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鲁证期货
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 2018

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 2018 (the "**Reporting Period**"), together with the comparative annual results of the Group for the year ended 31 December 2017. 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 RMB423.148 million, which represented a decrease of 9.17% as compared to RMB465.865 million in 2017.
- During the Reporting Period, the Group achieved total profit before income tax of RMB152.745 million, which represented a decrease of 26.06% as compared to RMB206.568 million in 2017.
- During the Reporting Period, profit attributable to Shareholders of the Company amounted to RMB117.719 million, which represented a decrease of 25.79% as compared to RMB158.631 million in 2017.
- During the Reporting Period, earnings per share attributable to Shareholders of the Company were RMB0.12, which represented a decrease of 25% as compared to RMB0.16 in 2017.
- The Board recommends to declare the distribution of final dividends of RMB0.055 (tax inclusive) per share for the year ended 31 December 2018 (the "**2018 Final Dividend**"), the total amount of dividends to be distributed is RMB55,104,500 (the total amount of dividends distributed was RMB67,127,300 for the year ended 31 December 2017). The distribution proposal of the 2018 Final Dividend shall become effective upon the approval of shareholders of the Company (the "**Shareholders**") at the 2018 annual general meeting (the "**AGM**") to be held on 20 June 2019. If approved at the AGM, the Company expects to pay the 2018 Final Dividend on or about 1 August 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(All amounts in RMB'000 unless otherwise stated)

	31 December 2018	31 December 2017
Assets		
Non-current assets		
Property, plant and equipment	**44,748**	44,966
Intangible assets	**15,398**	14,735
Investment in associates	**43,643**	45,491
Other non-current assets	**2,668**	3,432
Available-for-sale financial assets	**–**	264,820
Financial assets at fair value through other comprehensive income	**1,400**	–
Financial assets at fair value through profit or loss	**61,280**	–
Deferred income tax assets	**11,009**	7,017
Refundable deposits	**25,683**	25,599
Total non-current assets	**205,829**	406,060
Current assets		
Physical commodities	**199,769**	62,397
Other current assets	**77,418**	113,877
Contract assets	**13,895**	–
Available-for-sale financial assets	**–**	223,586
Derivative financial assets	**37,930**	63,087
Financial assets at fair value through profit or loss	**576,212**	526,967
Financial assets held under resale agreements	**337,318**	112,532
Deposits with exchange-clearing organizations	**2,387,336**	2,737,775
Bank balances held for clients	**3,256,333**	3,782,507
Cash and bank balances	**808,390**	800,146
Total current assets	**7,694,601**	8,422,874
Total assets	**7,900,430**	8,828,934

	31 December 2018	31 December 2017
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	**241,744**	209,798
Retained earnings	**314,168**	294,243
Total equity attributable to shareholders of the Company	**2,208,442**	2,156,571
Non-controlling interests	**24,884**	28,132
Total equity	**2,233,326**	2,184,703
Liabilities		
Non-current liabilities		
Deferred income tax liabilities	**2,438**	2,573
Other non-current liabilities	**5,983**	3,810
Total non-current liabilities	**8,421**	6,383
Current liabilities		
Borrowings	**10,328**	13,000
Other current liabilities	**182,529**	114,460
Financial assets sold under repurchase agreements	**32,346**	–
Current income tax liabilities	**19,788**	14,074
Derivative financial liabilities	**62,506**	70,684
Financial liabilities at fair value through profit or loss	**39,110**	326,899
Accounts payable to brokerage clients	**5,312,076**	6,098,731
Total current liabilities	**5,658,683**	6,637,848
Total liabilities	**5,667,104**	6,644,231
Total equity and liabilities	**7,900,430**	8,828,934

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 (the "**Hong Kong Stock Exchange**") on 7 July 2015. The share capital of the Company was increased to RMB1,001.90 million.

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

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

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

2 BASIS OF PREPARATION

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

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

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

2.1 New and amended standards adopted by the Group

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

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

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

2.2 New standards and interpretations not yet adopted

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

IFRS 16 Leases

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

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

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

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

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

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

3 NET COMMISSION AND FEE INCOME

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

4 NET INTEREST INCOME

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

5 GAINS ON PHYSICAL COMMODITIES TRADING

Stated in RMB'000	Year ended 31 December 2018	2017
Sales proceeds	**711,853**	1,040,961
Costs of purchases	**(708,760)**	(1,033,013)
	3,093	7,948

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

6 NET INVESTMENT GAINS

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

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

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

7 OTHER INCOME

Stated in RMB'000	Year ended 31 December	
	2018	2017
Refunds of trading fees [1]	**97,083**	111,115
Exchange service fees	**14,879**	10,529
Cooperative hedging fees	**5,864**	6,004
Software service fees	**1,194**	1,680
Other	**2,804**	2,935
	121,824	132,263

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

8 OTHER OPERATING EXPENSES

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

9 OTHER GAINS/(LOSSES), NET

Stated in RMB'000	Year ended 31 December	
	2018	2017
Government grants	**9,764**	4,329
Foreign exchange (losses)/gains	**(1,516)**	233
Donation	**(751)**	(2,766)
Others	**(316)**	(1,964)
	7,181	(168)

10 INCOME TAX EXPENSE

Stated in RMB'000	Year ended 31 December	
	2018	2017
Current tax	**42,996**	48,129
Deferred tax	**(3,965)**	1,474
	39,031	49,603

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

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

Switzerland profit tax has been provided at the rate of 24.16% on the estimated assessable profit for the year.

