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LUZHENG FUTURES

LUZHENG FUTURES Company Limited
魯証期貨股份有限公司

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

(Stock Code: 01461)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of LUZHENG FUTURES Company Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**"), together with the comparative annual results of the Group for the year ended 31 December 2016. Unless otherwise stated, all financial data set out in this announcement is denominated in RMB.

FINANCIAL HIGHLIGHTS

– During the Reporting Period, the Group achieved operating income of RMB466 million, which represented an increase of 16.79% as compared to RMB399 million in 2016.

– During the Reporting Period, the Group achieved total profit before income tax of RMB206.568 million, which represented an increase of 33.33% as compared to RMB154.926 million in 2016.

– During the Reporting Period, profit attributable to shareholders of the Company amounted to RMB158.631 million, which represented an increase of 40.38% as compared to RMB113.003 million in 2016.

– During the Reporting Period, earnings per share attributable to shareholders of the Company were RMB0.16, which represented an increase of 45.45% as compared to RMB0.11 in 2016.

– The Board recommends to declare the distribution of final dividends of RMB0.067 (tax inclusive) per share for the year ended 31 December 2017 (the "**2017 Final Dividend**"), the total amount of dividends to be distributed is RMB67,127,300 (the total amount of dividends distributed was RMB48,091,200 for the year ended 31 December 2016). The distribution proposal of the 2017 Final Dividend shall become effective upon the approval of shareholders of the Company (the "**Shareholders**") at the 2017 annual general meeting (the "**AGM**") expected to be held on 15 June 2018. The Company expects to pay the 2017 Final Dividend on or about 27 July 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December **2017**	2016
Commission and fee income	*3*	**303,568**	264,432
Commission and fee expense	*3*	**(236,904)**	(167,528)
Net commission and fee income		**66,664**	96,904
Interest income	*4*	**218,430**	169,125
Interest expense	*4*	**(15,159)**	(16,034)
Net interest income		**203,271**	153,091
Gains on physical commodities trading	*5*	**7,948**	10,643
Net investment gains	*6*	**55,719**	51,400
Other income	*7*	**132,263**	86,877
Operating income		**465,865**	398,915
Staff costs		**(133,863)**	(120,818)
Commission to brokerage agents		**(7,679)**	(16,912)
Introducing broker commission		**(7,670)**	(8,162)
Depreciation and amortization		**(9,977)**	(8,358)
Impairment losses		**(544)**	(1,562)
Other operating expenses	*8*	**(98,644)**	(88,294)
Operating expenses		**(258,377)**	(244,106)
Operating profit		**207,488**	154,809
Share of losses of investment in associates		**(752)**	(1,946)
Other (losses)/gains, net	*9*	**(168)**	2,063
Profit before income tax		**206,568**	154,926
Income tax expense	*10*	**(49,603)**	(42,150)
Profit for the year		**156,965**	112,776

	Notes	Year ended 31 December 2017	2016
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value		**164**	(873)
– Income tax effect on changes in fair value		**(41)**	219
– Amounts reclassified to profit or loss upon disposal or impairment		**(1,528)**	(614)
Currency translation differences		**(1,294)**	1,741
Other comprehensive income for the year, net of tax		**(2,699)**	473
Total comprehensive income for the year		**154,266**	113,249
Profit attributable to:			
– Shareholders of the Company		**158,631**	113,003
– Non-controlling interests		**(1,666)**	(227)
		156,965	112,776
Total comprehensive income attributable to:			
– Shareholders of the Company		**155,907**	113,476
– Non-controlling interests		**(1,641)**	(227)
		154,266	113,249
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)			
Basic/Diluted	*11*	**0.16**	0.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2017**	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment		**44,966**	42,239
Intangible assets		**14,735**	7,787
Investment in associates		**45,491**	28,743
Other non-current assets		**3,432**	1,862
Available-for-sale financial assets		**264,820**	16,514
Deferred income tax assets		**7,017**	5,823
Refundable deposits		**25,599**	25,516
Total non-current assets		**406,060**	128,484
Current assets			
Physical commodities		**62,397**	72,560
Other current assets	*13*	**113,877**	136,825
Available-for-sale financial assets		**223,586**	533,718
Derivative financial assets		**63,087**	609
Financial assets at fair value through profit or loss		**526,967**	269,706
Financial assets held under resale agreements		**112,532**	12,199
Deposits with exchange-clearing organizations		**2,737,775**	2,196,722
Bank balances held for clients		**3,782,507**	3,855,245
Cash and bank balances		**800,146**	998,225
Total current assets		**8,422,874**	8,075,809
Total assets		**8,828,934**	8,204,293

