, joined the Company in January 2000. At present, he is the chief risk officer of the Company and a supervisor of Luzheng Trading. Mr. Liu Jianmin served in succession as the dealer, trading clearing principal and manager of Shanghai trading department of Shandong Metal Material Corporation (山東省金屬材料總公司) from September 1993 to January 2000; served in several positions in the Company from January 2000 to September 2014, including the manager of the market development department, manager of the trading clearing department, assistant of general manager, the general manager of compliance and review department, compliance supervisor, chief risk officer and general manager of the audit department; served as the supervisor of Luzheng Trading since April 2013; and served as the deputy general manager of the Company from September 2014 to September 2018 and chief risk officer of the Company since September 2018. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

Ms. Shen Mingxia (沈銘霞), aged 48, joined the Company since November 2017. At present, she is the deputy general manager of the Company as well as a member of the Research and Development Committee of the Council of the China Futures Association. Ms. Shen Mingxia served as the head of Wuxi Office of Shanghai East Futures Co., Ltd. from July 1994 to September 1996; served as the head of Wuxi Office of Nanjing CIFCO Futures Co., Ltd. from October 1996 to December 1999; served as the head of Wuxi Office Department of Jianzheng Futures Co., Ltd. (建證期貨有限公司) from January 2000 to June 2005; served as the head of Shanghai Office Department of, assistant to general manager, and deputy general manager of Yongan Futures Co., Ltd. from June 2005 to December 2015; served as deputy general manager of Chang'an DERI VATIVES Investment Co., Ltd. (長安德瑞威投資公司) of Beijing Chang'an Investment Group (北京長安投資集團) from January 2017 to November 2017; served as the investor of Beijing Huiyu Consulting & Advisor Co., Ltd. (北京惠裕諮詢顧問有限公司) from February 2016 to May 2018; served as deputy general manager of the Company since May 2018, and served as the member of the Research and Development Committee of the Council of the China Futures Association since February 2019. Ms. Shen Mingxia graduated from Jiangnan University, majoring in foreign trade and economy in July 1990, and obtained a college degree. In September 2008, she graduated from East China Normal University with a bachelor's degree in business administration. In June 2013, she graduated from Shanghai Jiao Tong University with EMBA degree.

Directors, Supervisors, Senior Management and Staff

(IV) Company Secretaries

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

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

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

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

During the Reporting Period, Mr. Lv Xiangyou (呂祥友) ceased to act as non-executive Director of the Company with effect on 9 August 2018.

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

On 28 May 2018, Ms. Shen Mingxia was appointed as the deputy general manager of the Company.

On 4 September 2018, Ms. Ji Qihong ceased to be the chief risk officer of the Company, and Mr. Liu Jianmin was appointed as the chief risk officer of the Company on the same date.

Directors, Supervisors, Senior Management and Staff

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

(III) Long-term incentive scheme

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

Directors, Supervisors, Senior Management and Staff

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

1. Remuneration information of Directors and Supervisors

Please refer to Note 53 of the consolidated financial statements of this report for details.

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

2. Remuneration information of senior management

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

IV. STAFF AND REMUNERATION

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

Significant Events

I. MATERIAL LITIGATIONS AND ARBITRATIONS

In a lawsuit filed with the People's Court of Dezhou Economic and Technological Development Zone by a customer surnamed Liu, the customer alleged that the Company should be liable for his losses caused due to the Company's failure to inform him and disclosure of his futures account number and trading password. On 5 July 2018, the People's Court of Decheng District of Dezhou City, Shandong Province issued the Civil Judgment (2017) Lu 1402 Min Chu No. 3172, holding that "the dispute between Liu and Wang is a dispute concerning private contract for entrusted wealth management, and Liu's claim that 'LUZHENG FUTURES and its Dezhou Office Department shall be liable for the above losses' is based on disputes arising from tort liability. Disputes over private contract for entrusted wealth management and disputes over tort liability are different in terms of legal relationship. There is no coincidence between these two disputes and they should not be dealt with in the same case. The court didn't deal with Liu's claim that 'LUZHENG FUTURES and its Dezhou Office Department shall be liable for the above losses' in this case and Liu is entitled to otherwise allege such claim. The court also judged that Wang must pay Liu a loss of RMB7.23 million, which shall be paid within 10 days from the effective date of the judgment. Other claims alleged by Liu are rejected." On 26 July 2018, Liu appealed against the result of the first-instance judgment to claim revocation of the second item of the first-instance judgment, and claimed the following amendment to the judgment according to laws: the appellee LUZHENG FUTURES and its Dezhou Office Department shall be liable for the loss of RMB7.23 million in this case. The Company has actively made preparations for responding to the lawsuit.

On 26 December 2018, Shunxin Asset Management Co., Ltd. sued the Company, claiming repayment of the principal and accumulated interest agreed upon since 28 December 1995, totaling RMB5,924,150. As of the date of this report, the Company actively collected case-related materials and cooperated with our legal advisers to respond to the lawsuit.

II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

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

III. CONNECTED TRANSACTIONS

(I) Connected transactions

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

(II) Connected persons

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

- **Zhongtai Securities**

Zhongtai Securities was established under the laws of the PRC in May 2001 with a registered capital of approximately RMB6.2717632 billion. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading. As of 31 December 2018, Zhongtai Securities owned approximately 63.10% of the total issued share capital of the Company and is therefore a Controlling Shareholder and connected person of the Company.

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

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

- **Shandong Steel**

Shandong Steel was established under the laws of the PRC in March 2008 with a registered capital of RMB10,467 million. It is primarily engaged in the production and sale of steel products such as steel and steel billets. As of 31 December 2018, Shandong Steel owned 80% equity interest in Laiwu Steel. Meanwhile, Laiwu Steel's interest in our Controlling Shareholder Zhongtai Securities was approximately 45.91% and Laiwu Steel is the holding company of Zhongtai Securities. Shandong Steel is therefore a Controlling Shareholder and connected person of the Company.

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

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

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

Significant Events

(III) Continuing connected transactions

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

New Financial Services Framework Agreement

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

As the corresponding annual caps under the Financial Services Framework Agreement has expired on 31 December 2017 and the Group continues to enter into continuing connected transactions under the Financial Services Framework Agreement after 31 December 2017, the Company entered into the New Financial Services Framework Agreement with Zhongtai Securities on 28 April 2017 (after trading hours). Pursuant to such agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, mainly including IB services, asset management schemes, securities brokerage and other financial services. The term of the New Financial Services Framework Agreement is three years with effect from 1 January 2018 to 31 December 2020. The continuing connected transactions thereunder are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions for the following three years (from 1 January 2018 to 31 December 2020). For the details on entering into the New Financial Services Framework Agreement and the transactions thereunder, see the announcement dated on 28 April 2017 and the circular dated 23 May 2017 of the Company.

Significant Events

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

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2018 (RMB' 000)	Proposed annual caps for the year ended 31 December 2018 (RMB' 000)
1. IB Services		
Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Group	6,081	28,000
2. Purchase of Asset Management Schemes		
Maximum daily amount invested	68,140	492,600
Asset Management Fees charged by Zhongtai Securities and/or its associates	132	4,926
3. Securities Brokerage and other Financial Services		
Commissions charged by Zhongtai Securities and/or its associates	331	690
Total Commissions charged by Zhongtai Securities and/or its associates on the Group	6,544	33,616

Significant Events

New Financial Services Framework Agreement

A. IB Services

Principal terms:

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

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

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

Reasons for the transaction:

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

Pricing terms:

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

- (ii) the commission revenue equals the revenue generated from such clients, with deduction of the trading and clearing fees paid to the PRC futures exchanges;
- (iii) the Commission Split of 60% has been determined based on arm's-length negotiations between Zhongtai Securities and the Company with reference to the prevailing market commission rates for similar IB businesses and on normal commercial terms, and is consistent with market practice; and
- (iv) the provision of IB services from Zhongtai Securities and/or its associates to the Company, including the Commission Split of 60%, as well as the Company's proposed annual caps for the years ending 31 December 2018, 2019 and 2020 have been approved by the Shareholders of the Company at the general meeting held on 15 June 2017 in relation to entering into such New Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

B. Purchase of the Asset Management Schemes

Principal terms:

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

Reasons for the transaction:

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

Significant Events

Pricing terms:

- (i) Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management schemes are calculated based on the Company's investment amounts times the Asset Management Fees rate;
- (ii) for collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such schemes equally and evenly, including the Group and any other independent third party investor participants. Such Asset Management Fees rate is also consistent with the prevailing market rates for collective asset management schemes issued by any other independent third parties with similar scales of investment;
- (iii) for targeted asset management schemes, (a) the Asset Management Fees rate charged by Zhongtai Securities and/or its associates as the manager is comparable to, or no less favorable than, those charged by Zhongtai Securities to any other independent third parties for similar targeted asset management schemes; (b) such Asset Management Fees rate is also comparable to, or no less favorable to the Group, than the Asset Management Fees rate charged by any other independent third party managers in other similar targeted asset management schemes the Company participated in; and (c) the Asset Management Fees rate has been determined based on arm's length negotiations between Zhongtai Securities and/or its associates and the Company with reference to the prevailing market commission rates for similar targeted management schemes and on normal commercial terms, and is consistent with market practice; and
- (iv) the investment in the asset management schemes in which Zhongtai Securities and/or its associates act as the manager, including the charged Asset Management Fees rate, as well as the proposed annual caps for the three years ending 31 December 2018, 2019 and 2020, have been approved by the Shareholders of the Company at the general meeting held on 15 June 2017 in relation to entering into such New Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

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

Principal terms:

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

Reasons for the transaction:

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

Pricing policy:

- (i) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services will be determined based on arm's-length negotiations between Zhongtai Securities and/or its associates and the Company with reference to the prevailing market commission rate for similar business, and is consistent with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee exceeds RMB5 through calculation by transaction amount times the 0.03% of commission rate, the transaction will be charged at the commission rate of 0.03%). Different commission rates are applied to the bond brokerage business provided to us by Zhongtai Securities and/or its associates subject to different types of bonds (such as reverse repo of bonds with the term of one day or exceeding 28 days), ranging from 0.001% to 0.03%. Such commission rates are also applied to independent third parties;

Significant Events

- (ii) the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Company are comparable to, or no less favorable than, those charged by Zhongtai Securities and/or its associates to any other independent third parties, and the corresponding commission rate is also within the range as set by PRC Futures Exchanges; and
- (iii) the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates, including the commission rate, as well as the proposed annual caps for the three years ending 31 December 2018, 2019 and 2020, have been approved by our Shareholders at the Company's general meeting held on 15 June 2017 in relation to entering into such Financial Services Framework Agreement. Zhongtai Securities, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

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

A. New Futures Brokerage Services Framework Agreement

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

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

Pursuant to such agreement, the Group provides futures brokerage services to Shandong Steel and/or its associates in the Group's ordinary and usual course of business. The term of the New Futures Brokerage Services Framework Agreement is three years with effect from 1 January 2018 until 31 December 2020. The Company is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions for the following three years (from 1 January 2018 to 31 December 2020). For the details on entering into the New Futures Brokerage Services Framework Agreement and the transactions thereunder, see the announcement dated 28 April 2017 and the notice 22 May 2017 of the Company.

Significant Events

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2018 (RMB' 000)	Proposed annual caps for the year ended 31 December 2018 (RMB' 000)
Derivatives brokerage Commissions received by the Group for provision of derivatives brokerage service by the Group to Shandong Steel and/or its associates ⁽ⁱ⁾	2,893	5,800

- (i) Commissions received by the Group for provision of derivatives brokerage service by the Group to Shandong Steel and/or its associates include those commission received by the Group from Zhongtai Securities and/or its associates for provision of derivatives brokerage services by the Group.

Principal terms:

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

Reasons for the transaction:

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

Pricing policy:

- (i) although the Company's Futures Commissions for the provision of futures brokerage services vary according to different kinds of futures products, such commissions for the same futures products are applicable to all our clients of the Company, including Shandong Steel and/or its associates, and other independent third party clients;
- (ii) the Futures Commissions charged by the Company for the provision of futures brokerage and other financial services are based on a percentage that is at a premium of the Futures Commissions rate set by the PRC Futures Exchanges with reference to the prevailing market futures commissions rate, and is consistent with market practice; and
- (iii) the provision of futures brokerage and related financial services to Shandong Steel and/or its associates, including the Futures Commissions rates, as well as the proposed annual caps for the years ending 31 December 2018, 2019 and 2020, have been approved by the Shareholders of the Company at the general meeting held on 15 June 2017 in relation to entering into such Futures Brokerage Services Framework Agreement. Zhongtai Securities, an associate of Shandong Steel, which has a material interest in such transactions, abstained from voting at the afore-mentioned general meeting.

B. Asset Management Service Framework Agreement

Reference is made to the announcement of the Company dated 19 October 2015 in relation to the former Asset Management Service Framework Agreement entered into between the Company and Zhongtai Securities and its annual caps, pursuant to which Zhongtai Securities would continuously purchase the collective asset management schemes in which the Company acted as the manager. Being the asset manager, the Company invests in financial products of various aspects with the collective asset management schemes. As such, Zhongtai Securities would pay asset management fees to the Company. As the corresponding annual caps under the former Asset Management Service Framework Agreement will expire on 31 December 2017 and the Group will continue to conduct continuing connected transactions under the former Asset Management Service Framework Agreement after 31 December 2017 and expand its cooperative partners to sell asset management schemes to Shandong Steel and/or its associates, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours), pursuant to which, Shandong Steel and/or its associates would purchase asset management schemes in which the Group acts as the asset manager. The term of the Asset Management Service Framework lasts for three years, valid from 1 January 2017 to 31 December 2019. The former Asset Management Service Framework Agreement will be terminated once the Asset Management Service Framework Agreement comes into effect. The continuing connected transactions thereunder are subject to the annual reporting requirements under Rules 14A.49 and Article 14A.71 of Listing Rules and the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.

Significant Events

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2018 (RMB' 000)	Proposed annual caps for the year ended 31 December 2018 (RMB' 000)
Collective asset management schemes purchased by Shandong Steel and/or its associates Daily maximum investment amount Asset management fees received from Shandong Steel and/or its associates	– –	260,000 2,600

Principal terms

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

Reasons for the transaction

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

Pricing policy

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

C. Bulk Commodities Sale and Purchase Framework Agreement

References are made to the announcements of the Company dated 26 October 2016 and 8 December 2016 in relation to the Hot Rolled Wide Steel Plate Purchase Agreement entered into between the Company and Laiwu Steel, 80% shares of which are held by Shandong Steel. In view of the continuing purchase of bulk commodities, such as hot rolled wide steel plates, by Luzheng Trading, a wholly-owned subsidiary of the Company, from Shandong Steel and/or its associates in the future, and that Shandong Steel and/or its associates may continue to purchase raw materials, including coke and iron ores, from Luzheng Trading, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours), pursuant to which the Company and/or its associates would purchase bulk commodities from Shandong Steel and/or its associates, including hot rolled wide steel plates, and Shandong Steel and/or its associates would purchase raw materials, including coke and iron ores from Luzheng Trading in the ordinary and usual course of business. The term of Bulk Commodities Sale and Purchase Framework Agreement lasts for three years, valid from 1 January 2017 to 31 December 2019. The continuing connected transactions thereunder are subject to the annual reporting requirements under Rules 14A.49 and Article 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 of the end of the Reporting Period is set out in the following table:

Nature of transaction	Transaction Amounts for the year ended 31 December 2018 (RMB' 000)	Proposed annual caps for the year ended 31 December 2018 (RMB' 000)
The cost paid by the Group for purchase of physical commodities from Shandong Steel and/or its associates	41,424	300,000
The cost paid by Shandong Steel and/or its associates for purchase of physical commodities from the Group	11,849	150,000

Principal terms

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

Reasons for the transactions

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

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

Pricing terms

For the purchases of bulk commodities including but not limited to hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, as the bulk commodities such as hot rolled wide steel plates and rebars are produced by Shandong Steel and/or its associates themselves, such commodity price is mainly determined with reference to the aggregated cost of steel production. Since Shandong Steel and/or its associates act as operating enterprises, they are reluctant to disclose such information to the Company, which will constitute its core commercial secrets. However, the price of the bulk commodities such as hot rolled wide steel plates and rebars purchased by Luzheng Trading from Shandong Steel and/or its associates is mainly determined with reference to comparable prices of similar products sold in domestic markets by independent third parties, in order to ensure that the price and terms of sales of bulk commodities sold by Shandong Steel and/or its associates to Luzheng Trading are fair, reasonable and such price is comparable to that of similar products paid by independent third parties. Such transaction consideration is paid by the Group through its internal resources in cash.