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

	Year ended 31 December	
	2018	2017
Profit before income tax	**152,745**	206,568
Tax calculated at applicable tax rates applicable to profits in the respective area	**37,492**	51,981
Items deducted for tax purposes but not subtracted to arrive at taxable income	**(1,869)**	(2,342)
Adjustments in respect of prior years	**18**	(2,222)
Tax losses for which no deferred income tax asset was recognised	**1,629**	694
Items not deductible for tax purposes	**1,761**	1,492
	39,031	49,603

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	
	2018	2017
Profit attributable to shareholders of the Company (in RMB thousands)	**117,719**	158,631
Weighted average number of ordinary shares in issue (in thousands)	**1,001,900**	1,001,900
Basic earnings per share (in RMB)	**0.12**	0.16

11.2 Diluted earnings per share

For the year ended 31 December 2018, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (for the year ended 31 December 2017: 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 accounting standards and (ii) the retained profit determined in accordance with IFRS.

The dividend paid in 2018 was RMB67,127 thousand (2017: RMB48,091 thousand). A dividend in respect of the year ended 31 December 2018 of RMB0.055 per ordinary share (tax included), amounting to a total dividend of RMB55,104,500, is to be proposed at the AGM on 20 June 2019. These financial statements do not reflect this payable of 2018 Final Dividend.

13 OTHER CURRENT ASSETS

Stated in RMB'000	**31 December 2018**	31 December 2017
Accounts receivable [1]	**44,200**	56,188
Prepayments	**24,048**	41,086
Interest receivable	**–**	9,506
Notes receivable	**5,942**	4,566
Other receivables	**3,228**	2,531
	77,418	113,877

[1] Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2018		31 December 2017	
	Amount	**Impairment allowance**	Amount	Impairment allowance
Less than 1 year	**46,963**	**(2,763)**	59,037	(2,849)

The impairment allowance for accounts receivable as at 31 December 2017 reconciles to the opening impairment allowance on 1 January 2018 and to the closing impairment allowance as at 31 December 2018 as follows:

	2018
Closing impairment allowance as at 31 December 2017 (calculated under IAS 39)	**(2,849)**
Amounts restated through opening retained earnings	**–**
Opening impairment allowance as at 1 January 2018 (calculated under IFRS 9)	**(2,849)**
Increase in impairment allowance recognised in profit or loss during the year	**(148)**
Decrease in impairment allowance recognised in profit or loss during the year	**234**
Closing impairment allowance as at 31 December 2018	**(2,763)**

MANAGEMENT DISCUSSION AND ANALYSIS

I. ECONOMIC AND FUTURES MARKET ANALYSIS DURING THE REPORTING PERIOD

(1) Economic Conditions

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

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

(2) Futures Market Analysis

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

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

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

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

(1) Futures Brokerage

Market Analysis:

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

Development Plans and Results:

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

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

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

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

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

(2) Futures Assets Management Business

Market Analysis:

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

Development Plans and Results:

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

(3) Commodity Trading and Risk Management Business

Market Analysis:

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

Development Plans and Results:

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

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

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

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

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

(4) Information Technology Business

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

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

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

(5) Registration and Settlement Business

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

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

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

(6) International Business

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

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

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

(7) Main Work Plan for 2019

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

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

Futures Brokerage Business

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

Futures Asset Management Business

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

Commodity Trading and Risk Management Business

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

Information Technology Business

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

Registration and Settlement Business

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

International Business

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

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

III. FINANCIAL STATEMENT ANALYSIS

(1) Profitability Analysis

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

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

(2) Asset Structure and Asset Quality

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

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

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

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

(3) Financing Channels and Ability

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

(4) Liquidity Level Management

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

(5) Cash Flow Situation

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

(6) Items of Income Statement

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

	Year ended 31 December	
Stated in RMB'000	**2018**	2017
Commission and fee income	**277,713**	303,568
Commission and fee expense	**(231,171)**	(236,904)
Net commission and fee income	**46,542**	66,664
Interest income	**214,705**	218,430
Interest expense	**(19,373)**	(15,159)
Net interest income	**195,332**	203,271
Gains on physical commodities trading	**3,093**	7,948
Net investment gains	**56,357**	55,719
Other income	**121,824**	132,263
Operating income	**423,148**	465,865
Staff costs	**(137,009)**	(133,863)
Commission to brokerage agents	**(3,469)**	(7,679)
Introducing broker commission	**(6,081)**	(7,670)
Depreciation and amortization	**(11,699)**	(9,977)
Credit impairment losses	**(513)**	(544)
Other operating expenses	**(116,965)**	(98,644)
Operating expenses	**(275,736)**	(258,377)
Operating profit	**147,412**	207,488
Share of losses of investment in associates	**(1,848)**	(752)
Other gains/(losses), net	**7,181**	(168)
Profit before income tax	**152,745**	206,568
Income tax expense	**(39,031)**	(49,603)
Profit for the year	**113,714**	156,965

