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**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)**

**CONTINUING CONNECTED TRANSACTION**

**FUTURES BROKERAGE SERVICES FRAMEWORK  
AGREEMENT WITH SHANDONG STEEL**

**FUTURES BROKERAGE SERVICES FRAMEWORK AGREEMENT  
WITH SHANDONG STEEL**

References are made to the announcements of the Company dated 28 April 2017 and 22 May 2017 in relation to, inter alia, the Original Futures Brokerage Services Framework Agreement between the Company and Shandong Steel and its annual caps, and the amendment to the aforesaid annual caps.

As disclosed in the announcements dated 28 April 2017 and 22 May 2017, the Company had entered into the Original Futures Brokerage Services Framework Agreement with Shandong Steel on 28 April 2017 and set the respective annual caps for related non-exempt Continuing Connected Transaction for 2018, 2019 and 2020. The amended annual caps of such transaction for 2018, 2019 and 2020 were RMB5,800 thousand, RMB7,600 thousand and RMB9,800 thousand, respectively. As the Original Futures Brokerage Services Framework Agreement will expire on 31 December 2020 and the Group will continue to conduct the Continuing Connected Transaction under the Original Futures Brokerage Services Framework Agreement after 31 December 2020, the Company continues to be subject to the requirements in respect of the Continuing Connected Transaction under Chapter 14A of the Listing Rules. As such, the Company entered into the Futures Brokerage Services Framework Agreement with Shandong Steel on 27 November 2020 (after trading hours) and proposed the annual caps for 2021, 2022 and 2023 under the Futures Brokerage Services Framework Agreement.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, as Shandong Steel holds 80.52% shares in Laiwu Steel, which holds 41.32% shares in Zhongtai Securities, a Controlling Shareholder of the Company, and Laiwu Steel is the holding company of Zhongtai Securities, Shandong Steel is therefore a Connected Person of the Company under Chapter 14A of the Listing Rules. Also, the transaction under the Futures Brokerage Services Framework Agreement between the Company and Shandong Steel constitutes a Continuing Connected Transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Futures Brokerage Services Framework Agreement between the Company and Shandong Steel is more than 0.1% but less than 5% pursuant to the Listing Rules, the Continuing Connected Transaction under the Futures Brokerage Services Framework Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In consideration of the pricing policies, the basis of determining proposed annual caps, the reasons for and benefits of the Continuing Connected Transaction and the internal control procedures of the Company, the Directors, including Independent Non-executive Directors, are of the view that the terms of the transactions contemplated under the Futures Brokerage Services Framework Agreement and the proposed annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Mr. Zhong Jinlong, Mr. Liu Hongsong and Mr. Hu Kainan, being the Directors having material interests in the aforesaid agreement, have abstained from voting in respect of the resolutions in relation to the aforesaid framework agreement and its proposed annual caps passed by the Board.

# **I. FUTURES BROKERAGE SERVICES FRAMEWORK AGREEMENT WITH SHANDONG STEEL**

## **(1) Background**

References are made to the announcements of the Company dated 28 April 2017 and 22 May 2017 in relation to, inter alia, the Original Futures Brokerage Services Framework Agreement between the Company and Shandong Steel and its annual caps, and the amendment to the aforesaid annual caps.

As disclosed in the announcements dated 28 April 2017 and 22 May 2017, the Company had entered into the Original Futures Brokerage Services Framework Agreement with Shandong Steel on 28 April 2017 and set the respective annual caps for related non-exempt Continuing Connected Transaction for 2018, 2019 and 2020. The amended annual caps of such transaction for 2018, 2019 and 2020 were RMB5,800 thousand, RMB7,600 thousand and RMB9,800 thousand, respectively. As the Original Futures Brokerage Services Framework Agreement will expire on 31 December 2020 and the Group will continue to conduct the Continuing Connected Transaction under the Original Futures Brokerage Services Framework Agreement after 31 December 2020, the Company continues to be subject to the requirements in respect of the Continuing Connected Transaction under Chapter 14A of the Listing Rules. As such, the Company entered into the Futures Brokerage Services Framework Agreement with Shandong Steel on 27 November 2020 (after trading hours) and proposed the annual caps for 2021, 2022 and 2023 under the Futures Brokerage Services Framework Agreement.