	Notes	31 December 2017	31 December 2016
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		**1,001,900**	1,001,900
Share premium		**650,630**	650,630
Other reserves		**209,798**	176,354
Retained earnings		**294,243**	219,871
Total equity attributable to shareholders of the Company		**2,156,571**	2,048,755
Non-controlling interests		**28,132**	29,773
Total equity		**2,184,703**	2,078,528
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**2,573**	76
Other non-current liabilities		**3,810**	1,783
Total non-current liabilities		**6,383**	1,859
Current liabilities			
Borrowings		**13,000**	–
Other current liabilities		**114,460**	76,505
Current income tax liabilities		**14,074**	23,555
Derivative financial liabilities		**70,684**	606
Financial liabilities at fair value through profit or loss		**326,899**	300,539
Accounts payable to brokerage clients		**6,098,731**	5,722,701
Total current liabilities		**6,637,848**	6,123,906
Total liabilities		**6,644,231**	6,125,765
Total equity and liabilities		**8,828,934**	8,204,293

1 GENERAL INFORMATION

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

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

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

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

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

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

2 BASIS OF PREPARATION

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

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

2.1 New and amended standards adopted by the Group

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

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

- Disclosure initiative – amendments to IAS 7.

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

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

2.2 New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

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

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

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

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

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

The other financial assets held by the Group include:

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

IFRS 16 Leases

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

The accounting for lessors will not significantly change.

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

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

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

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

3 NET COMMISSION AND FEE INCOME

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

4 NET INTEREST INCOME

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

5 GAINS ON PHYSICAL COMMODITIES TRADING

Stated in RMB'000	Year ended 31 December 2017	2016
Sales proceeds	**1,040,961**	814,927
Costs of purchases	**(1,033,013)**	(804,284)
	7,948	10,643

A subsidiary of the Company involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized upon the transfer of risks and rewards of the ownership.

6 NET INVESTMENT GAINS

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

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

(2) This item represents gains from futures, exchange traded options and OTC derivatives transactions related to commodity trading activities and financial futures.

7 OTHER INCOME

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

(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.

8 OTHER OPERATING EXPENSES

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

9 OTHER (LOSSES)/GAINS, NET

Stated in RMB'000	Year ended 31 December	
	2017	2016
Government grants	**4,329**	2,999
Foreign exchange gains/(losses)	**233**	(334)
Subsidies received from futures exchanges	**52**	295
Gains/(Losses) from disposal of long-term non-financial assets	**32**	(66)
Donation	**(2,766)**	(1,001)
Others	**(2,048)**	170
	(168)	2,063

10 INCOME TAX EXPENSE

Stated in RMB'000	Year ended 31 December	
	2017	2016
Current tax	**48,129**	45,316
Deferred tax	**1,474**	(3,166)
	49,603	42,150

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

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

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

	Year ended 31 December	
	2017	2016
Profit before income tax	**206,568**	154,926
Tax calculated at applicable tax rates applicable to profits in the respective area	**51,981**	40,540
Items deducted for tax purposes but not subtracted to arrive at taxable income	**(2,342)**	–
Adjustments in respect of prior years	**(2,222)**	–
Tax losses for which no deferred income tax asset was recognised	**694**	93
Items not deductible for tax purposes	**1,492**	1,517
	49,603	42,150

11 EARNINGS PER SHARE

11.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017	2016
Profit attributable to shareholders of the Company (in RMB thousands)	**158,631**	113,003
Weighted average number of ordinary shares in issue (in thousands)	**1,001,900**	1,001,900
Basic earnings per share (in RMB)	**0.16**	0.11

11.2 Diluted earnings per share

For the year ended 31 December 2017, there were no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share (31 December 2016: same).