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

Significant Events

D. Risk Management Services Framework Agreement

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

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2018 (RMB' 000)	Proposed annual caps for the year ended 31 December 2018 (RMB' 000)
Premium paid by Shandong Steel and/or its associates to the Group	–	9,000
Premium paid by the Group to Shandong Steel and/or its associates	–	9,000

Principal terms

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

Reasons for the transaction

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

Pricing terms

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

Significant Events

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

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

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

In respect of the disclosure of the continuing connected transactions:

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

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

4. Waivers from the Stock Exchange

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

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

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

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

Significant Events

5. Confirmation of related party transactions

Details of the Group's related party transactions are set out in the consolidated financial statements and note 46. 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

On 9 February 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 1) passed the "Proposal on Purchase of Changjiang Securities Chaoyue Wealth Management 1-day and 30-day Collective Asset Management Plan" and Ping An Wealth · Huijin Bond Investment Fund No. 1 Collective Fund Trust Plan 《關於購買長江證券超越理財樂享1天30天期集合資產管理計劃》和《平安財富·匯錦債券投資基金1號集合資金信託計劃的議案》, approving the purchase of Changjiang Securities Chaoyue Wealth Management 1-day and 30-day Collective Asset Management Plan issued by Changjiang Securities (Shanghai) Asset Management Co., Ltd. and Ping An Wealth · Huijin Bond Investment Fund No. 1 Collective Fund Trust Plan issued by Ping An Trust Co., Ltd., with a total investment of RMB65 million.

On 24 February 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 21) passed the " Proposal on Purchase of Luzheng Win-win No. 1 Private Fund "(關於購買奧索魯証共贏1期私募基金的議案), approving the purchase of Aosuo Luzheng Win-win No. 1 Private Fund issued by Shanghai Alsure Haona Asset Management Co., Ltd. with a total investment of RMB29 million.

On 13 April 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 5) passed the "Proposal on Purchase of CITIC Trust · Yuexiu Nansha Special Asset Return Rights Investment Collective Fund Trust Plan" (關於購買中信信託·越秀南沙特定資產收益權投資集合資金信託計劃的議案), "Proposal on Purchase of AVIC Trust · Tianqi [2017] No. 209 Wuhan Yangsi Port PPP Project Collective Fund Trust Plan "(關於購買中航信託·天啟[2017]209號武漢楊泗港PPP專案集合資金信託計劃的議案), and the "Proposal on Further Purchase of Zeran No. 1 Balanced Fund" (關於繼續購買澤然1號平衡型基金的議案), approving the purchase of CITIC Trust · Yuexiu Nansha Special Asset Return Rights Investment Collective Fund Trust Plan issued by CITIC Trust Co., Ltd., AVIC Trust · Tianqi [2017] No. 209 Wuhan Yangsi Port PPP Project Collective Fund Trust Plan issued by AVIC Trust Co., Ltd., and Zeran No. 1 Balanced Fund issued by Crescendi Capital Group (三度星和(北京)投資有限公司), with respective investment of RMB30 million, RMB30 million and RMB40 million.

On 23 April 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 6) passed the " Proposal on Purchase of Yongan Asset Management Directional FOF No. 1 Asset Management Plan "(《關於購買永安資管定向FOF一號資產管理計劃的議案》), approving the purchase of Yongan Asset Management Directional FOF No. 1 Asset Management Plan issued by Yongan Futures Co., Ltd. with an investment amount of RMB10 million.

On 28 April 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 7) passed the “Proposal on Purchase of AVIC Trust · Tianqi No. 556 Tiancheng Jufu Investment Fund Collective Fund Trust Plan “(關於購買中航信託·天啟556號天誠聚富投資基金集合資金信託計劃的議案) and “Proposal on Purchase of Anxin Chuangying No. 19 – Landbridge Group Liquidity Loans Collective Fund Trust Plan “(關於購買安信銳贏19號·嵐橋集團流動資金貸款集合資金信託計劃的議案), approving the purchase of AVIC Trust · Tianqi No. 556 Tiancheng Jufu Investment Fund Collective Fund Trust Plan issued by AVIC Trust Co., Ltd., and Anxin Chuangying No. 19 – Landbridge Group Liquidity Loans Collective Fund Trust Plan issued by Anxin Trust & Investment Co., Ltd., with respective investment amount of RMB50 million and RMB40 million.

On 11 May 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 8) passed the “ Proposal on Purchase of AVIC Trust · Tianqi [2017] No. 687 Shenzhou Digital Trust Loan Project Collective Trust Plan “(關於購買中航信託·天啟[2017]687號神州數碼信託貸款專案集合資金信託計劃的議案), approving the purchase of AVIC Trust · Tian [2017] No. 687 Shenzhou Digital Trust Loan Project Collective Trust Plan issued by AVIC Trust Co., Ltd., with a total investment of RMB20 million.

On 23 May 2018, the Treasury Operations Investment Decision Committee of LUZHENG FUTURES Company Limited (Lu Qi Gu Zi Tou Ji [2018] No. 9) passed the “ Proposal on Purchase of Shandong Guoxin · Anxin No. 1 Portfolio Investment Collective Trust Plan “(關於購買山東國信·安心1號組合投資集合資金信託計劃的議案), approving the purchase of Shandong International Trust · Anxin No. 1 Portfolio Investment Collective Trust Plan issued by Shandong International Trust Co., Ltd., with a total investment of RMB20 million.

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”).

Significant Events

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 2018 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

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

(2) Auditors' Remuneration

As of 31 December 2018, the remuneration of the Group's auditors was RMB1.65 million in total. Among them, the audit fees for the statutory audited report of the Company in 2018 prepared in accordance with China Accounting Standards for Business Enterprises, the audit fees for the statutory audited report of Luzheng Trading in 2018, the audit fees for the statutory audited report of Luzheng Information Technology in 2018, the audit fees for the auditor's report in 2018 prepared in accordance with International Financial Reporting Standards and the interim review service fees were RMB0.21 million, RMB0.07 million, RMB0.01 million, RMB0.86 million and RMB0.5 million respectively.

Save as disclosed in the paragraph above, no other audit related or non-audit related fees were paid to the auditors by the Group for the year ended 31 December 2018.

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

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

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

During the Reporting Period, the Company convened 15 meetings in total, of which there was one general meeting, seven Board meetings, two Supervisory Committee meetings, two Risk Control Committee meetings, two Audit Committee meetings, and one Nomination 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 2017 annual general meeting of LUZHENG FUTURES Company Limited

On 15 June 2018, the Company convened the 2017 annual general meeting with physical presence, at which the following resolutions were passed:

- (1) The “Proposal on the Work Report of the Board of Directors of LUZHENG FUTURES Company Limited for the Year 2017” was considered and passed;
- (2) The “Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited for the Year 2017” was considered and passed;
- (3) The “Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for the Year 2017” was considered and passed;
- (4) The “Proposal on the Profit Distribution Plan of LUZHENG FUTURES Company Limited for the Year 2017” was considered and passed;
- (5) The “Proposal on the Remuneration Plan of the Chairman of the Supervisory Committee” was considered and passed;
- (6) The “Proposal on the Appointment of Accounting Firms in 2018” was considered and passed;
- (7) The “Proposal on the General Mandate to Issue Domestic Bond Financing Instruments” was considered and passed;
- (8) The “Proposal on the General Mandate to Issue Overseas Bond Financing Instruments” was considered and passed; and
- (9) The “Proposal on the General Mandate to Issue New Domestic Shares and H Shares” was considered and passed.

Corporate Governance Report

III. PERFORMANCE OF THE DIRECTORS

(1) Summary of the performance of the Directors

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

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

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

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

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

Corporate Governance Report

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

Name of Directors	No. of Board meetings attended	Attended in person	Attended by means of tele-communication	Attended by proxy	Absent	Two consecutive absents	Attendance at general meeting
							No. of general meeting attended
Executive Directors							
Chen Fang	7	2	5	0	0	No	1
Liang Zhongwei	7	1	5	1	0	No	0
Non-executive Directors							
Lv Xiangyou <i>(resigned on 9 August 2018)</i>	4	1	3	0	0	No	0
Yin Ge	7	2	5	0	0	No	0
Li Chuanyong	7	2	5	0	0	No	0
Liu Feng	7	2	5	1	0	No	0
Independent non-executive Directors							
Gao Zhu	7	1	5	1	0	No	1
Yu Xuehui	7	1	5	1	0	No	1
Wang Chuanshun	7	2	5	1	0	No	1
Li Dapeng	7	1	5	1	0	No	1

No. of Board meetings held during the year	7
In which: conducted by voting on site	2
conducted by means of telecommunication voting	5
No. of general meeting held during the year	1

Corporate Governance Report

(3) Board meetings and resolutions during the Reporting Period

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

1. The 14th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 26 January 2018, the Company held the 14th meeting of the second session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on Engaging in Overseas Intermediary Agency Business” was considered and passed;
- (2) The “Proposal on Changing the Secretaries to the Board of Directors, Joint Company Secretary and Authorized Representatives” was considered and passed;
- (3) The “Proposal on the Appointment of Deputy General Manager of LUZHENG FUTURES Company Limited” was considered and passed;
- (4) The “Proposal on the Establishment of a Hong Kong Subsidiary” was considered and passed; and
- (5) The “Proposal on Changing the Business Place of Shenzhen Office Department” was considered and passed.

2. The 15th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 22 March 2018, the Company held the 15th meeting of the second session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for 2017” was considered and passed;
- (2) The “Proposal on the Work Report of the Board of Directors of LUZHENG FUTURES Company Limited for 2017” was considered and passed;
- (3) The “Proposal on the Results Announcement LUZHENG FUTURES Company Limited for 2017” was considered and passed;
- (4) The “Proposal on the 2017 Annual Report of LUZHENG FUTURES Company Limited (International Financial Reporting Standards)” was considered and passed;
- (5) The “Proposal on the 2017 Annual Report of LUZHENG FUTURES Company Limited (Chinese Accounting Standards for Business Enterprises)” was considered and passed;

- (6) The “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2017” was considered and passed;
- (7) The “Proposal on Reporting Risk Supervision Indicators of LUZHENG FUTURES Company Limited for 2017” was considered and passed;
- (8) The “Proposal on the Annual Budget Report of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (9) The “Proposal on Appointing Accounting Firms of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (10) The “Proposal on Basic Salary Standard for Senior Management of LUZHENG FUTURES Company Limited” was considered and passed;
- (11) The “Proposal on General Mandate of LUZHENG FUTURES Company Limited to Issue Domestic Shares and H Shares” was considered and passed;
- (12) The “Proposal on General Mandate of LUZHENG FUTURES Company Limited to Issue Domestic Bond Financing Instruments” was considered and passed; and
- (13) The “Proposal on Convening the 2017 Annual General Meeting of LUZHENG FUTURES Company Limited” was considered and passed.

3. The 16th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 13 April 2018, the Company held the 16th meeting of the second session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on Changing the Use of Proceeds from Global Offering” was considered and passed;
- (2) The “Proposal on Canceling Chengdu Office Department” was considered and passed;
- (3) The “Proposal on Changing the Business Place of Dongying Office Department” was considered and passed; and
- (4) The “Proposal on General Mandate to Issue Overseas Bond Financing Instruments” was considered and passed.

Corporate Governance Report

4. The 17th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 24 July 2018, the Company held the 17th meeting of the second session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on the Environmental, Social and Governance Report of LUZHENG FUTURES Company Limited for 2017” was considered and passed;
- (2) The “Proposal on Changing the Chief Risk Officer of LUZHENG FUTURES Company Limited” was considered and passed; and
- (3) The “Proposal on Resignation of Ms. Ji Qihong as Chief Legal Adviser of LUZHENG FUTURES Company Limited” was considered and passed.

5. The 18th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 23 August 2018, the Company held the 18th meeting of the second session of the Board of Directors through voting on site and passed the following proposals:

- (1) The “Proposal on Interim Result Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2018” was considered and passed;
- (2) The “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2018” was considered and passed;
- (3) The “Proposal on the Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2018” was considered and passed; and
- (4) The “Proposal on Reporting Interim Risk Supervision Indicators of LUZHENG FUTURES Company Limited in 2018” was considered and passed.

6. The 19th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 31 August 2018, the Company held the 19th meeting of the second session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on Ms. Ji Qihong Ceasing to be Chief Risk Officer of LUZHENG FUTURES Company Limited” was considered and passed; and
- (2) The “Proposal on Appointing Mr. Liu Jianmin as Chief Risk Officer of LUZHENG FUTURES Company Limited” was considered and passed.

7. The 20th Meeting of the second session of the Board of Directors of LUZHENG FUTURES Company Limited

On 30 November 2018, the Company held the 20th meeting of the second session of the Board of Directors through voting by correspondence and passed the Proposal on Changing Business Place of Changsha Office Department.

(4) Training for Directors

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

Name of Directors	Date	Duration	Organizer	Content
Chen Fang	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Liang Zhongwei	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Lv Xiangyou	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Yin Ge	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Li Chuanyong	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Liu Feng	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management

Corporate Governance Report

Name of Directors	Date	Duration	Organizer	Content
Gao Zhu	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Yu Xuehui	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Wang Chuanshun	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management
Li Dapeng	22 March 2018	4 hours	The Company Clifford Chance	Training of Compliance of Directors, Supervisors and Senior Management

(5) Appointment, Reappointment and Removal of Directors

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

IV. WORK PERFORMANCE OF BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

As at the end of the Reporting Period, the Board comprised of nine Directors: Mr. Chen Fang as chairman of the Board and an executive Director, Mr. Liang Zhongwei as an executive Director, Mr. Yin Ge, Mr. Li Chuanyong and Mr. Liu Feng as non-executive Directors, and Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng as independent non-executive Directors.