Stated in RMB'000	Year ended 31 December **2018**	 2017
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
– Changes in fair value	**–**	164
– Income tax effect of changes in fair value	**–**	(41)
– Amounts reclassified to profit or loss upon disposal or impairment	**–**	(1,528)
Currency translation differences	**1,278**	(1,294)
Other comprehensive income for the year, net of income tax	**1,278**	(2,699)
Total comprehensive income	**114,992**	154,266
Profit attributable to:		
– Shareholders of the Company	**117,719**	158,631
– Non-controlling interests	**(4,005)**	(1,666)
	113,714	156,965
Total comprehensive income attributable to:		
– Shareholders of the Company	**118,998**	155,907
– Non-controlling interests	**(4,006)**	(1,641)
	114,992	154,266
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)		
Basic/Diluted	**0.12**	0.16

1. *Operating Income*

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

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

(1) Net commission and fee income

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

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

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

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

(2) Net interest income

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

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

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

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

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

(3) Net investment gains

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

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

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

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

(4) Other income

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

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

2. *Operating expenses*

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

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

(1) Staff costs

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

(2) Depreciation and amortization

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

(3) Credit impairment losses

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

(4) Other operating expenses

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

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

(7) Items of Assets

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

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

1. Cash assets

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

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

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

2. Financial investment assets

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

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

(1) Available-for-sale financial assets:

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

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

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

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

(3) Financial assets held under resale agreements

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

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

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

3. *Other assets*

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

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

(8) Items of Liabilities

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

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

1. Accounts payable to brokerage clients

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

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

2. *Financial liabilities at fair value through profit or loss*

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

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

(9) Items of Equity

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

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

(10) Charges over Assets

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

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

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

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

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

(12) Contingent Liabilities and Commitments

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

(13) Gearing Ratio

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

IV. EMPLOYEES STRUCTURE, REMUNERATION AND TRAINING

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

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

Category		Number	Percentage (%)
By education background	Post-graduate and above	132	24.04
	Bachelor degree	344	62.66
	College degree and below	73	13.30
	Total	549	100

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

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

The five highest paid individuals

For the year ended 31 December 2018, the five highest paid individuals do not include any of the directors and supervisors (2017: 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 thousand	**2018**	2017
Salaries, allowances and other welfares	**5,508**	5,186
Bonus	**3,017**	8,953
	8,525	14,139

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

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

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

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

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

V. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

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

1. Details on changes in branches of the Company

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

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

2. Details on changes in subsidiaries of the Group

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

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

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

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

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

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

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

VI. MAJOR INVESTMENTS AND FINANCING

(1) Major investments

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

(2) Major financing

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

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

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

VIII. POSSIBLE RISKS, UNCERTAINTIES AND COUNTERING MEASURES

(1) Possible major risks

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

1. Market Risk: the risk of incurring losses due to the changes in market price and interest rate. The major risks faced by the Group are the price risk of equity-based assets, price risk of commodities and interest rate risk. Along with the development and advancement in the option business of the Group in 2019, we may also encounter several risks in option market such as hedge risk and pricing risk.

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

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

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

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

(2) Countering measures adopted

1. General countering measures adopted

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

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

(2) Consistently improving the corporate governance structure

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

(3) Consistently improving the comprehensive risk management system

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

(4) Consistently improving the risk awareness

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

2. *Countering measures against major risks*

(1) Market Risk

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

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

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

(2) Credit Risk

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

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

(3) Liquidity Risk

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

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

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

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

(4) Operational Risk

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

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

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

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

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

(5) Compliance Risk

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

CLOSURE OF REGISTER OF MEMBERS

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

FINAL DIVIDENDS

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

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

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

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

LISTING AND USE OF PROCEEDS

By the approval document Zheng Jian Xu Ke No. [2015] 934 issued by CSRC, the Company was officially listed on the Main Board of Hong Kong Stock Exchange on 7 July 2015. 275,000,000 H shares (excluding 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.

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

Prior to the announcement of the Company dated 13 April 2018, the proceeds raised were utilized for the purposes set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 23 June 2015 (the "**Prospectus**") as follows:

Unit: RMB'000

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

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

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

Unit: RMB'000

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

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

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

As at the date of this announcement, the Audit Committee of the Company (the "**Audit Committee**") consists of four members, including three independent non-executive Directors Mr. Wang Chuanshun, Mr. Gao Zhu and Mr. Li Dapeng, and a non-executive Director Mr. Liu Feng. Mr. Wang Chuanshun is currently the chairperson of the Audit Committee.

The consolidated financial statements for the year ended 31 December 2018 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 2018.

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 also been 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 2018 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

Jinan, the PRC
27 March 2019

As at the date of this announcement, the Board consists of Mr. Chen Fang and Mr. Liang Zhongwei as executive Directors; 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.