12 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 CAS and (ii) the retained profit determined in accordance with IFRS.

The dividend paid in 2017 was RMB48,091 thousand (2016: RMB43,082 thousand). A dividend in respect of the year ended 31 December 2017 of RMB0.067 per share (tax inclusive), amounting to a total dividend of RMB67,127 thousand, is to be proposed at the annual general meeting on 15 June 2018. These financial statements do not reflect this dividend payable.

13 OTHER CURRENT ASSETS

Stated in RMB'000	**31 December 2017**	31 December 2016
Prepayments	**41,086**	71,806
Interest receivable	**9,506**	6,325
Accounts receivable [(1)]	**6,499**	56,034
Notes receivable	**4,566**	–
Other receivables	**52,220**	2,660
	113,877	136,825

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2017		31 December 2016	
	Amount	**Impairment allowance**	Amount	Impairment allowance
Up to 1 year	**6,899**	**(400)**	56,434	(400)

MANAGEMENT DISCUSSION AND ANALYSIS

I. Economic and Futures Market Analysis during the Reporting Period

(1) Economic Conditions

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

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

(2) Futures Market Analysis

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

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

II. Discussion and Analysis of the Group's Development Plans, Results and Prospects

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

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

(1) Futures Brokerage

Market Analysis:

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

Development Plans and Results:

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

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

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

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

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

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

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

(2) Futures Assets Management Business

Market Analysis:

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

Development Plans and Results:

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

(3) Commodity Trading and Risk Management Business

Market Analysis:

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

Development Plans and Results:

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

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

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

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

(4) Information Technology Business

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

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

As a financial-based services institution specialized in serving factor transaction markets, Shandong Exchange Markets Clearing House Co., Ltd. (the "**House**") had both public and commercial properties, undertook partial regulatory responsibilities and possessed five basic functions, i.e., unified account opening, full registration, centralized settlement, capital supervision and statistics monitoring. The five major functions ensured "safe capital, real transactions and controllable targets" in the trading venues, and on this basis, standardized trading and pricing standards and credit system standards were gradually established. As at the end of the Reporting Period, the House had completed the access of six spot futures in the province into the bulk commodity market, implemented the safe keeping and management of customers' funds and provided unified registration, settlement check and capital monitoring services to the trading venues. The House actively assisted local financial regulators to carry out frontline supervision, performed a useful role in monitoring electronically and acted as a guardian of the security of the investor's funds. At the same time, the House intensively explored Shandong factor trading market. Based on deepening and consolidation of the registration and settlement business, and guided by “centralized OTC clearing, cloud technical services and financial risk prevention and control”, the House vigorously innovated financial services and comprehensively facilitated the development of the factor trading market, aiming to create a national first-class clearing house with “clear business units, perfect basic functions, complete system architecture and leading industry technologies”.

(6) Main Work Plan for 2018

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

1. strengthen the concept of compliance and risk control, and firmly adhere to the compliance “red line” (boundary) and risk bottom line;

2. strengthen and expand the Company’s brokerage business, and continue to promote business transformation;

3. adapt to the new situation and new requirements of asset management supervision, optimize team building and enhance the ability of pro-active management;

4. consolidate the leading position in OTC business and realize the development of scale and efficiency;

5. focus on serving the real economy and expand the business of subsidiaries in risk management;

6. strengthen employee capacity building and improve the staff’s overall quality;

7. exert the advantages of information technology and achieve service-driven business growth;

8. fully implement the spirit of responsible reporting, and enhance the Company’s capability in execution; and

9. promote the integration of Party building and business development, and pay adequate attention to the implementation of integrity in the Party’s spirit.