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

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

Corporate Governance Report

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

(2) Duties concerning corporate governance of the Board

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

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

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

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

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

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

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

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

(4) Composition and main duties of special committees

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

1. As at the date of this report, the Strategic Development Committee comprises six members: Mr. Chen Fang as an executive Director, Mr. Gao Zhu, Mr. Yu Xuehui and Mr. Li Dapeng as the independent non-executive Directors, and Mr. Li Chuanyong and Mr. Liu Feng as the non-executive Directors. Mr. Chen Fang, an executive Director, is currently the chairman of the Strategic Development Committee. The main duties of the Strategic Development Committee of the Company are as follows:

- (1) to stay informed of and understand the general development conditions of the Company;
- (2) to study and understand domestic and overseas industrial developments and relevant national policies;
- (3) to study and formulate medium and long-term development strategies, plans and proposals of the Company, make recommendations on and evaluate and monitor the implementation of the medium and long-term strategic goals of the Company;

Corporate Governance Report

- (4) to review the medium and long-term development goals and development plans of each business and management segments of the Company;
 - (5) to review and make recommendations on the annual operation and investment plans of the Company;
 - (6) to study and make recommendations on the proposals to increase or decrease the Company's registered capital and the merger, division, dissolution or change of corporate form of the Company;
 - (7) to study and make recommendations on matters requiring Board's review and approval, such as material investment, financing, provision of guarantee, capital operation, asset reorganization and asset operation and management of the Company;
 - (8) to study and make recommendations on proposals to development new markets, businesses and products by the Company;
 - (9) to study and make recommendations on material structural reorganization and adjustment plan of the Company;
 - (10) to study, discuss and make recommendations on other material matters affecting the development the Company; and
 - (11) other duties as assigned by the Board of Directors.
2. As at the date of this report, the Risk Control Committee comprises five members: Mr. Yu Xuehui and Mr. Gao Zhu as the independent non-executive Directors, Mr. Liang Zhongwei as an executive Director, and Mr. Yin Ge and Mr. Li Chuanyong as non-executive Directors. Mr. Yu Xuehui, an independent non-executive Director, is currently the chairman of the Risk Control Committee. The main duties of the Risk Control Committee of the Company are as follows:
- (1) to study and assess the risk exposures of the Company;
 - (2) to study and assess the risk control conditions of the Company;
 - (3) to make recommendations to improve the risk management and internal control systems of the Company;
 - (4) to monitor the legality and compliance of the basic management system, decision-making process and risk control system of the Company; and
 - (5) other duties as assigned by the Board of Directors.

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

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

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

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

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

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

- a. any changes in the accounting policies and practices;
- b. areas which involve significant judgements;
- c. significant adjustments according to the results of audit;

Corporate Governance Report

- d. assumptions on the ongoing operations of the Company and any qualified opinions;
- e. compliance with accounting standards; and
- f. compliance with the listing rules and other legal requirements of the place of listing in relation to financial reporting.

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

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

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

Corporate Governance Report

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

(5) Special Committees' Meetings

1. Risk Control Committee

On 22 March 2018, the fourth meeting of the Risk Control Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Report of the Annual Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2017" (《關於報告魯証期貨股份有限公司2017年度風險監管指標的議案》) by way of voting on site.

On 23 August 2018, the fifth meeting of the Risk Control Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Report of the Interim Regulatory Risk Indicators of LUZHENG FUTURES Company Limited in 2018" (《關於報告魯証期貨股份有限公司2018年中期風險監管指標的議案》) by way of voting on site.

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

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

2. Audit Committee

On 22 March 2018, the fourth meeting of the Audit Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Annual Results Announcement of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度業績公告議案》), the "Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度報告(國際財務報告準則)的議案》), the "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度報告(中國企業會計準則)的議案》), the "Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度利潤分配方案的議案》), the "Proposal on the Budget Report of LUZHENG FUTURES Company Limited for 2018" (《關於魯証期貨股份有限公司2018年度預算報告的議案》) and the "Proposal on the Appointment of Accounting Firms of LUZHENG FUTURES Company Limited for 2018" (《關於聘請魯証期貨股份有限公司2018年度會計師事務所的議案》) by way of voting on site.

Corporate Governance Report

On 23 August 2018, the fifth meeting of the Audit Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2018” (《關於魯証期貨股份有限公司截至2018年6月30日止六個月之中期業績公告的議案》), the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年中期報告的議案》), and the “Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2018” (《關於魯証期貨股份有限公司2018年中期利潤分配方案的議案》) by way of voting on site.

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

Name	Number of meetings attended/ Number of meetings held
Wang Chuanshun (chairman of Audit Committee)	2/2
Gao Zhu	2/2
Li Dapeng	2/2
Lv Xiangyou (Resigned on 9 August 2018)	1/1
Liu Feng	2/2

3. Nomination Committee

On 23 July 2018, the fourth meeting of the Nomination Committee of the second session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on Reviewing the Qualification of the Nominated Candidate for the Chief Risk Officer of LUZHENG FUTURES Company” (《關於審查魯証期貨股份有限公司首席風險官提名人資格的議案》) by way of voting by correspondence.

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

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

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

V. CHAIRMAN AND GENERAL MANAGER

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

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

1. 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.

Corporate Governance Report

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

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

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

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

VII. PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

VIII. SUPERVISION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

Corporate Governance Report

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

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

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

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

- (1) Complete cover of risk management and compliance requirements. Risk management and internal control system cover every business line: domestic and foreign currencies, on the statements and off the statements, and domestic and overseas businesses; cover all branches of associations, departments, positions and staff; cover every type of risks and the impact of different risks; cover all the management processes, from decision making to execution and monitoring; the risk management and internal control system of the Company cover all the domestic and foreign requirements in relation to internal control and risk management, such as “The Basic Rules on Enterprise Internal Control”, “Enterprise Internal Control Guidelines” and Listing Rules, which are all applicable to the Company;

- (2) The relative independency of risk management and internal control. The Company established an independent organization structure for comprehensive risk management and internal control system, granting sufficient authority, human resources and other resources to the risk management functions, and establishing a scientific and reasonable reporting channel, which forms an operation mechanism of checks and balances with business line;
- (3) Risk-oriented internal control. On the basis that the satisfaction of the internal control requirements set out in Listing Rules are ensured, the Company adopts risk assessment methods with the focus on the high risk areas and management hotspots while selecting the major business flow and critical controlling links for fulfilling the relevant requirements of risk control and implements such methods in relevant business management. Through the comprehensive risk management and the whole-process of internal control system, the Company is committed to reasonably ensuring that the business risk appetite is in line with the Company's strategy and the work on risk management is undertaken in an orderly manner. The Company also aims at effectively identifying risk so as to avoid the unnecessary loss while reasonably ensuring the accuracy of the risk assessment method and timely delivery of the risk report. Meanwhile, the Company also reasonably ensures the effective operation of the supervision mechanism of internal control system to timely identify significant risk.

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

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

Corporate Governance Report

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

(i) Auditors and remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as auditors of the Company for the financial statements prepared by the Company in accordance with International Financial Reporting Standards and Chinese Accounting Standards for Business Enterprises for the year ended 31 December 2018, respectively. During the period covered by this report, there was no occurrence of disagreement from the Board of Directors to the opinions of selection and appointment of external auditor from the Audit Committee. For details of the auditors’ remuneration, Please refer to “VII. Appointment, Change and Dismissal of Auditors” in Chapter X of this report.

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

The Board of Directors acknowledged its responsibility of preparing the consolidated financial statements of the annual report for the year ended 31 December 2018 of the Group.

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

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

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

(iii) Company secretaries

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

(iv) Rights of Shareholders and communication policy

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

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

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

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

Corporate Governance Report

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

(v) Investor relations

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

(vi) Policy on Board diversity

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

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

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

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

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

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

As of 31 December 2018, the Board of Directors consisted of nine directors, four of whom were independent non-executive Directors and one staff Director, thereby enhancing the strict review and monitoring of management procedures. The Board of directors is highly diverse in all aspects of age, cultural and educational background, professional experience, skills, knowledge and terms of service.

(vii) Amendments to the Articles of Association

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

(viii) Remuneration of the senior management

The remuneration paid to the senior management by bands for the year ended 31 December 2018 is set out below:

Remuneration bands	Year ended 31 December 2018 Number
RMB300,001 to RMB500,000	1
RMB500,001 to RMB700,000	3
RMB700,001 to RMB900,000	2
RMB900,001 to RMB1,100,000	1
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Note: In September 2018, Ms. Ji Qihong ceased to be the senior management of the Company.

(ix) Terms of office of non-executive Directors

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

Internal Control

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

I. ESTABLISHMENT OF INTERNAL CONTROL STRUCTURE

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

II. IMPLEMENTATION AND OPERATION OF INTERNAL CONTROL SYSTEM

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

III. SUPERVISION AND INSPECTION OF INTERNAL CONTROL

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

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

IV. CONCLUSION OF THE ASSESSMENT OF INTERNAL CONTROL

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

As at 31 December 2018, the Company's internal control system was basically sound and effective.

Independent Auditor's Report



羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of LUZHENG FUTURES Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 161 to 276, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

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

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

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

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment and disclosures of structured entities	
<p>Refer to notes 4.2, 22.2 and 51 to the Group's consolidated financial statements.</p> <p>The Group has invested in a number of structured entities (primarily asset management schemes, trust schemes, private securities investment funds, bank wealth management products, etc.) which were managed or invested by the Group. As at 31 December 2018, investments in structured entities of approximately RMB32 million were consolidated by the Group while other structured entities of RMB637 million were not consolidated.</p> <p>We placed our audit emphasis on this matter because of the significance of the amounts and the level of management judgement involved in consolidation assessment based on the three elements of control (power, variable returns and linkage between these two elements).</p>	<p>Our audit procedures in relation to management assessment on consolidation of structured entities included:</p> <ul style="list-style-type: none"> • Understood and evaluated the management's control process over the application of the relevant accounting standards in consolidation assessment of structured entities, including the management's identification and maintenance of the list of structured entities, as well as the preparation and review over consolidation. • Performed audit sampling of the structured entities that the Group invested and managed by inspecting legal and other supporting documents and evaluating management's consolidation assessment of those structured entities. For these samples selected, the following procedures were performed: <ul style="list-style-type: none"> – Analyzed business architectures and related contract terms, and evaluated whether the Group has the power over structured entities. – Obtained contract terms about variable return of structured entities, which contained fixed management fee and performance reward earned in capacity of the asset manager, and return from the Group's investments in structured entities. – Re-calculated the magnitude and variability of returns to the Group, analyzed the Group's role as principal or agent, and compared these results with management's assessment. • Tested the consolidation process and assessed whether the extent of disclosures were appropriate. <p>Based the above procedures performed, we found that the key management judgements in relation to consolidation assessment of structured entities and the related disclosures were supported by the evidence we gathered.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial instruments held at fair value	
<p>Refer to notes 3.1, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11, 24, 29, 30, 40 and 49.2 to the Group's consolidated financial statements.</p> <p>As at 31 December 2018, the Group's financial instruments held at fair value included various financial assets and liabilities stated at RMB677 million and RMB102 million respectively.</p> <p>Financial assets of RMB364 million including trust schemes and bank wealth management products and financial liabilities of RMB30 million representing other derivative contract were classified at level 3 with Discounted Cash Flows Model being applied in the valuation as at 31 December 2018. The remaining instruments were classified at either level 1 or level 2 in the fair value hierarchy and were valued through observable market data or net asset value provided by the relevant asset managers.</p> <p>Valuation of the Group's financial instruments held at fair value was a key area of audit focus due to the materiality of the balances. For those financial instruments that were classified at level 3 (i.e. trust schemes, bank wealth management products and derivative contract), our audit also focused on the significant management judgments applied in determining the unobservable parameters to the model, including expected future cash flows, expected recovery or payment date and discount rates corresponded to the expected risk level.</p>	<p>Our audit procedures in relation to the valuation of financial instruments included the following:</p> <ul style="list-style-type: none"> • Understood and evaluated the management procedures and controls over the identification, measurement and oversight of valuation risk of financial instruments. • Assessed the appropriateness of the valuation methodologies applied by the Group and compared methodologies with our knowledge of the current industry practice. • For the valuation of level 1 and level 2 non-derivative instruments, we performed sampling test to verify the reasonableness of fair value by independently obtaining the observable market data and the net asset value provided by relevant asset managers, and comparing the prices used by the Group with these data. For derivative instruments (primarily options), we evaluated the key parameters of the options valuation model against open market value, and independently checked the calculation of the fair value. • For the valuation of trust schemes, bank wealth management products and other derivative contract that were classified at level 3, which depended on unobservable parameters, we challenged the assumptions and judgements made by management with our knowledge of the current industry practice. We assessed the external evidence, e.g., legal documents, updated trustee's credit assessment report on underlying investment, the trustee's credit standing, legal advice provided by external legal counsel and correspondences with the counterparties, to corroborate the management's estimation of the future cash flows, expected recovery or payment date and discount rates. In addition, we applied Discounted Cash Flows Model to recalculate the fair value of all the trust schemes, bank wealth management products and other derivative contract that were classified at level 3. <p>Based on the procedures we performed, we found that management's key judgements applied in its fair value measurement were appropriate and supported by the evidence we gathered.</p>

Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, 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 Charge with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

Independent Auditor's Report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2018	2017
Commission and fee income	7	277,713	303,568
Commission and fee expense	7	(231,171)	(236,904)
Net commission and fee income		46,542	66,664
Interest income	8	214,705	218,430
Interest expense	8	(19,373)	(15,159)
Net interest income		195,332	203,271
Gains on physical commodities trading	9	3,093	7,948
Net investment gains	10	56,357	55,719
Other income	11	121,824	132,263
Operating income		423,148	465,865
Staff costs	12	(137,009)	(133,863)
Commission to brokerage agents		(3,469)	(7,679)
Introducing broker commission		(6,081)	(7,670)
Depreciation and amortization	13	(11,699)	(9,977)
Credit impairment losses	14	(513)	(544)
Other operating expenses	15	(116,965)	(98,644)
Operating expenses		(275,736)	(258,377)
Operating profit		147,412	207,488
Share of losses of investment in associates	21	(1,848)	(752)
Other gains/(losses), net	16	7,181	(168)
Profit before income tax		152,745	206,568
Income tax expense	17	(39,031)	(49,603)
Profit for the year		113,714	156,965

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2018	2017
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value	36	–	164
– Income tax effect on changes in fair value	36	–	(41)
– Amounts reclassified to profit or loss upon disposal or impairment	36	–	(1,528)
Currency translation differences		1,278	(1,294)
Other comprehensive income for the year, net of tax		1,278	(2,699)
Total comprehensive income for the year		114,992	154,266
Profit attributable to:			
– Shareholders of the Company		117,719	158,631
– Non-controlling interests		(4,005)	(1,666)
		113,714	156,965
Total comprehensive income attributable to:			
– Shareholders of the Company		118,998	155,907
– Non-controlling interests		(4,006)	(1,641)
		114,992	154,266
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)			
Basic/Diluted	18	0.12	0.16

Consolidated Statement of Financial Position

As at 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	19	44,748	44,966
Intangible assets	20	15,398	14,735
Investment in associates	21	43,643	45,491
Other non-current assets	23	2,668	3,432
Available-for-sale financial assets	24	–	264,820
Financial assets at fair value through other comprehensive income		1,400	–
Financial assets at fair value through profit or loss	30	61,280	–
Deferred income tax assets	25	11,009	7,017
Refundable deposits	26	25,683	25,599
Total non-current assets		205,829	406,060
Current assets			
Physical commodities	27	199,769	62,397
Other current assets	28	77,418	113,877
Contract assets		13,895	–
Available-for-sale financial assets	24	–	223,586
Derivative financial assets	29	37,930	63,087
Financial assets at fair value through profit or loss	30	576,212	526,967
Financial assets held under resale agreements	31	337,318	112,532
Deposits with exchange-clearing organizations	32	2,387,336	2,737,775
Bank balances held for clients	33	3,256,333	3,782,507
Cash and bank balances	34	808,390	800,146
Total current assets		7,694,601	8,422,874
Total assets		7,900,430	8,828,934
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	35	1,001,900	1,001,900
Share premium	36	650,630	650,630
Other reserves	36	241,744	209,798
Retained earnings		314,168	294,243
Total equity attributable to shareholders of the Company		2,208,442	2,156,571
Non-controlling interests		24,884	28,132
Total equity		2,233,326	2,184,703