Pursuant to the Futures Brokerage Services Framework Agreement, the Group provides futures brokerage services to Shandong Steel and/or its associates in the Group's ordinary and usual course of business. The term of the Futures Brokerage Services Framework Agreement is three years with effect from 1 January 2021 until 31 December 2023. The Group is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transaction.

## (2) Details of the agreement

Date: 27 November 2020

Parties: Shandong Steel; and  
the Company.

### *Principal terms*

The Group provides futures brokerage services and other related financial services to Shandong Steel and/or its associates in its ordinary and usual course of business. In particular, the Group executes trading of commodity and financial futures, options and other derivatives on behalf of Shandong Steel and/or its associates in return for commissions (the “**Futures Commissions**”) for the services provided to Shandong Steel and/or its associates.

### *Reasons for and benefits of the transaction*

As the steel production and sales business of Shandong Steel and/or its associates require hedging through futures trading, the asset management and proprietary investment business of Zhongtai Securities and/or its associates need the allocation of futures positions as well and the Group has extensive experience in the futures industry, Shandong Steel and/or its associates entrust the Group to provide futures brokerage services to it. Besides, the Group has been continuously providing futures brokerage services to Shandong Steel and/or its associates (including but not limited to Laiwu Steel and Zhongtai Securities) for consecutive years and has developed a better understanding of the trading habits and personalized needs of Shandong Steel and/or its associates, the Group, therefore, is able to provide services with comparatively high quality.

### ***Pricing terms***

- (i) the Futures Commissions charged by the Group for the provision of futures brokerage services and other related financial services have been in compliance with the charging standards and policies (if applicable) promulgated from time to time by the China Securities Regulatory Commission, Shenzhen Stock Exchange, Shanghai Stock Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange, Shanghai Futures Exchange, China Financial Futures Exchange, Shanghai International Energy Exchange and other exchanges for the same types of services; and
- (ii) the Futures Commissions charged by the Group for the provision of futures brokerage services and other financial services are based on a percentage that is at a premium to the futures commissions rate set by Shenzhen Stock Exchange, Shanghai Stock Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange, Shanghai Futures Exchange, China Financial Futures Exchange, Shanghai International Energy Exchange and other exchanges with reference to the prevailing market commissions rate, and are consistent with market practice.

### ***Historical amounts***

For the futures brokerage services provided by the Group to Shandong Steel and/or its associates, the historical amounts of the Futures Commissions for the two years ended 31 December 2018 and 31 December 2019 and the ten months ended 30 October 2020 were approximately RMB2,893 thousand, RMB2,627 thousand and RMB1,786 thousand (unaudited), respectively.

## ***Annual caps***

The maximum aggregate annual amounts of Futures Commissions in respect of the provision of futures brokerage services by the Group to Shandong Steel and/or its associates for the three years ending 31 December 2021, 2022 and 2023 shall not exceed the caps set out below:

	<b>Proposed annual caps for the year ending 31 December (RMB'000)</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
Futures Commissions	4,400	5,700	7,400

## ***Basis for annual caps***

The above proposed annual caps are determined on the basis that:

- (i) the steel production and sales business of Shandong Steel and/or its associates require hedging through futures trading, and the asset management and proprietary investment business of Zhongtai Securities and/or its associates need the allocation of futures positions as well. Along with the continuous development of futures business and continuous increase in futures varieties of the Group, it is expected that more futures brokerage services will be constantly provided to Shandong Steel and/or its associates by the Group and the Futures Commissions charged by the Group will increase constantly;
- (ii) handling fees generated from the futures brokerage services provided by the Group to Zhongtai Securities and/or its associates are substantially derived from financial futures including stock index futures and government bond futures, with a fraction derived from commodity futures and stock index options. From January 2020 to October 2020, the commissions paid by Zhongtai Securities to the Group for the futures brokerage services provided by the Group was RMB1,783 thousand. Due to the intensified market volatility resulting from international political and financial uncertainties, the average monthly commissions from November 2020 to December 2020 are expected to be approximately 30% higher than those from January to October. Therefore, it is estimated that the commissions paid by Zhongtai Securities to the Group for the futures brokerage services provided by the Company will be approximately RMB2,300 thousand for the whole year of 2020.