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

Futures Brokerage Business

In 2018, the Company will continue to expand and strengthen the futures brokerage business and continue to promote business transformation. First of all, to strengthen the support services for branches, strengthen key customers' development with the Company's power, and strive to achieve major breakthroughs; secondly, to continue to establish and close relevant branches, strengthen the assessment and adjustment of the heads of sales departments, and continuously improve the professional competence and dedication of the heads of branches. Thirdly, to prepare market reserves and development before the listing of new varieties. In particular, it is necessary to make use of the opportunity of the listing of crude oil futures to promote the rapid growth of the beneficial interest of the Company's customers. Fourthly, according to the thinking of "big brokerage business", the Company will transform itself into a professional integrated service provider through measures such as continuously enhancing training on innovative businesses, intensifying policy incentives and improving business coordination mechanism. Fifthly, to continuously accelerate the Company's introduction of talent, improve staff training programs, enhance the effectiveness of elimination based on assessment, and strive to improve the overall quality of the Company's employees.

Futures Assets Management Business

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

Commodity Trading and Risk Management Business

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

Information Technology Business

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

III. Financial Statement Analysis

(1) Profitability Analysis

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

(2) Asset Structure and Asset Quality

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

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

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

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

(3) Financing Channels and Ability

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

(4) Liquidity Level Management

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

(5) Cash Flow Situation

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

(6) Items of Income Statement

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

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

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

1. *Operating Income*

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

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

(1) Net commission and fee income

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

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

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

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

(2) Net interest income

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

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

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

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

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

2. *Net investment gains*

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

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

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

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

3. Other income

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

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

4. *Operating expenses*

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

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

(1) Staff costs

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

(2) Depreciation and amortization

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

(3) Impairment losses

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

(4) Other operating expenses

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

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

(7) Items of assets

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

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

1. Cash assets

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

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

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

2. *Financial investment assets*

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

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

(1) Available-for-sale financial assets:

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

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

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

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

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

3. *Other assets*

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

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

(8) Items of liabilities

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

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

1. Accounts payable to brokerage clients

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

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

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

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

(9) Items of equity

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

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

(10) Charges over assets

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

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

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

(12) Contingent liabilities and commitments

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

(13) Gearing ratio

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

IV. Employees structure, remuneration and training

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

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

Category		Number	Percentage (%)
By education background	Post-graduate and above	**122**	23.24
	Bachelor degree	**330**	62.86
	College degree and below	**73**	13.90
	Total	**525**	100

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

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

The five highest paid individuals

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

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

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

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

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

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

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

V. Changes in Branches and Subsidiaries and Impact on Results

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

1. Details on changes in branches of the Company

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

Taian Branch was deregistered on 13 December 2017.

2. Details on changes in subsidiaries of the Company

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

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

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

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

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

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

VI. Major Investments and Financing

(1) Major investments

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

(2) Major financing

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

VII. Replacement of Material Assets, Acquisition, Disposal, Spin-Off and Reorganization of Other Companies

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

VIII. Possible Risks, Uncertainties and Countering Measures

(1) Possible major risks

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

1. Market Risk: the risk of incurring losses due to the changes in market price and interest rate. The major risks faced by the Group are the price risk of equity-based assets, price risk of commodities and interest rate risk. Along with the development and advancement in the option business of the Group in 2018, we may also encounter several risks in option market such as hedge risk and pricing risk.

2. Credit Risk: the risk of incurring losses resulting from the failure of a counterparty to perform its contractual obligations. The major risks that the Group may encounter are default risk and settlement risk.

3. Liquidity Risk: the capital liquidity risk due to insufficient capital to meet the obligations of the liabilities or payment settlement during operation; the trading liquidity risk due to the failure to buy or dispose of option, physical commodity and option contract at the market prices.

4. Operational Risk: the risk related to a series of non-financial issues, including unsatisfactory performance of internal operation process, staff, system and losses resulting from external incidents.

5. Compliance Risk: the risk that is closely related to operational risk and reputation risk, which is the risk that the Group or its staff may face legal sanction, regulatory measure and disciplinary punishment and may incur economic losses and reputation harm due to the violation of laws, regulations and regulatory rules of our business activities or by our staff.