Consolidated Statement of Financial Position

As at 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2018	31 December 2017
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	25	2,438	2,573
Other non-current liabilities		5,983	3,810
Total non-current liabilities		8,421	6,383
Current liabilities			
Borrowings	37	10,328	13,000
Other current liabilities	38	182,529	114,460
Financial assets sold under repurchase agreements	39	32,346	–
Current income tax liabilities		19,788	14,074
Derivative financial liabilities	29	62,506	70,684
Financial liabilities at fair value through profit or loss	40	39,110	326,899
Accounts payable to brokerage clients	41	5,312,076	6,098,731
Total current liabilities		5,658,683	6,637,848
Total liabilities		5,667,104	6,644,231
Total equity and liabilities		7,900,430	8,828,934

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company					Non-controlling interests	Total equity
	Share capital (Note 35)	Share premium (Note 36)	Other reserves (Note 36)	Retained earnings			
Balance at 1 January 2018	1,001,900	650,630	209,798	294,243	28,132	2,184,703	
Changes on initial application of IFRS 9	-	-	(98)	98	-	-	
Restated balance at 1 January 2018	1,001,900	650,630	209,700	294,341	28,132	2,184,703	
Profit for the year	-	-	-	117,719	(4,005)	113,714	
Other comprehensive income for the year	-	-	1,279	-	(1)	1,278	
Total comprehensive income for the year	-	-	1,279	117,719	(4,006)	114,992	
Net appropriation to reserves	-	-	30,765	(30,765)	-	-	
Dividends relating to 2017	-	-	-	(67,127)	-	(67,127)	
Capital contributions by minority shareholders of a subsidiary	-	-	-	-	758	758	
Balance at 31 December 2018	1,001,900	650,630	241,744	314,168	24,884	2,233,326	

	Attributable to shareholders of the Company					Non-controlling interests	Total equity
	Share capital (Note 35)	Share premium (Note 36)	Other reserves (Note 36)	Retained earnings			
Balance at 1 January 2017	1,001,900	650,630	176,354	219,871	29,773	2,078,528	
Profit for the year	-	-	-	158,631	(1,666)	156,965	
Other comprehensive income for the year	-	-	(2,724)	-	25	(2,699)	
Total comprehensive income for the year	-	-	(2,724)	158,631	(1,641)	154,266	
Net appropriation to reserves	-	-	36,168	(36,168)	-	-	
Dividends relating to 2016	-	-	-	(48,091)	-	(48,091)	
Balance at 31 December 2017	1,001,900	650,630	209,798	294,243	28,132	2,184,703	

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from operating activities		
Profit before income tax	152,745	206,568
Adjustments for:		
Depreciation and amortization	11,699	9,977
Credit impairment losses	513	544
Interest expense on borrowings	410	1,056
Net gains on disposal of property and equipment and intangible assets	(65)	(32)
Foreign exchange losses/(gains)	1,516	(233)
Realized gains from disposal of available-for-sale financial assets	–	(6,334)
Interest income from term deposits (2017: Dividends and interest income from available-for-sale financial assets and term deposits)	(22,413)	(53,951)
Share of losses of investment in associates	1,848	752
	146,253	158,347
Net increase/(decrease) in operating assets:		
Net decrease in bank balances held for clients	526,174	72,738
Net decrease/(increase) in deposits with exchange-clearing organizations	354,147	(494,211)
Net decrease/(increase) in financial assets at fair value through profit and loss and derivative financial assets	391,615	(319,739)
Net increase in financial assets held under resale agreements	(224,786)	(100,333)
Net increase in contract assets	(13,895)	–
Net decrease in other assets	35,121	22,206
Net (increase)/decrease in physical commodities	(137,372)	10,163
	931,004	(809,176)
Net (decrease)/increase in operating liabilities:		
Net (decrease)/increase in accounts payable to brokerage clients	(786,655)	376,030
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	18,381	80,112
Net increase in financial assets sold under repurchase agreements	32,346	–
Net increase in other liabilities	30,573	40,422
	(705,355)	496,564
Income tax paid	(37,444)	(57,781)
Net cash inflow/(outflow) from operating activities	334,458	(212,046)

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from investing activities		
Payment for investment in associates	–	(17,500)
Interest received from term deposits (2017: Dividends and interest received from available-for-sale financial assets and term deposits)	24,001	52,912
Purchases of property and equipment, intangible assets and other long-term assets	(12,052)	(20,848)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	184	291
Payment for purchases of available-for-sale financial assets and term deposits	–	(1,178,820)
Proceeds on maturity of term deposits and financial assets at amortised cost (2017: Proceeds on maturity and disposal of available-for-sale financial assets and term deposits)	470,023	1,379,281
Net cash inflow from investing activities	482,156	215,316
Cash flows from financing activities		
Proceeds from subscription to consolidated structured entities	–	316,262
Payment for redemption from consolidated structured entities	(273,377)	(299,936)
Proceeds from borrowings	10,304	48,000
Repayment of borrowings	(13,467)	(35,975)
Proceeds from capital contributions by minority shareholders of a subsidiary	758	–
Dividends paid to shareholders	(67,127)	(48,091)
Net cash outflow from financing activities	(342,909)	(19,740)
Net increase/(decrease) in cash and cash equivalents	473,705	(16,470)
Cash and cash equivalents at beginning of year	225,641	241,878
Effect of exchange rate changes on cash and cash equivalents	(1,516)	233
Cash and cash equivalents at end of year (Note 42)	697,830	225,641

The financial statements on pages 161 to 167 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf:

Name of Director

Name of Director

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

1 General information

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

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

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

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

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

The consolidated financial statements were authorised for issue by the Board on 27 March 2019.

2 Basis of preparation

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.1 New and amended standards adopted by the Group

In the current period, the Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2018 and the relevant impact is set out below:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IAS 40	Transfers to investment property liabilities
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Amendments listed above did not have any significant impact on the amounts recognised in prior periods. Amendments other than IFRS 9 are not expected to significantly affect the current or future periods.

2.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

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

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments RMB40,988 thousand, see Note 45. The Group expects to recognise right-of-use assets and lease liabilities of approximately RMB32,866 thousand on 1 January 2019 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects that net profit after tax will decrease by approximately RMB716 thousand for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation (Continued)

2.2 New standards and interpretations not yet adopted (Continued)

IFRS 16 Leases (Continued)

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

3.1 IFRS 9, 'Financial instruments'

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 'Financial Instruments: Disclosures' have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in section 3.1 below.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(1) Classification and measurement of financial instruments

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets				
Refundable deposits	Amortised cost	25,599	Amortised cost	25,599
Other current assets (exclude prepayment)	Amortised cost	72,790	Amortised cost	63,284
Derivative financial assets	Fair value through profit or loss (FVPL)	63,087	FVPL	63,087
Financial assets held under resale agreements	Amortised cost	112,532	Amortised cost	112,873
Deposits with exchange-clearing organizations	Amortised cost	2,737,775	Amortised cost	2,737,775
Bank balances held for clients	Amortised cost	3,782,507	Amortised cost	3,789,688
Cash and bank balances	Amortised cost	800,146	Amortised cost	802,130
Debt instruments and equity instruments	FVPL	526,967	FVPL	526,967
Debt instruments	Available-for-sale	398,016	Amortised cost	10,023
			FVPL	476,983
Equity instruments	Available-for-sale	90,390	FVOCI	1,400

There will be no impact on the Group's classification and measurement for financial liabilities.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 Ref December 2017	Reclassifications	IFRS 9 carrying amount 1 January 2018
Amortised cost			
Refundable deposits			
Opening balance under IAS 39 and closing balance under IFRS 9	25,599		25,599
Other current assets			
Opening balance under IAS 39	72,790		
Subtraction: To bank balances held for clients	(a)	(7,181)	
Subtraction: To cash and bank balances	(a)	(1,984)	
Subtraction: To financial assets held under resale agreements	(a)	(341)	
Closing balance under IFRS 9			63,284
Financial assets held under resale agreements			
Opening balance under IAS 39	112,532		
Addition: From other current assets	(a)	341	
Closing balance under IFRS 9			112,873

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 Ref December 2017	Reclassifications	IFRS 9 carrying amount 1 January 2018
Deposits with exchange-clearing organizations			
Opening balance under IAS 39 and closing balance under IFRS 9	2,737,775		2,737,775
Bank balances held for clients			
Opening balance under IAS 39	3,782,507		
Addition: From other current assets	(a)	7,181	
Closing balance under IFRS 9			3,789,688
Cash and bank balances			
Opening balance under IAS 39	800,146		
Addition: From other current assets	(a)	1,984	
Closing balance under IFRS 9			802,130
Financial assets at amortised cost			
Opening balance under IAS 39	–		
Addition: From AFS	(b)	10,023	
Closing balance under IFRS 9			10,023
Total financial assets measured at amortised cost	7,531,349	10,023	7,541,372

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017		Reclassifications	IFRS 9 carrying amount 1 January 2018
	Ref			
Fair value through profit of loss				
Derivative financial assets				
Opening balance under IAS 39 and closing balance under IFRS 9		63,087		63,087
Financial assets at fair value through profit or loss				
Opening balance under IAS 39		526,967		
Addition: From AFS (Debt instruments)	(b)		387,993	
Addition: From AFS (Equity instruments)	(b)		88,990	
Closing balance under IFRS 9				1,003,950
Total financial assets measured at FVPL		590,054	476,983	1,067,037

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 Ref December 2017	Reclassifications	IFRS 9 carrying amount 1 January 2018
Fair value through other comprehensive income			
Available-for-sale financial assets			
Opening balance under IAS 39	488,406		
Subtraction: To amortised cost (Debt instruments) (b)		(10,023)	
Subtraction: To FVPL (Debt instruments) (b)		(476,983)	
Subtraction: To FVOCI (Equity instruments)		(1,400)	
Closing balance under IFRS 9			–
Financial assets at FVOCI			
Opening balance under IAS 39	–		
Addition: From AFS (Equity instruments)		1,400	
Closing balance under IFRS 9			1,400
Total financial assets measured at FVOCI	488,406	(487,006)	1,400

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above.

- (a) Interest receivable previously classified as other current assets was reclassified to respective interest bearing assets on 1 January 2018.
- (b) Financial instruments previously classified as available-for-sale financial assets

Debt instruments

The Group has assessed its business model for debt instruments classified as available-for-sale (AFS), and identified that the appropriate business model for these debt instruments is held to collect.

Under IFRS 9, the majority of the Group's debt instruments with a carrying amount of RMB476,983 thousand failed to meet the solely payments of principal and interest (SPPI) requirement for amortised cost classification. As a result, these instruments were classified as FVPL from the date of initial application. Related fair value gains of RMB164 thousand were transferred from the AFS financial assets reserve to retained earnings on 1 January 2018.

The Group's also holds an investment in structured entity with a carrying amount of RMB10,023 thousand which has met the SPPI requirement for amortised cost classification under IFRS 9. The instrument was classified as amortised cost from the date of initial application.

Equity instruments

The Group holds an equity instrument with a carrying amount of RMB1,400 thousand which was classified as FVOCI from the date of initial application.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.1 IFRS 9, 'Financial instruments' (Continued)

(3) Impairment of financial assets

The Group only has financial assets classified at amortised cost that are subject to IFRS 9's new expected credit loss model. The Group has assessed the impact of adoption of expected credit loss model, and identified that the increase of loss allowance is immaterial.

(4) The impact of these changes on the Group's equity is as follows:

	Effect on AFS reserve	Effect on retained earnings
Reclassify investments from available-for-sale to FVPL	(164)	164
Deferred income tax	41	(41)
	(123)	123
Total impact attributable to		
– Shareholders of the Company	(98)	98
– Non-controlling interests	(25)	25

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

3 Changes in accounting policies (Continued)

3.2 IFRS 15, 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15 as issued by the IASB in May 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies. The Group did not early adopt any of IFRS 15 in previous periods.

As permitted by the transitional provisions of IFRS 15, the Group elected not to restate comparative figures. Any cumulative impact of the adoption was recognised in retained earnings as of 1 January 2018.

The Group has assessed the impact of adoption of IFRS 15, and identified that the impact on the Group's financial statements is limited.

4 Summary of significant accounting policies

4.1 Accounting year

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

4.2 Consolidation

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

(1) Subsidiaries

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.2 Consolidation (Continued)

(1) Subsidiaries (Continued)

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).

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.2 Consolidation (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 recognised at cost.

(3) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise 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 recognised as a reduction in the carrying amount of the investment.

When 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 recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised 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.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.2 Consolidation (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 recognised 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 recognised 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 recognised 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 recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable IFRSs.

4.3 Separate financial statements

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.4 Foreign currency translation

(1) Functional and presentation currency

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

(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 recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(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 recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.5 Cash and cash equivalents

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

4.6 Financial assets

(1) Classification

From 1 January 2018, 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 amortised 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 recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised 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 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 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:

- **Amortised 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 amortised 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 recognised directly in profit or loss and presented in net investment gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net investment gains/(losses). Interest income from these financial assets is presented in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(3) Measurement (Continued)

Debt instruments (Continued)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised 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 recognised 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 recognised in net investment gains/(losses) in the statement of comprehensive income as applicable.

(4) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses (the "ECL") associated with its debt instruments carried at amortised cost and FVOCI.

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(4) Impairment (Continued)

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

Stage 1: The Group measures the loss allowance for a financial asset at an amount equal to the next 12 months ECL if the credit risk of that financial asset has not increased significantly since initial recognition.

Stage 2: If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial asset is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Group measures the loss allowance for a financial asset at an amount equal to the lifetime ECL.

Stage 3: If the financial asset is credit-impaired, the financial asset is then moved to "Stage 3". The Group measures the loss allowance for a financial asset at an amount equal to the lifetime ECL.

A pervasive concept in measuring ECL in accordance with 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 recognised 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 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(5) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

(a) *Subsequent measurement*

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(5) Accounting policies applied until 31 December 2017 (Continued)

(a) Subsequent measurement (Continued)

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' – in profit or loss within net investment income
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss.

(b) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.6 Financial assets (Continued)

(5) Accounting policies applied until 31 December 2017 (Continued)

(b) Impairment (Continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.7 Financial liabilities

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

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

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

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

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses 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.

Accounting policies applied until 31 December 2017 were the same as description above, except that gains or losses on financial liabilities designated at fair value through profit or loss were presented only 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.7 Financial liabilities (Continued)

(2) Other financial liabilities

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

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

4.8 Determination of fair value

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.9 Derivative financial instruments

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

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

4.10 Resale agreements

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

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

4.11 Offsetting financial instruments

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.12 Physical commodities

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

At the end of each reporting period, physical commodities are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Any excess of the cost over the net realizable value of each inventories is recognized as an impairment provision for diminution in the value of physically commodities in the statement of financial position and impairment charge within gains/(losses) on physical commodities trading.

If, in a subsequent period, the net realizable value of the impaired physical commodities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

4.13 Property and equipment

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

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

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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.13 Property and equipment (Continued)

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

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

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

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

4.14 Intangible assets

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.15 Long-term prepaid expenses

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

4.16 Impairment of non-financial assets

Property and equipment, intangible assets with definite useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognized in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Assets that have an indefinite useful life for example, intangible assets with indefinite useful life that are not subject to amortization are tested at least annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.17 Borrowings

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.17 Borrowings (Continued)

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

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

4.18 Employee benefits

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.19 Revenue recognition

(1) Commission and fee income

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

The Group provides asset management service to its customers, which contains a series of distinct services that are substantially the same and have the same pattern of transfer. Therefore, the services are identified as one performance obligation. Revenue was recognised 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) Gain/(loss) on physical commodities trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.

(3) Refund by the futures exchanges is recognized upon receipt.

4.20 Government grants

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.21 Current and deferred income tax

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

(1) Current income tax

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

(2) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised 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 realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.21 Current and deferred income tax (Continued)

(2) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when 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 realise the asset and settle the liability simultaneously.

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

4.22 Leases

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

4.23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

4.24 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised 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 recognised for future operating losses.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

4.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision-maker in resource allocation and performance assessment of each operating segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

4.27 Assets segregated for brokerage clients

Pursuant to requirements of the CSRC, funds deposited by brokerage clients relating to exchange-traded futures contracts must be deposited in designated bank accounts or with exchange-clearing organizations, which are segregated and accounted for separately from the proprietary funds of the Company.

Deposits with exchange-clearing organizations pertain primarily to deposits made to satisfy margin requirements on brokerage clients and to satisfy the requirements set by the futures exchanges for clearing membership.

Deposits with exchange-clearing organizations do not include client-owned securities that are pledged to exchange-clearing organizations. Such client-owned securities are not presented on the Group's statement of financial position.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

4 Summary of significant accounting policies (Continued)

4.28 Accounts payable to brokerage clients

Accounts payable to brokerage clients represent the total of brokerage client accounts with credit or positive balances. Brokerage client accounts are used primarily in connection with exchange-traded commodity and financial futures transactions and include gains and losses on open futures contracts as well as other deposits made as required by the Group or the exchange-clearing organizations. Brokerage client accounts with credit or positive balances are reported gross of client accounts that contain debit or net deficit balances, except where a right of offset exists.

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 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

5.2 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 2018
(All amounts in RMB'000 unless otherwise stated)

5 Summary of critical accounting estimates and judgments (Continued)

5.3 Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Based on their judgment, the directors of the Company have assessed the combination of the three elements listed above and concluded that the SEs with the following features are controlled by the Group and should be included for consolidation:

A non-classified asset management scheme comprises a single unit class where the Group holds a part of the unit. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

A trust scheme is established by a third-party asset manager where the Group holds a part of the unit. The manager of the trust scheme is mainly responsible for fund administration with very low management fee level. The trust scheme is the sole investor of an asset management scheme which the Company is the asset manager. By assessing the management fee and performance reward earned in capacity of the asset manager, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

5.4 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 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

6 Taxation

The principal taxes to which the Group is subject are listed below:

	Tax basis	Tax rate
Corporate income tax/ Profit tax	Taxable profit	25%/24.16%/16.5%
Value added tax ("VAT")	Taxable value added (VAT payable is calculated based on VAT-output less deductible VAT-input)	17%/16%/13%/11%/10%/7.7%/6%
Value added tax ("VAT") ⁽¹⁾	Taxable value added (VAT payable is calculated based on VAT-output)	3%
City construction and maintenance tax	VAT paid	7%

(1) Some business departments of the Company are small-scale taxpayers and the tax rate is 3%.

7 Net commission and fee income

	Year ended 31 December	
	2018	2017
Commission and fee income		
Futures brokerage service	272,616	297,485
Settlement and clearing service income from other futures firms	4,158	2,065
Asset management service	930	3,982
Investment consultancy service	9	36
	277,713	303,568
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	227,013	234,839
Settlement and clearing service expense to exchange-clearing organizations	4,158	2,065
	231,171	236,904

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

8 Net interest income

	Year ended 31 December	
	2018	2017
Interest income		
Interest income from deposits with banks	198,265	202,991
Interest income from financial assets held under resale agreements	8,325	8,679
Interest income from deposits with exchange-clearing organizations	8,115	6,760
	214,705	218,430
Interest expense		
Interest expense to brokerage clients	14,669	13,687
Interest expense on financial assets sold under repurchase agreements	3,297	–
Interest expense on settlement and clearing services to other futures firms	997	416
Interest expense on borrowings	410	1,056
	19,373	15,159

9 Gains on physical commodities trading

	Year ended 31 December	
	2018	2017
Sales proceeds	711,853	1,040,961
Costs of purchases	(708,760)	(1,033,013)
	3,093	7,948

A subsidiary of the Company involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized based on the satisfaction of performance obligations.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

10 Net investment gains

	Year ended 31 December	
	2018	2017
Dividends from financial assets at fair value through profit or loss	43,369	1,071
Net realized gains from derivative financial instruments ⁽¹⁾	39,712	24,854
Interest income from financial assets at amortized cost	171	–
Net realized gains from disposal of available-for-sale financial assets	–	6,334
Dividends and interest income from available-for-sale financial assets	–	20,578
Net realized (losses)/gains from disposal of financial assets at fair value through profit or loss ⁽²⁾	(263)	6,065
Unrealized fair value change of financial instruments at fair value through profit or loss and derivative financial instruments		
– Financial assets at fair value through profit or loss	(16,377)	3,974
– Financial liabilities at fair value through profit or loss	(29,841)	(203)
– Derivative financial instruments	19,586	(6,954)
	56,357	55,719

(1) This item represents gains from futures, exchange traded options and OTC derivatives transactions related to commodities and financial futures.

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

11 Other income

	Year ended 31 December	
	2018	2017
Refunds of trading fees ⁽¹⁾	97,083	111,115
Exchange service fees	14,879	10,529
Cooperative hedging fees	5,864	6,004
Software service fees	1,194	1,680
Other	2,804	2,935
	121,824	132,263

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

12 Staff costs

	Year ended 31 December	
	2018	2017
Salaries and bonus	106,764	107,649
Other social security	12,490	10,934
Pension	11,932	10,020
Labour union funds and employee education funds	4,794	4,844
Other welfares	1,029	416
	137,009	133,863

(1) The five highest paid individuals

For the year ended 31 December 2018, the five highest paid individuals do not include any of the directors and supervisors (2017: one supervisor). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and other welfares	5,508	5,186
Bonus	3,017	8,953
	8,525	14,139

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

12 Staff costs (Continued)

(1) The five highest paid individuals (Continued)

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

	Year ended 31 December	
	2018	2017
RMB1,000,001 to RMB1,500,000	3	–
RMB1,500,001 to RMB2,000,000	1	–
RMB2,000,001 to RMB2,500,000	1	1
RMB2,500,001 to RMB3,000,000	–	3
RMB3,000,001 to RMB3,500,000	–	1
	5	5

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

13 Depreciation and amortization

	Year ended 31 December	
	2018	2017
Depreciation of property and equipment	7,432	6,263
Amortization of intangible assets	2,186	1,633
Amortization of long-term prepaid expenses	2,081	2,081
	11,699	9,977

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

14 Credit Impairment losses

	Year ended 31 December	
	2018	2017
Net impairment losses on bank balances	599	–
Net impairment losses on accounts receivable	(86)	544
	513	544

15 Other operating expenses

	Year ended 31 December	
	2018	2017
Insurance expenses	20,900	8,718
Marketing and distribution expenses	16,836	16,550
Office expenses	16,212	21,721
Consulting expenses	14,886	13,461
Rentals	14,553	13,422
Information system maintenance fees	13,286	8,898
Professional service expenses	6,723	3,757
Property maintenance fee	4,508	4,310
Auditors' remuneration – Audit services	1,650	1,650
Taxes and surcharges	1,319	1,798
Futures Investors Protection Fund	410	402
Other expenses	5,682	3,957
	116,965	98,644

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

16 Other gains/(losses), net

	Year ended 31 December	
	2018	2017
Government grants	9,764	4,329
Foreign exchange (losses)/gains	(1,516)	233
Donation	(751)	(2,766)
Others	(316)	(1,964)
	7,181	(168)

17 Income tax expense

	Year ended 31 December	
	2018	2017
Current tax	42,996	48,129
Deferred tax	(3,965)	1,474
	39,031	49,603

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

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

Switzerland profit tax has been provided at the rate of 24.16% on the estimated assessable profit for the year.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

17 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	
	2018	2017
Profit before income tax	152,745	206,568
Tax calculated at applicable tax rates applicable to profits in the respective area	37,492	51,981
Items deducted for tax purposes but not subtracted to arrive at taxable income	(1,869)	(2,342)
Adjustments in respect of prior years	18	(2,222)
Tax losses for which no deferred income tax asset was recognised	1,629	694
Items not deductible for tax purposes	1,761	1,492
	39,031	49,603

18 Earnings per share

18.1 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	
	2018	2017
Profit attributable to shareholders of the Company (in RMB thousands)	117,719	158,631
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.12	0.16

18.2 Diluted earnings per share

For the year ended 31 December 2018, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (2017: same).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

19 Property, plant and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2018	40,073	10,341	36,842	87,256
Additions	–	–	7,333	7,333
Disposals	–	(554)	(859)	(1,413)
31 December 2018	40,073	9,787	43,316	93,176
Accumulated depreciation				
1 January 2018	(8,939)	(7,681)	(25,670)	(42,290)
Additions	(1,298)	(674)	(5,460)	(7,432)
Disposals	–	532	762	1,294
31 December 2018	(10,237)	(7,823)	(30,368)	(48,428)
Carrying amount				
31 December 2018	29,836	1,964	12,948	44,748
Cost				
1 January 2017	40,073	9,661	29,756	79,490
Additions	–	971	8,278	9,249
Disposals	–	(291)	(1,192)	(1,483)
31 December 2017	40,073	10,341	36,842	87,256
Accumulated depreciation				
1 January 2017	(7,641)	(7,159)	(22,451)	(37,251)
Additions	(1,298)	(798)	(4,167)	(6,263)
Disposals	–	276	948	1,224
31 December 2017	(8,939)	(7,681)	(25,670)	(42,290)
Carrying amount				
31 December 2017	31,134	2,660	11,172	44,966

For the year ended 31 December 2018, net gains from disposal of property and equipment amount to RMB65 thousand (2017: net gains of RMB32 thousand).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

20 Intangible assets

	31 December 2018	31 December 2017
Net Book Value		
Computer software	15,398	14,735
	Year ended 31 December	
	2018	2017
Cost		
At 1 January	22,021	13,440
Additions	2,849	8,581
Disposals	-	-
At 31 December	24,870	22,021
Accumulated amortization		
At 1 January	(7,286)	(5,653)
Charges	(2,186)	(1,633)
Disposals	-	-
At 31 December	(9,472)	(7,286)
Carrying amount		
At 31 December	15,398	14,735

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

21 Investment in associates

Set out below are the associates of the Group as at 31 December 2018. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at 31 December 2018:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心 有限公司) ("Rizhao BOT") ⁽¹⁾	Rizhao, the PRC	29.5%	Commodity trading	Equity
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. (上海魯証 鋒通經貿有限公司) ("Luzheng Fengtong") ⁽²⁾	Shanghai, the PRC	35.0%	Commodity trading	Equity

(1) Rizhao BOT

The Group invested RMB9.8 million in an associate named Rizhao BOT in the year ended 31 December 2014. Rizhao BOT is located in Rizhao City, Shandong Province.

Upon completion of the equity restructuring of Rizhao BOT on May 2015, the Group's equity holding in Rizhao BOT was diluted from 49% to 29.5%. The Group made payment of RMB24.88 million for the capital increase in April 2016.

The registered capital of Rizhao BOT is RMB120 million as at 31 December 2018. The Group holds 29.5% of its equity and accounts for the associate using equity method.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

21 Investment in associates (Continued)

(1) Rizhao BOT (Continued)

The carrying amount of the associate and a reconciliation of the associate's summarized financial information to the carrying amount of the Group's interest in the associate are as follows:

	Year ended 31 December	
	2018	2017
At 1 January	27,218	28,743
Share of losses for the year	(2,218)	(1,525)
At 31 December	25,000	27,218
Summarized Financial Information		
Opening net assets	97,467	102,641
Losses for the year	(7,519)	(5,174)
Closing net assets	89,948	97,467
Interest in the associate and carrying value	25,000	27,218

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

21 Investment in associates (Continued)

(2) Luzheng Fengtong

The Group invested RMB17.5 million in an associate named Luzheng Fengtong in the year ended 31 December 2017.

The registered capital of Luzheng Fengtong is RMB100 million as at 31 December 2018. The Group holds 35% of its equity and accounts for the associate using equity method.

As at 31 December 2018, the Group has made a capital commitment of RMB17.5 million.

The carrying amount of the associate and a reconciliation of the associate's summarized financial information to the carrying amount of the Group's interest in the associate are as follows:

	Year ended 31 December	
	2018	2017
At 1 January	18,273	–
Capital injection	–	17,500
Share of gains for the year	370	773
At 31 December	18,643	18,273
Summarized Financial Information		
Opening net assets	52,209	–
Capital contributions	–	50,000
Gains for the year	1,046	2,209
Closing net assets	53,255	52,209
Interest in the associate and carrying value	18,643	18,273

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

22 Investments in subsidiaries and consolidated structured entities

22.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specially stated, the Group's interests in these subsidiaries were all ordinary shares, and the percentage of ownership held by the Group represented the voting rights of the Group.

Name of subsidiary	Country/ Place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/registered capital	Interests held	Directly/ Indirectly	Principal activities
Luzheng Economic and Trade Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB350,000,000/ RMB350,000,000	100%	Directly	Commodity trading, OTC derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong	21 November 2013	Limited company	HKD84,449,920.83/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司) ("Lu Clearing")	Jinan, the PRC	9 October 2016	Limited company	RMB50,000,000/ RMB150,000,000	40%	Indirectly	Registration, settlement and derivatives clearing
Luzheng International Holding Limited (魯証國際控股有限公司) ("Luzheng International Holding")	Hong Kong	16 April 2018	Limited company	HKD20,000,000/ HKD30,000,000	100%	Directly	Investment holding
Luzheng International Futures Limited (魯証國際期貨有限公司) ("Luzheng International Futures")	Hong Kong	17 May 2018	Limited company	HKD15,000,000/ HKD15,000,000	100%	Indirectly	Not in operation yet
Jinova S.A.	Geneva, Switzerland	23 August 2018	Limited company	CHF3,000,000/ CHF3,000,000	96.6%	Indirectly	Commodity trading

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

22 Investments in subsidiaries and consolidated structured entities (Continued)

22.2 Consolidated structured entities

As at 31 December 2018, net assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

	Net assets	Initial investment	Maximum exposure
Investments in consolidated SEs by the Group:			
CR Trust-Huiquan Wantai FOF No. 2	28,287	30,000	26,303
Huiquan Wantai FOF No. 2	2,182	328,650	198

CR Trust-Huiquan Wantai FOF No. 2 is a trust scheme established by a third-party asset manager where the Group holds a part of the units.