(2) Countering measures adopted

1. *General countering measures adopted*

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

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

(2) Consistently improving the corporate governance structure

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

(3) Consistently improving the comprehensive risk management system

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

(4) Consistently improving the risk awareness

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

2. *Countering measures against major risks*

(1) Market Risk

(i) Establishing a systematic investment mechanism. The Company's research team provides investment recommendations and our operation teams provide market guidance to the Company's research team. In order to avoid an excessive concentration of the Company's capital, the Company adopts a variety of trading strategies to reduce loss from systematic risk.

(ii) The operation teams are required to submit an application to the Company's senior management before conducting new investment project, which includes details of the nature of transaction and an analysis of the potential market risks and possible outcome. The Investment Decision Committee of the Company will decide the feasibility of the project through a standardized process.

(iii) Controlling the exposure of the interest arbitrage transaction and option transaction by adopting quantitative measures. Moreover, it will strengthen the Company's control on the pre-set warning line, stop line and scale of trading positions, in order to reduce the loss resulting from dramatic fluctuation and unexpected movement of market price.

(2) Credit Risk

(i) For credit risks related to the Group's commodity and futures trading and risk management business, the Group has established a client credit evaluation system and assesses the creditworthiness of the existing and potential clients based on the onsite investigation and independent third-party investigations, and adjusts the credit ratings of the clients based on the financial conditions of the client and the history of co-operation with the Group. Before entering into a contract, the Group decides on whether to engage a potential client based on the credit evaluation results of the clients or to raise the agreed interest rate or commodity price so as to compensate the credit risk borne by the Group.

(ii) For credit risks related to the Company's futures brokerage business, the Company conducts risk rating on the clients based on their assets, professional knowledge on futures, trading experiences and risk tolerance before entering into contracts with the clients. Accordingly, the Company provides appropriate services to our clients and implements corresponding risk management measures. Meanwhile, the Company requires our clients to maintain higher margin deposits than the minimum deposit required by the futures exchanges in China. The risk control personnel will strictly comply with the internal control measures of the Company to close out the position compulsorily if such margin deposits fall short, with reference to the clients' past dealing history and reputation. This measure can control the risk of margin calls and at the same time, retain premium clients.

(3) Liquidity Risk

(i) To establish a risk evaluation and monitor system on net capital.

(ii) To strengthen the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management.

(iii) To conduct a stress test on the risk control indexes on an ad hoc basis. It simulates the effects on the major control indexes and the cash flow of the Company under different situations, such as dramatic fluctuation in market price, material insufficiency in market liquidity or massive changes in macro-economic environment, and prevention measures and emergency plans are formulated accordingly.

(iv) To select those commodities that are more actively traded in the commodity market among the commodity trading and risk management business for starting the business, or to select the contracts with the largest or second-largest open interest within similar futures contracts for trading. The Company has a strict control on the position ratio to the option business in order to reduce the liquidity risk of trading.

(4) Operational Risk

(i) The Company will set aside 5% of its fee income as risk reserve fund each month, which will be utilized in the compensation for the malfunction of the information system, wrong single transaction, forced liquidation or the loss induced by inappropriate operation risk.

(ii) The Company adopts a human-oriented approach and offers incentives such as remuneration and promotion with openness, fairness and impartiality. The Company provides its staff with favorable development environment and enhance their sense of responsibility and belonging, with a purpose to reduce the operational risk caused by human negligence.

(iii) The Group formulates strict internal control system with written terms. The system covers every business line of the Company, including human resources and administration, brokerage business, intermediaries management, trading, settlement, transaction, internal control on compliance, risk control, legal affairs, anti-money laundering, customer service, financial management, information technology, research and development and investor education, asset management and option business. The Company will expand and improve ourselves in accordance with the laws and regulations, monitoring requirements and the development of new businesses.

(iv) The Company has a strict internal audit system. The Company has established an audit department to inspect the rationality, the legitimacy and the effectiveness of the internal system of the Company, the operational capital and the financial revenue and expenditure of each operating entities, the operation process of each business department of the Company and the performance of our personnel. If any violation or illegal incident are found, the audit department will make rectification recommendations and will supervise its implementation.

(5) Compliance Risk

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

CLOSURE OF REGISTER OF MEMBERS

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

FINAL DIVIDENDS

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

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

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

Should the holders of H Shares of the Company have any doubts in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for 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.

LISTING AND USE OF PROCEEDS

1. Issue of shares and the use of proceeds

By the approval document Zheng Jian Xu Ke No. [2015] 934 issued by CSRC, the Company was officially listed on the main board of Hong Kong Stock Exchange on 7 July 2015. 275,000,000 H shares (excluding overallotment options) 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 options in respect of an aggregate of 2,090,000 H shares which included (i) an additional 1,900,000 H shares issued by the Company and (ii) 190,000 H shares sold by the selling Shareholders, Zhongtai Securities Company Limited (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.

The net proceeds as prescribed in the Company's prospectus dated 23 June 2015 (the "**Prospectus**") were to be used for the purposes and in the amounts set out below:

1. Approximately 35% to be used to increase its net capital, establish "light branches" and recruit experienced asset managers and research personnel for strengthening its futures brokerage business and developing its futures asset management business;

2. Approximately 40% to be used to contribute additional capital to Luzheng Trading for expanding the Company's commodity trading and risk management business so as to achieve economies of scale and improve profitability of such business;

3. Approximately 15% to be used to purchase IT infrastructure and software for upgrading and improving the Company's existing IT systems and to contribute additional capital to Luzheng Information for developing its IT development capabilities; and

4. Approximately 10% to be used for working capital and general corporate purposes.

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

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

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

Unit: RMB'000

Title of the project intended to be financed	**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**	**Percentage (%)**
Establishment of light branches and recruitment of staff	No	1,137.719	1,137.719	0.18
Capital contribution to Luzheng Trading	No	50,000	180,000	27.86
Purchase of IT infrastructure and software	No	8,733.026	28,733.026	4.45
Injection of working capital	No	0	64,600	10.00

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has been committed to improving its standard of corporate governance, and views it as an integral part of creating value for the Shareholders. A modern corporate governance structure, comprising of the general meeting, the Board, the board of Supervisors and the senior management of the Company, has been established by reference to the code provisions set out in the Corporate Government Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"), 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.

AUDIT COMMITTEE

The Audit Committee (the "**Audit Committee**") of the Company consists of five members, including independent non-executive Directors Mr. Wang Chuanshun and Mr. Gao Zhu, Mr. Li Dapeng, and non-executive Directors Mr. Lv Xiangyou and Mr. Liu Feng. Mr. Wang Chuanshun is currently the chairperson of the Audit Committee.

The consolidated financial statements for the year ended 31 December 2017 of the Group were audited by the external independent auditor of the Company and this results announcement is based on such financial statements which have been agreed by the Company and the auditor. The Audit Committee, the Board and the external independent auditor of the Company have reviewed the accounting standards adopted by the Company, the Audit Committee and the Board have also reviewed the results of the Company for the year ended 31 December 2017.

SECURITIES TRANSACTIONS BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by all the Directors and Supervisors. In addition, the Company has also established guidelines for dealing in securities of the Company by its senior management on terms which are 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 been also conducted with the senior management regarding to their compliance with the aforementioned guidelines, and no non-compliance has been noticed by the Company.

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.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement has been published on the websites of HKExnews of the Hong Kong Stock Exchange at (www.hkexnews.hk) and the Company at (www.luzhengqh.com).

The annual report of the Company for the year ended 31 December 2017 containing all the information, including the audited financial statements, required by the Listing Rules will be despatched to the Shareholders and made available on the websites of HKExnews of the Hong Kong Stock Exchange at (www.hkexnews.hk) and the Company at (www.luzhengqh.com) in due course.

By order of the Board
LUZHENG FUTURES Company Limited
CHEN Fang
Chairman

Hong Kong, the PRC
22 March 2018

As at the date of this announcement, the Board consists of Mr. Chen Fang and Mr. Liang Zhongwei as executive Directors; Mr. Lv Xiangyou, Mr. Yin Ge, Mr. Li Chuanyong and Mr. Liu Feng as non-executive Directors; and Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng as independent non-executive Directors.