Huiquan Wantai FOF No. 2 is a collective asset management scheme where the Company has been involved as manager.

The trust scheme is the sole investor of the asset management scheme. As at 31 December 2018, the above consolidated SEs have commenced but not yet completed the liquidation process.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

23 Other non-current assets

	31 December 2018	31 December 2017
Leasehold improvements	2,441	2,995
Long-term prepaid expenses	227	437
	2,668	3,432

Leasehold improvements of the Group are amortized over the expected beneficial periods.

Changes in leasehold improvements are analyzed as follows:

	Year ended 31 December	
	2018	2017
At 1 January	2,995	1,387
Additions	1,043	3,544
Amortization	(1,597)	(1,936)
At 31 December	2,441	2,995

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

24 Available-for-sale financial assets

	31 December 2018	31 December 2017
Non-current – Unlisted		
At fair value		
Trust schemes	–	256,368
Collective asset management schemes	–	7,052
At cost		
Investments in exchange memberships	–	1,400
	–	264,820
Current – Unlisted		
At fair value		
Collective asset management schemes	–	81,938
Trust schemes	–	131,625
Other wealth management products	–	10,023
	–	223,586
	–	488,406

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

25 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

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

	Year ended 31 December	
	2018	2017
Balance at beginning of year	7,017	5,823
Income statement charge	3,992	726
Tax charge relating to components of other comprehensive income	–	468
Balance at end of year	11,009	7,017

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

	Year ended 31 December	
	2018	2017
Balance at beginning of year	2,573	76
Income statement charge	(135)	2,497
Balance at end of year	2,438	2,573

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

25 Deferred income tax assets and liabilities (Continued)

(3) Gross movements in deferred income tax assets and liabilities

The gross movements in deferred income tax assets during the year are as follows:

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Impairment loss from available-for-sale financial assets	Interest payable	Deductible tax losses	Tax impact arising from consolidated structured entities	Provisions	Total
As at 1 January 2017	–	1,566	542	4,204	528	1,223	8,063
Income statement charge	1,428	(1,566)	(79)	359	(528)	97	(289)
As at 31 December 2017	1,428	–	463	4,563	–	1,320	7,774
Income statement charge	9,268	–	161	(1,303)	907	186	9,219
As at 31 December 2018	10,696	–	624	3,260	907	1,506	16,993

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The balance as at 31 December 2018 is attributable to RMB18,422 thousand by Zhongtai Hui Rong (31 December 2017: RMB27,655 thousand), RMB1,767 thousand by Jinova S.A. (31 December 2017: nil) and RMB427 thousand by Luzheng International Holding (31 December 2017: nil).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

25 Deferred income tax assets and liabilities (Continued)

(3) Gross movements in deferred income tax assets and liabilities (Continued)

The gross movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest receivable	Changes in fair value of available-for-sale financial assets	Others	Total
As at 1 January 2017	154	1,577	509	76	2,316
Income statement charge	691	799	-	(8)	1,482
Tax charge relating to components of other comprehensive income	-	-	(468)	-	(468)
As at 31 December 2017	845	2,376	41	68	3,330
Changes on initial application of IFRS 9	41	-	(41)	-	-
As at 1 January 2018 (Restated)	886	2,376	-	68	3,330
Income statement charge	2,621	2,531	-	(60)	5,092
As at 31 December 2018	3,507	4,907	-	8	8,422

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

25 Deferred income tax assets and liabilities (Continued)

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

	31 December 2018	31 December 2017
Deferred income tax assets	(5,984)	(757)
Deferred income tax liabilities	(5,984)	(757)

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

	31 December 2018	31 December 2017
Deferred income tax assets	11,009	7,017
Deferred income tax liabilities	2,438	2,573

26 Refundable deposits

	31 December 2018	31 December 2017
Security deposit placed with the China Financial Futures Exchange	20,114	20,114
Security deposit placed with the China Securities Depository and Clearing – Shanghai Branch	5,569	5,485
	25,683	25,599

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

27 Physical commodities

	31 December 2018	31 December 2017
Trading commodities	202,474	64,827
Less: Impairment allowance	(2,705)	(2,430)
	199,769	62,397

As at 31 December 2018, trading commodities with carrying amount of RMB66,290 thousand are placed as collateral of margin deposits on futures exchanges (31 December 2017: RMB3,603 thousand).

As at 31 December 2018, trading commodities with carrying amount of RMB12,364 thousand are placed as collateral of secured borrowings (31 December 2017: nil).

As at 31 December 2018, trading commodities with carrying amount of RMB21,194 thousand are placed as collateral of financial assets sold under repurchase agreements (31 December 2017: nil).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

28 Other current assets

	31 December 2018	31 December 2017
Accounts receivable ⁽¹⁾	44,200	56,188
Prepayments	24,048	41,086
Interest receivable	–	9,506
Notes receivable	5,942	4,566
Other receivables	3,228	2,531
	77,418	113,877

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2018		31 December 2017	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	44,646	(2,627)	56,942	(2,748)
3 months to 1 year	2,317	(136)	2,095	(101)
	46,963	(2,763)	59,037	(2,849)

The impairment allowance for accounts receivable as at 31 December 2017 reconciles to the opening impairment allowance on 1 January 2018 and to the closing impairment allowance as at 31 December 2018 as follows:

	Year ended 31 December 2018
Closing impairment allowance as at 31 December 2017 (calculated under IAS 39)	(2,849)
Amounts restated through opening retained earnings	–
Opening impairment allowance as at 1 January 2018 (calculated under IFRS 9)	(2,849)
Increase in impairment allowance recognised in profit or loss during the year	(148)
Decrease in impairment allowance recognised in profit or loss during the year	234
Closing impairment allowance as at 31 December 2018	(2,763)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

29 Derivative financial instruments

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
OTC options ⁽¹⁾	36,545	60,465	58,594	67,080
Exchange Traded options ⁽²⁾	1,385	2,041	4,493	3,604
Futures contracts ⁽³⁾	–	–	–	–
	37,930	62,506	63,087	70,684

(1) OTC options

The intrinsic value of the OTC options at 31 December 2018 amounts to RMB69,372 thousand (31 December 2017: RMB23,885 thousand), of which the underlying assets are exchange-traded commodity futures contracts (31 December 2017: same).

(2) Exchange Traded options

The intrinsic value of the exchange traded options at 31 December 2018 amounts to RMB2,610 thousand (31 December 2017: RMB6,571 thousand), of which the underlying assets are exchange-traded commodity futures contracts (31 December 2017: same).

(3) Futures contracts

	31 December 2018		31 December 2017	
	Contractual value	Fair value	Contractual value	Fair value
Commodities futures	856,552	3,573	954,314	(5,316)
Financial futures	–	–	932	3
Less: Cash (received)/paid as settlement		(3,573)		5,313
Net position		–		–

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in "deposits with exchange-clearing organizations" as at 31 December 2018 (31 December 2017: same).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

30 Financial assets at fair value through profit or loss

	31 December 2018	31 December 2017
Non-current		
Trust schemes	31,683	–
Private securities investment funds	29,597	–
	61,280	–
Current		
Trust schemes	405,456	384,866
Collective asset management schemes	98,325	24,856
Private securities investment funds	67,299	84,648
Bank wealth management products	5,128	11,037
Listed equity securities	4	1,530
Open-ended funds	–	20,030
	576,212	526,967
	637,492	526,967

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

31 Financial assets held under resale agreements

	31 December 2018	31 December 2017
Analysed by asset type:		
– Debt securities	260,000	92,800
– Warehouse receipts ⁽¹⁾	77,318	19,732
	337,318	112,532

(1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2018, the Group has accepted collateral that can be re-pledged with a fair value of RMB100,018 thousand (31 December 2017: RMB25,620 thousand).

The collateral with a fair value of RMB28,782 thousand (31 December 2017: RMB7,490 thousand) is re-pledged for margin deposits and the collateral with a fair value of RMB23,375 thousand (31 December 2017: nil) is re-pledged for financial assets sold under repurchase agreements.

32 Deposits with exchange-clearing organizations

	31 December 2018	31 December 2017
Clients' margin deposits	1,563,551	2,548,609
Clients' unrestricted deposits	642,582	13,671
Proprietary clearing settlement funds	181,203	175,495
	2,387,336	2,737,775
Represented by		
Deposits with Shanghai Futures Exchange	846,741	665,962
Deposits with Dalian Commodity Exchange	566,048	673,669
Deposits with China Financial Futures Exchange	317,439	1,040,969
Deposits with Zhengzhou Commodity Exchange	314,767	214,393
Deposits with China Securities Depository and Clearing – Shanghai Branch	270,816	142,782
Deposits with Shanghai International Energy Exchange	71,525	–
	2,387,336	2,737,775

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

33 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.

34 Cash and bank balances

	31 December 2018	31 December 2017
Cash	13	22
Term deposit with banks	280,362	740,000
Demand deposit with banks	296,073	49,735
Deposit with securities and futures brokers	232,541	10,389
Less:		
Credit impairment allowance	(599)	–
	808,390	800,146

The Group's term deposits and demand deposits are mainly deposited with joint-stock commercial banks and major city commercial banks in China.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

35 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 2018	31 December 2017
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900

On 7 July 2015, the Company issued 250,000,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with its global offering.

On 24 July 2015, the Company issued 1,900,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with the over-allotment.

The excess of RMB360,338 thousand over the par value of RMB251,900 thousand for the 251,900 thousand ordinary shares issued, net of the relevant incremental costs of RMB47,425 thousand directly contributed to the newly-issued shares, was credited to "share premium".

In accordance with relevant requirements, certain shareholders of the state-owned shares of the Company have transferred an aggregate of 25,190 thousand ordinary shares of the Company to the National Social Security Fund of the PRC.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

36 Share premium and reserves

	Share premium	Surplus reserve ⁽¹⁾	Other risk reserves ⁽²⁾	Available-for-sale financial assets revaluation reserve	Currency translation differences	Total
As at 31 December 2016	650,630	32,619	140,232	1,528	1,975	826,984
Amounts recognized in other comprehensive income	–	–	–	(1,430)	–	(1,430)
Appropriation to surplus reserve	–	13,398	–	–	–	13,398
Appropriation to general risk reserve	–	–	13,398	–	–	13,398
Appropriation to futures risk reserve	–	–	9,372	–	–	9,372
Currency translation differences	–	–	–	–	(1,294)	(1,294)
As at 31 December 2017	650,630	46,017	163,002	98	681	860,428
As at 1 January 2018	650,630	46,017	163,002	98	681	860,428
Changes on initial application of IFRS 9	–	–	–	(98)	–	(98)
As at 1 January 2018 (Restated)	650,630	46,017	163,002	–	681	860,330
Appropriation to surplus reserve	–	11,645	–	–	–	11,645
Appropriation to general risk reserve	–	–	11,645	–	–	11,645
Appropriation to futures risk reserve	–	–	7,476	–	–	7,476
Currency translation differences	–	–	–	–	1,278	1,278
As at 31 December 2018	650,630	57,662	182,123	–	1,959	892,374

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

36 Share premium and reserves (Continued)

(1) Surplus reserve

Pursuant to the Company Law of the PRC, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately after capitalization.

(2) Other risk reserves

In accordance with the requirements of the Notice of the MOF on Issuing the Financial Rules for Financial Enterprises – Implementation Guide (Caijin [2007] No. 23) issued on 30 March 2007, the Company appropriates 10% of its profit net of the previous years' losses to the general risk reserve.

In accordance with the requirements of the Notice of the MOF on Issuing the Tentative Provisions for the Financial Management of Commodities Futures Trading (Caishang [1997] No. 44) issued on 3 March 1997, the futures risk reserve is appropriated based on 5% of the commission and fee income from futures brokerage and clearing service net of relevant expenses payable to futures exchanges, for the purpose of covering potential losses from futures brokerage service. When actual losses occur, the loss amount is charged to the current profit or loss, with the same amount being transferred from futures risk reserve to retained earnings simultaneously. Appropriation for futures risk reserve is recorded as profit distribution, whilst the utilization of futures risk reserve is recorded as the opposite type of transaction.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

37 Borrowings

	31 December 2018	31 December 2017
Current		
Secured borrowings	10,328	–
Unsecured borrowings	–	13,000
	10,328	13,000

As at 31 December 2018, the secured borrowings are bank loans secured by the Group's trading commodities with a term of three months at a fixed interest rate of 8.5% per annum (Note 27) (31 December 2017: the Group issued a trust loan amounting to RMB13,000 thousand with a term of three months at a fixed interest rate of 8% per annum).

38 Other current liabilities

	31 December 2018	31 December 2017
Payable to OTC clients	79,264	26,702
Salaries, bonus, allowance and benefits payables ⁽¹⁾	56,717	53,702
Advance for physical commodity trading	42,163	18,474
Payable to Futures Investor Protection Fund	432	376
Other payables	3,953	15,206
	182,529	114,460

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

38 Other current liabilities (Continued)

(1) Salaries, bonus, allowance and benefits payables

	1 January 2018	Current year charge	Current year payment	31 December 2018
Salaries and bonus	46,132	106,764	(104,929)	47,967
Other welfare	–	1,029	(1,024)	5
Other social securities	162	24,422	(24,393)	191
Labour union funds and employee education funds	7,408	4,794	(3,648)	8,554
	53,702	137,009	(133,994)	56,717

	1 January 2017	Current year charge	Current year payment	31 December 2017
Salaries and bonus	41,826	107,649	(103,343)	46,132
Other welfare	69	416	(485)	–
Other social securities	141	20,954	(20,933)	162
Labour union funds and employee education funds	6,278	4,844	(3,714)	7,408
	48,314	133,863	(128,475)	53,702

39 Financial assets sold under repurchase agreements

	31 December 2018	31 December 2017
Trading commodities	32,346	–

The Group places trading commodities as collateral of financial assets sold under repurchase agreements (Note 27 and 31) (31 December 2017: nil).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

40 Financial liabilities at fair value through profit or loss

	31 December 2018	31 December 2017
Financial liabilities designated at fair value through profit or loss		
Payable to a holder of a consolidated SE ⁽¹⁾	29,841	–
Payable to clients for cooperative hedging business	7,355	10,637
Interests of holders of consolidated SEs	1,914	316,262
	39,110	326,899

- (1) The Company enters into a contract with China Merchants Bank Co., Ltd. ("CMB Bank"), which is an investor of a trust scheme named CR Trust-Huiquan Wantai FOF No.2 (Note 22.2). Pursuant to the contract, the Company is obliged to compensate CMB Bank for any under performance of the scheme until CMB Bank's rate of return per annum reaches an agreed level. There is a disagreement between the Company and CMB Bank regarding the enforceability of certain terms of the contract. The Company is in negotiation with CMB Bank and no compensations had been made. As of 31 December 2018, payable to a holder of a consolidated SE represents the fair value of the contract which is determined by the Group to reflect the best estimation of its potential obligation based on full exposure and probability of execution after taking into consideration legal advice provided by external legal counsel.

41 Accounts payable to brokerage clients

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at exchange-clearing organizations by the Company. Most of these balances are non-interest bearing.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

42 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 2018	31 December 2017
Cash and bank balances (Note 34)	808,390	800,146
Proprietary deposit with exchange-clearing organizations (Note 32)	181,203	175,495
Less:		
Term deposit with original maturity over three months	(280,362)	(740,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(12,000)	(10,000)
Add:		
Credit impairment allowance	599	–
	697,830	225,641

43 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 2018 was RMB67,127 thousand (2017: RMB48,091 thousand). A dividend in respect of the year ended 31 December 2018 of RMB0.055 per share (tax included), amounting to a total dividend of RMB55,105 thousand, is to be proposed at the annual general meeting on 20 June 2019. These financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

44 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 2018	31 December 2017
Net debt		
Cash and cash equivalents	697,830	225,641
Liquid investments ⁽ⁱ⁾	4	21,560
Borrowings – repayable within one year	(10,328)	(13,000)
Net debt	687,506	234,201
Cash and liquid investments	697,834	247,201
Gross debt – fixed interest rates	(10,328)	(13,000)
Net debt	687,506	234,201

	Other assets		Liabilities from financing activities Borrow. due within 1 year	Total
	Cash	Liquid investments ⁽ⁱ⁾		
Net debt as at 1 January 2018	225,641	21,560	(13,000)	234,201
Cash flows	473,705	(21,556)	2,672	454,821
Foreign exchange adjustments	(1,516)	–	–	(1,516)
Net debt as at 31 December 2018	697,830	4	(10,328)	687,506

(i) Liquid investments comprise certain investments that are traded in an active market, being the Group's investments held for trading classified as financial assets at fair value through profit or loss.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

45 Commitments and contingent liabilities

(1) Capital commitments

Other than what has been disclosed in Note 21(2), the Group is not involved in any material capital commitments as at 31 December 2018 (31 December 2017: same).

(2) Operating lease commitments

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

	31 December 2018	31 December 2017
Within 1 year	16,365	11,069
1 to 3 years	17,652	11,056
Over 3 years	6,971	7,056
	40,988	29,181

(3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2018, the Group is not involved in any material legal or arbitration which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down (31 December 2017: same).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions

46.1 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 2018:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. ("Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Securities (Shanghai) Asset Management Co., Ltd. ("Zhongtai Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Associate invested by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The ultimate controlling shareholder of Zhongtai Securities
Yongfeng Group Co., Ltd. ("Yongfeng Group")	Shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions (Continued)

46.1 Related parties (Continued)

Significant related legal entities	The relationship with the Group
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. ("Shandong Steel")	Controlled by Shandong Steel Group
Shandong Steel Group Rizhao Co., Ltd. ("Shandong Steel Rizhao")	Controlled by Shandong Steel Group
Rizhao Board of Trade Co., Ltd. ("Rizhao BOT")	Associate invested by the Group
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. ("Luzheng Fengtong")	Associate invested by the Group
Shandong Red Bull Financial Service Co., Ltd. ("Shandong Red Bull")	Associate invested by Zhongtai Securities
Shandong Zhuofei Investment Management Co., Ltd. ("Zhuofei Investment")	Associate invested by Zhongtai Securities

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions (Continued)

46.2 Related party transactions and balances

46.2.1 The Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2018	2017
Introducing broker commission expense ⁽¹⁾	6,081	7,670
Income from providing futures brokerage service	2,433	868
Interest expense	1,878	747
Rental expense	429	554
Commission expense for stocks trading	331	209

- (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 2018	31 December 2017
Other current assets		
– Rental prepayment	65	75
Deposit with securities brokers	202,410	395
Other current liabilities		
– Introducing broker commission payable	7,129	602
– Interest payable	232	–
– Other payables	43	43
Accounts payable to brokerage clients	352,613	140,735

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions (Continued)

46.2 Related party transactions and balances (Continued)

46.2.2 Related parties other than the Company's direct controlling shareholder

Transactions during the year

	Year ended 31 December	
	2018	2017
Income from providing futures brokerage service	1,152	498
Interest income from bank deposit		
– Laishang Bank	13,764	18,016
Purchase of collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	10,210	27,120
– Jinquan 1/7 Days	5,000	–
Purchase of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	1,123	48,005
Purchase of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	–	10,000
Proceeds from disposal of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	1,123	48,043
Proceeds from disposal of collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	12,050	37,000
– Jintaishan No.1	–	17,236
– Jinquan 7 Days	2,650	5,050

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions (Continued)

46.2 Related party transactions and balances (Continued)

46.2.2 Related parties other than the Company's direct controlling shareholder (Continued)

Transactions during the year (Continued)

	Year ended 31 December	
	2018	2017
Proceeds from disposal of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	10,023	–
Sales proceeds of physical commodities		
– Laigang Yongfeng	11,849	–
Cost of purchase of physical commodities		
– Shandong Steel Rizhao	3,931	1,132
– Laiwu Steel	–	528
– Laigang Yongfeng	37,493	–
Income from providing software service		
– Rizhao BOT	–	377
Underwriting fee expense		
– Zhuofei Investment	–	11
Commission fee expense		
– Shandong Red Bull	–	87
Investment income from OTC options		
– Yongfeng Trade	–	58

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions (Continued)

46.2 Related party transactions and balances (Continued)

46.2.2 Related parties other than the Company's direct controlling shareholder (Continued)

Balance at the end of year

	31 December 2018	31 December 2017
Accounts payable to brokerage clients	31,062	2,911
Cash and bank balances	283,052	420,008
– Laishang Bank		
Collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	64,250	–
Financial assets at fair value through profit or loss		
– Jinquan 7 Days	3,000	–
Financial assets at fair value through profit or loss		
Collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21 Days	–	66,176
Available-for-sale financial assets		
– Jinquan 7 Days	–	650
Available-for-sale financial assets		
Other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	–	10,023
Available-for-sale financial assets		
Other current assets		
Prepayments		
– Shandong Steel Rizhao	39	3,359
– Laiwu Steel	–	49
– Laigang Yongfeng	32	–
Other receivables		
– Rizhao BOT	–	40
Other current liabilities		
Consulting fee payable		
– Zhaongtai Asset Management	45	45

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

46 Related party transactions (Continued)

46.2 Related party transactions and balances (Continued)

46.2.3 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	
	2018	2017
Key management compensation	8,292	14,720

There is no loan or advance to key management during the year ended 31 December 2018 and 2017.

47 Segment analysis

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- Headquarters and others: including headquarters operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the year.

Expenses for each segment mainly contains depreciation cost allocated based on the area of the office, actual expense of salaries, bonus, and other relevant staff cost which is directly related.

The Group mainly operates in Shandong Province, the PRC.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

47 Segment analysis (Continued)

	Year ended 31 December 2018					
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	Total
Net commission and fee income						
– external	45,612	–	930	–	–	46,542
– internal	7,976	–	3,254	–	(11,230)	–
Net interest income						
– external	155,749	856	–	38,727	–	195,332
– internal	(1,563)	1,563	–	–	–	–
Gains on physical commodities trading						
– external	–	3,093	–	–	–	3,093
Net investment gains						
– external	–	62,624	(29,415)	23,148	–	56,357
– internal	–	(3,309)	–	30,000	(26,691)	–
Other income						
– external	97,082	6,148	–	18,594	–	121,824
– internal	(4,667)	–	–	5,267	(600)	–
Total operating income	300,189	70,975	(25,231)	115,736	(38,521)	423,148
Total operating expenses						
– external	(141,020)	(30,070)	(5,833)	(98,813)	–	(275,736)
– internal	–	–	(3,254)	(4,858)	8,112	–
Share of losses of investment in associates	–	(1,848)	–	–	–	(1,848)
Other (losses)/gains, net	–	(339)	–	7,520	–	7,181
Profit before income tax	159,169	38,718	(34,318)	19,585	(30,409)	152,745
Total assets	5,654,774	612,248	3,524	2,146,626	(516,742)	7,900,430
Total liabilities	5,448,814	236,114	27,411	73,387	(118,622)	5,667,104
Supplemental information						
Depreciation and amortization	7,700	187	46	3,766	–	11,699
Credit impairment losses	–	104	–	409	–	513
Capital expenditure	7,377	1,549	17	2,534	23	11,500

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

47 Segment analysis (Continued)

	Year ended 31 December 2017					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	
Net commission and fee income						
– external	62,682	–	3,982	–	–	66,664
– internal	2,729	–	–	–	(2,729)	–
Net interest income						
– external	165,462	4,102	2,050	31,657	–	203,271
– internal	(959)	959	–	–	–	–
Gains on physical commodities trading						
– external	–	7,948	–	–	–	7,948
Net investment gains						
– external	–	18,163	4,800	32,756	–	55,719
– internal	–	(2,729)	–	–	2,729	–
Other income						
– external	111,115	8,259	–	12,889	–	132,263
– internal	–	400	–	1,883	(2,283)	–
Total operating income	341,029	37,102	10,832	79,185	(2,283)	465,865
Total operating expenses						
– external	(167,320)	(13,654)	(7,054)	(70,349)	–	(258,377)
– internal	–	–	–	(2,047)	2,047	–
Share of losses of investment in associates	–	(752)	–	–	–	(752)
Other (losses)/gains, net	–	(1,881)	–	1,713	–	(168)
Profit before income tax	173,709	20,815	3,778	8,502	(236)	206,568
Total assets	6,576,002	474,014	319,967	2,001,623	(542,672)	8,828,934
Total liabilities	6,303,393	149,506	343,042	60,726	(212,436)	6,644,231
Supplemental information						
Depreciation and amortization	5,591	133	51	4,202	–	9,977
Credit impairment losses	–	240	–	304	–	544
Capital expenditure	12,864	127	44	8,447	–	21,482

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management

48.1 Risk management policies and structure

(1) Summary

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

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

(2) Policies and structure for the Company

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee, Risk Control Committee and Audit Committee; (ii) the top management; (iii) Compliance and Internal Audit departments; and (iv) risk management functions in operating departments.

Level 1: Board, Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for the Company's overall risk strategy, risk preference, risk management policies and business progress. The Board is responsible for the Company's overall risk control efficiency. The Supervisory Committee focuses on monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons. The Risk Control Committee is responsible for accessing, suggesting and supervising the Company's risk management progress.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.1 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 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.1 Risk management policies and structure (Continued)

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

Luzheng Trading's risk management structure constitutes board, supervisory committee, Risk Management Department and relevant business department.

Level 1: The Board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.

Level 2: Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.

Level 3: Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

48.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, financial assets held under resale agreements, bank balances held for clients, deposits with exchange-clearing organizations, financial assets at fair value through profit or loss, refundable deposits and other current assets.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.2 Credit risk (Continued)

In terms of the Group's investment in trust schemes with underlying investments mainly in loans and receivables, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances and bank balances held for clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of each trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation. To mitigate the credit risk from futures brokerage service, the Group usually requires the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's credit exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 31 December 2018, the Group received warehouse receipts with a fair values of RMB100,018 thousand (31 December 2017: RMB25,620 thousand) as collateral for the balance of RMB77,318 thousand (31 December 2017: RMB19,732 thousand) under financial assets held under resale agreements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.2 Credit risk (Continued)

The Group conducted ECL model to recognise a loss allowance for debt instrument assets carried at amortised cost. The Group assess whether or not the credit risk of relevant instrument has increased significantly since the initial recognition and measures their impairment allowance, ECL and future variance in ECL under the “three stage” impairment model (Note 4.6(4)).

(1) Impairment of financial assets and contract assets

The Group's bank balances, bank balances held for clients, deposits with exchange-clearing organizations and refundable deposits are all deposited in banks and exchange-clearing organizations which have decent credit rating and no history of default. The majority of the Group's financial assets held under resale agreements are also settled with exchange-clearing organizations. There is no unfavourable current conditions and forecast of future economic conditions for these assets at 31 December 2018. Therefore, their credit risk is considered low. All of these assets are classified under stage 1 and the expected credit loss is limited.

The Group's contract assets related to service provided to a future exchange so that the credit risk is considered low. The Group considers that the impairment loss is immaterial.

(2) Maximum exposure to credit risk

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	31 December 2018	31 December 2017
Refundable deposits	25,683	25,599
Other current assets	53,370	72,791
Contract assets	13,895	–
Available-for-sale financial assets	–	487,006
Derivative financial assets	37,930	63,087
Financial assets at fair value through profit or loss	637,488	525,437
Financial assets held under resale agreements	337,318	112,532
Deposits with exchange-clearing organizations	2,387,336	2,737,775
Bank balances held for clients	3,256,333	3,782,507
Bank balances	808,377	800,124
	7,557,730	8,606,858

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.2 Credit risk (Continued)

(3) Credit risk from brokerage service

Client Risk Ratio	31 December 2018		31 December 2017	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,321,416	5,060,528	1,544,919	5,018,427
80%-100%	187,774	190,621	997,593	1,070,712
Above 100%	54,361	41,179	6,097	5,675
	1,563,551	5,292,328	2,548,609	6,094,814
Coverage ratio		338%		239%

48.3 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.

48.3.1 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.3 Market risk (Continued)

48.3.1 Price risk (Continued)

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives, collective asset management schemes, private securities investment funds, bank wealth management products and trust schemes with the underlying investments mainly in listed equities and futures. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

Price risk in connection with futures contracts arising from the Group's cooperative hedging business is mostly offset by the financial liabilities payable to clients for that business, as the investment gain or loss on those derivatives are largely borne by clients.

As at 31 December 2018, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, derivatives, private securities investment funds, bank wealth management products, trust schemes with the underlying investments mainly in listed equities and futures, interests of holders of consolidated SEs, payable to clients for cooperative hedging business.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.3 Market risk (Continued)

48.3.1 Price risk (Continued)

Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity instruments and derivatives by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2018	2017
Profit before income tax		
Increase by 5%	13,133	10,235
Decrease by 5%	(13,133)	(10,235)

	Year ended 31 December	
	2018	2017
Other comprehensive income before income tax		
Increase by 5%	–	4,450
Decrease by 5%	–	(4,450)

48.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for clients, deposits with exchange-clearing organizations and investment in trust schemes with the underlying investments mainly in loans and receivables. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.3 Market risk (Continued)

48.3.2 Interest rate risk (Continued)

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

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Non-interest bearing	Total
As at 31 December 2018						
Refundable deposits	25,683	-	-	-	-	25,683
Other current assets	-	-	-	-	53,273	53,273
Contract assets	-	-	-	-	13,895	13,895
Derivative financial assets	-	-	-	-	37,930	37,930
Financial assets at fair value through other comprehensive income	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	50,000	-	254,469	52,713	280,310	637,492
Financial assets held under resale agreements	277,445	57,473	2,400	-	-	337,318
Deposits with exchange-clearing organizations	614,106	-	-	-	1,773,230	2,387,336
Bank balances held for clients	3,256,333	-	-	-	-	3,256,333
Cash and bank balances	528,390	-	-	280,000	-	808,390
Sub-total	4,751,957	57,473	256,869	332,713	2,160,038	7,559,050
Borrowings	(1,678)	(8,650)	-	-	-	(10,328)
Financial assets sold under repurchase agreements	-	(32,346)	-	-	-	(32,346)
Other current liabilities	-	-	-	-	(102,172)	(102,172)
Accounts payable to brokerage clients	(1,743,254)	-	-	-	(3,568,822)	(5,312,076)
Derivative financial liabilities	-	-	-	-	(62,506)	(62,506)
Financial liabilities at fair value through profit or loss	-	-	-	-	(39,110)	(39,110)
Other non-current liabilities	-	-	-	-	(5,983)	(5,983)
Sub-total	(1,744,932)	(40,996)	-	-	(3,778,593)	(5,564,521)
Interest rate sensitivity gap	3,007,025	16,477	256,869	332,713	(1,618,555)	1,994,529

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.3 Market risk (Continued)

48.3.2 Interest rate risk (Continued)

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Non-interest bearing	Total
As at 31 December 2017						
Refundable deposits	25,599	-	-	-	-	25,599
Other current assets	-	-	-	-	72,790	72,790
Available-for-sale financial assets	-	10,023	131,624	256,368	90,391	488,406
Derivative financial assets	-	-	-	-	63,087	63,087
Financial assets at fair value through profit or loss	-	-	-	-	526,967	526,967
Financial assets held under resale agreements	92,800	19,732	-	-	-	112,532
Deposits with exchange-clearing organizations	189,166	-	-	-	2,548,609	2,737,775
Bank balances held for clients	3,782,507	-	-	-	-	3,782,507
Cash and bank balances	100,146	320,000	100,000	280,000	-	800,146
Sub-total	4,190,218	349,755	231,624	536,368	3,301,844	8,609,809
Borrowings	-	(13,000)	-	-	-	(13,000)
Other current liabilities	-	-	-	-	(48,316)	(48,316)
Accounts payable to brokerage clients	(1,467,082)	-	-	-	(4,631,649)	(6,098,731)
Derivative financial liabilities	-	-	-	-	(70,684)	(70,684)
Financial liabilities at fair value through profit or loss	-	-	-	-	(326,899)	(326,899)
Other non-current liabilities	-	-	-	-	(3,810)	(3,810)
Sub-total	(1,467,082)	(13,000)	-	-	(5,081,358)	(6,561,440)
Interest rate sensitivity gap	2,723,136	336,755	231,624	536,368	(1,779,514)	2,048,369

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.3 Market risk (Continued)

48.3.2 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	
	2018	2017
Net interest income		
Increases by 25bps	7,480	7,443
Decreases by 25bps	(7,480)	(7,443)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.3 Market risk (Continued)

48.3.3 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.

48.4 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.4 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 2018, the Group held cash and cash equivalents of approximately RMB698 million that are expected to readily generate cash inflows for managing liquidity risk (2017: RMB226 million).

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

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

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2018						
Non-derivative cash flow						
Borrowings	-	1,711	8,817	-	-	10,528
Accounts payable to brokerage clients	5,312,076	-	-	-	-	5,312,076
Other current liabilities	94,052	8,120	-	-	-	102,172
Financial assets sold under repurchase agreements	-	-	33,604	-	-	33,604
Financial liabilities at fair value through profit or loss	-	-	1,914	37,196	-	39,110
Other non-current liabilities	-	-	-	-	5,983	5,983
	5,406,128	9,831	44,335	37,196	5,983	5,503,473
Derivative cash flow						
(a) total inflow	-	5,628	10,882	4,019	-	20,529
(b) total outflow	-	(29,504)	(26,237)	(10,849)	-	(66,590)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.4 Liquidity risk (Continued)

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2017						
Non-derivative cash flow						
Borrowings	-	-	13,182	-	-	13,182
Accounts payable to brokerage clients	6,098,731	-	-	-	-	6,098,731
Other current liabilities	46,164	1,426	81	645	-	48,316
Financial liabilities at fair value through profit or loss	-	-	1,856	8,781	316,262	326,899
Other non-current liabilities	-	-	-	-	3,810	3,810
	6,144,895	1,426	15,119	9,426	320,072	6,490,938
Derivative cash flow						
(a) total inflow	-	3,204	2,704	4,109	-	10,017
(b) total outflow	-	(2,411)	(15,489)	(8,280)	-	(26,180)

48.5 Capital management

The Group's objectives of capital management are:

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

48 Financial risk management (Continued)

48.5 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 RMB12,000 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 2018
(All amounts in RMB'000 unless otherwise stated)

49 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.

49.1 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, borrowings, accounts payable to brokerage clients, financial assets sold under repurchase agreements their fair values approximate their carrying amounts.

49.2 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 2018
(All amounts in RMB'000 unless otherwise stated)

49 Fair value of financial assets and liabilities (Continued)

49.2 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 2018 and 2017.

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Collective asset management schemes	–	98,325	–	98,325
– Trust schemes	–	79,957	357,182	437,139
– Private securities investment funds	–	96,896	–	96,896
– Listed equity securities	4	–	–	4
– Bank wealth management products	–	–	5,128	5,128
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	36,545	–	36,545
– Exchange Traded options	1,385	–	–	1,385
	1,389	311,723	363,710	676,822
Financial liabilities at fair value through profit or loss				
– Payable to a holder of a consolidated SE (Note 40)	–	–	(29,841)	(29,841)
– Others	–	(9,269)	–	(9,269)
Derivative financial liabilities				
– OTC options	–	(60,465)	–	(60,465)
– Exchange Traded options	(2,041)	–	–	(2,041)
	(2,041)	(69,734)	(29,841)	(101,616)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

49 Fair value of financial assets and liabilities (Continued)

49.2 Financial instrument measured at fair value (Continued)

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Collective asset management schemes	–	24,856	–	24,856
– Trust schemes	–	384,866	–	384,866
– Private securities investment funds	–	84,648	–	84,648
– Listed equity securities	1,530	–	–	1,530
– Open-ended funds	20,030	–	–	20,030
– Bank wealth management products	–	–	11,037	11,037
Derivative financial assets				
– OTC options	–	58,594	–	58,594
– Exchange Traded options	4,493	–	–	4,493
Available-for-sale financial assets				
– Collective asset management schemes	–	88,990	–	88,990
– Trust schemes	–	–	387,993	387,993
– Other wealth management products	–	–	10,023	10,023
	26,053	641,954	409,053	1,077,060
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities				
– OTC options	–	(67,080)	–	(67,080)
– Exchange Traded options	(3,604)	–	–	(3,604)
	(3,604)	(393,979)	–	(397,583)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

49 Fair value of financial assets and liabilities (Continued)

49.2 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 2018, collective asset management schemes, trust schemes and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by the Company, Zhongtai Asset Management and other non-related financial institutions, as well as unregulated private fund managers, with the underlying investments mainly in stocks and listed financial and commodity futures in the PRC. Fair value of the asset management schemes, trust schemes with the underlying investments mainly in listed equities and futures and private securities investment funds 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 48.3.1.

For OTC options, fair value is determined based on the Black-Scholes (BS) Model and Monte Carlo Simulation. The key parameters are obtained through the observable market.

For the year ended 31 December 2018, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2017: same).

(3) Financial instruments in level 3

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

As at 31 December 2018, trust schemes that are classified as level 3 in fair value hierarchy are issued by financial institutions, with the underlying investments mainly in loans and receivables. Such trust schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within trust schemes where principal and return of senior tranche is guaranteed by junior tranche investors. Fair value of the trust schemes is determined using discounted cash flows that are estimated based on expected future cash flows of the trust schemes discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 48.2 (1) and 48.3.2.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

49 Fair value of financial assets and liabilities (Continued)

49.2 Financial instrument measured at fair value (Continued)

(3) Financial instruments in level 3 (Continued)

As at 31 December 2018, bank wealth management products that are classified as level 3 in fair value hierarchy are issued and managed by commercial banks. The bank wealth management products can be purchased and redeemed upon maturity with the investment return calculated by the expected yield published by the bank. They are mainly exposed to price risk as disclosed in Note 48.3.1.

The following table presents the changes in level 3 instruments for the years ended 31 December 2018 and 2017.

	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Financial liabilities at fair value through profit or loss
Balance at 1 January 2018	–	11,037	398,016	–
Changes on initial application of IFRS 9	1,400	387,993	(398,016)	–
Restated balance at 1 January 2018	1,400	399,030	–	–
Acquisition	–	223,431	–	–
Disposal	–	(265,875)	–	–
Unrealized gains or (losses) recognized in net investment gains	–	5,724	–	(29,841)
Balance at 31 December 2018	1,400	362,310	–	(29,841)
Including: unrealised gains or (losses) recognised in profit or loss attributable to balances held at end of year	–	5,724	–	(29,841)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

49 Fair value of financial assets and liabilities (Continued)

49.2 Financial instrument measured at fair value (Continued)

(3) Financial instruments in level 3 (Continued)

	Financial assets at fair value through profit or loss	Available- for-sale financial assets
Balance at 1 January 2017	–	137,560
Acquisition	11,037	405,842
Disposal	–	(145,386)
Balance at 31 December 2017	11,037	398,016
Including: unrealised gains recognised in profit or loss attributable to balances held at end of year	60	–

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

49 Fair value of financial assets and liabilities (Continued)

49.2 Financial instrument measured at fair value (Continued)

(3) Financial instruments in level 3 (Continued)

Financial instruments	Fair value at 31 December 2018	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – Bank wealth management products and trust schemes	362,310	Expected rate of return	4.05%-8.50%	The higher the expected rate of return, the higher the fair value.
		Expected recovery date	3 January 2019- 25 May 2020	The earlier the recovery date, the higher the fair value.
		Discount rates that correspond to the expected risk level	4.03%-8.12%	The lower the discount rate, the higher the fair value.
Financial liabilities at fair value through profit or loss – Payable to a holder of a consolidated SE	(29,841)	Probability of execution ^(a)	50%	The higher the probability of execution, the higher the fair value.
		Expected payment date	30 June 2019	The earlier the payment date, the higher the fair value.
		Discount rates that correspond to the expected risk level	2.59%	The lower the discount rate, the higher the fair value.

(a) Assuming all other variables remain unchanged, a 5% increase or decrease in probability of execution will decrease or increase profit before income tax by RMB2,984 thousand.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

50 Offsetting financial assets and financial liabilities

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

As at 31 December 2018					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	3,573	–	3,573	(3,573)	–

As at 31 December 2017					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	(5,316)	3	(5,313)	5,313	–

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

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

51 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include collective asset management schemes, private securities investment funds, bank and other wealth management products and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 31 December 2018, 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 2017: available-for-sale financial assets and financial assets at fair value through profit or loss). The related carrying amount and the maximum exposure were as follows:

	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	637,488	525,437
Available-for-sale financial assets	–	487,006
	637,488	1,012,443

For the years ended 31 December 2018 and 2017, the income from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December 2018	2017
Net investment gains	26,882	32,595

As at 31 December 2018, the Group had no financial support provided to these unconsolidated structured entities, and there was no plan of providing financial support by the Group to these unconsolidated structured entities (31 December 2017: same).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

52 Statement of financial position and reserve movement of the Company

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment		43,224	43,033
Intangible assets		7,302	8,612
Investment in subsidiaries		427,635	360,000
Other non-current assets		1,203	1,802
Financial assets at fair value through other comprehensive income		1,400	–
Financial assets at fair value through profit or loss		61,280	–
Available-for-sale financial assets		–	247,728
Deferred income tax assets		6,842	–
Refundable deposits		25,683	25,599
Total non-current assets		574,569	686,774
Current assets			
Contract assets		13,895	–
Other current assets		21,615	67,260
Available-for-sale financial assets		–	216,845
Financial assets at fair value through profit or loss		534,637	190,181
Financial assets held under resale agreements		260,000	92,800
Deposits with exchange-clearing organizations		2,387,336	2,737,775
Bank balances held for clients		3,236,667	3,746,399
Cash and bank balances		684,742	779,816
Total current assets		7,138,892	7,831,076
Total assets		7,713,461	8,517,850

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

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

	Notes	31 December 2018	31 December 2017
Equity and liabilities			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Other reserves	Notes (a)	239,785	209,104
Retained earnings	Notes (a)	297,996	271,875
Total equity		2,190,311	2,133,509
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		–	2,436
Other non-current liabilities		5,983	3,810
Total non-current liabilities		5,983	6,246
Current liabilities			
Other current liabilities		56,951	60,056
Current income tax liabilities		19,424	9,802
Derivative financial liabilities		29,841	–
Accounts payable to brokerage clients		5,410,951	6,308,237
Total current liabilities		5,517,167	6,378,095
Total liabilities		5,523,150	6,384,341
Total equity and liabilities		7,713,461	8,517,850

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

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

Note (a) Reserve movement of the Company

	Retained earnings	Other reserves
Balance at 1 January 2017	212,786	174,379
Profit for the year	143,348	–
Other comprehensive income for the year	–	(1,443)
Total comprehensive income	143,348	(1,443)
Net appropriation to reserves	(36,168)	36,168
Dividends recognized as distribution	(48,091)	–
Balance at 31 December 2017	271,875	209,104
Changes on initial adoption of IFRS 9	84	(84)
Balance at 1 January 2018	271,959	209,020
Profit for the year	123,929	–
Other comprehensive income for the year	–	–
Total comprehensive income	395,888	209,020
Net appropriation to reserves	(30,765)	30,765
Dividends recognized as distribution	(67,127)	–
Balance at 31 December 2018	297,996	239,785

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

53 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 2018 and 2017 are set out below:

Name	Year ended 31 December 2018				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Chen Fang ⁽¹⁾	–	–	–	–	–
Liang Zhongwei	244	47	70	133	494
Chief Executive					
Liu Qingbin	1,100	69	55	–	1,224
Non-executive Directors					
Lv Xiangyou ⁽²⁾⁽³⁾	–	–	–	–	–
Yin Ge ⁽²⁾	–	–	–	–	–
Li Chuanyong ⁽²⁾	–	–	–	–	–
Liu Feng ⁽²⁾	–	–	–	–	–
Yu Xuehui	119	–	–	–	119
Wang Chuanshun	119	–	–	–	119
Gao Zhu	119	–	–	–	119
Li Dapeng	119	–	–	–	119
Supervisors					
Li Xuekui	1,100	49	90	–	1,239
Ding Mei ⁽²⁾	–	–	–	–	–
Hu Yuyue	71	–	–	–	71
Mou Yong	71	–	–	–	71
Wang Hairan	156	42	36	109	343
Yu Zhanyong	163	33	31	88	315
	3,381	240	282	330	4,233

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

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

Name	Year ended 31 December 2017				Total
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	
Executive Directors					
Chen Fang ⁽¹⁾	–	–	–	–	–
Liang Zhongwei	168	41	54	255	518
Chief Executive					
Liu Qingbin	300	64	51	2,550	2,965
Non-executive Directors					
Lv Xiangyou ⁽²⁾⁽³⁾	–	–	–	–	–
Yin Ge ⁽²⁾	–	–	–	–	–
Li Chuanyong ⁽²⁾	–	–	–	–	–
Liu Feng ⁽²⁾	–	–	–	–	–
Yu Xuehui	119	–	–	–	119
Wang Chuanshun	119	–	–	–	119
Gao Zhu	119	–	–	–	119
Li Dapeng	119	–	–	–	119
Supervisors					
Li Xuekui	300	42	63	2,550	2,955
Ding Mei ⁽²⁾	–	–	–	–	–
Hu Yuyue	71	–	–	–	71
Mou Yong	71	–	–	–	71
Yu Dongxin ⁽⁴⁾	60	6	5	–	71
Wang Hairan	112	38	33	234	417
Yu Zhanyong	92	20	20	199	331
	1,650	211	226	5,788	7,875

- (1) Chen Fang was appointed by Zhongtai Securities and his emolument was paid by Zhongtai Securities, and no allocation of the emoluments between the shareholder and the Group has been made during the year.
- (2) These non-executive directors and supervisors were appointed by shareholders and their emoluments were paid by shareholders for the years ended 31 December 2018 and 2017.
- (3) Lv XiangYou ceased to be non-executive director effective from August 2018.
- (4) Yu Dongxin ceased to be supervisor effective from March 2017.