In recent years, the China Financial Futures Exchange has been continuing to loosen the restrictions on the trading of stock index futures, but the intraday liquidation fees remained high, which constricted the enhanced vitality of the stock index futures market. Based on the market condition of stock index futures and factors in relation to the industry, the regulatory trend and other aspects, the Company expected that all restricting measures on the stock index futures will be released in 2021. The CSI 300 stock index options launched at the end of December 2019 are still subject to relatively large restrictions on opening positions, which are expected to be fully lifted in 2021. In addition, other underlying index options and financial futures, including SSE 50 index options, CSI 500 index options and foreign exchange futures, are expected to be launched successively. As such, the scale of futures brokerage services provided by the Group will expand continuously. Commissions generated from the futures brokerage services provided by the Group to Zhongtai Securities and/or its associates are expected to increase by approximately 50% for 2021 as compared to the whole year of 2020, amounting to RMB3,500 thousand. Commissions generated from futures brokerage services provided to Zhongtai Securities and/or its associates by the Group will increase by approximately 30% for 2022 to 2023 as compared to the whole year of 2021.

Accordingly, it is expected that the Futures Commissions paid to the Group by Zhongtai Securities and/or its associates for the provision of futures brokerage services by the Group will be approximately RMB3,500 thousand, RMB4,600 thousand and RMB6,000 thousand, respectively, for 2021 to 2023;

(iii) as the largest steel manufacturing and trading enterprise in Shandong Province of the PRC, Shandong Steel has large steel production capacity and huge demand for raw materials as well as practical demand for managing spot risks and lowering operating costs through the futures business. From January 2020 to October 2020, the commissions paid by Shandong Steel and/or its associates (including Laiwu Steel) to the Group for carrying on the hedging business in the futures market totalled RMB3 thousand. Considering that the range of price fluctuations of domestic steel and raw materials may increase from October 2020 to November 2021, the commissions paid by Shandong Steel and/or its associates (including Laiwu Steel) to the Group are expected to amount to approximately RMB300 thousand for the whole year of 2020. With the continuous development and improvement of the futures market and the gradual increase in price fluctuations of related commodities, it is expected that Shandong Steel and/or its associates (including Laiwu Steel) may increase their investments in the futures market year by year starting from 2021 and continue to carry on the futures business through the Group. Assuming that the investments made by Shandong Steel and/or its associates (including Laiwu Steel) in the futures market in 2021 will triple from 2020, the Futures Commissions paid to the Group by Shandong Steel and/or its associates for the provision of futures brokerage services by the Group will be approximately RMB900 thousand in 2021. Assuming that the investments made by Shandong Steel and/or its associates (including Laiwu Steel) in the futures market will increase by 20% in 2022 and 30% in 2023, respectively, the Futures Commissions paid to the Group by Shandong Steel and/or its associates will be approximately RMB1,100 thousand and RMB1,400 thousand, respectively.



## II. INTERNAL CONTROL PROCEDURES AND CORPORATE GOVERNANCE MEASURES

The Company will strive to exercise adequate supervision over the transaction amounts and respective annual caps under the Futures Brokerage Services Framework Agreement signed between the Group and Shandong Steel to ensure that necessary measures and appropriate actions for the compliance with the requirements of the Listing Rules can be taken in a timely manner. The Company has adopted the following internal management procedures to ensure that the Continuing Connected Transaction under such framework agreement is fair and reasonable and conducted on normal commercial terms:

- The Group has formulated a series of measures and policies on, among others, contract policies, project management policies and administration rules of Connected Transactions in order to ensure that the Continuing Connected Transaction is conducted in accordance with the Futures Brokerage Services Framework Agreement and the pricing policies therein. The Futures Brokerage Services Framework Agreement and the transactions thereunder, in particular the fairness and reasonableness of the pricing terms thereof, will be examined and approved by the audit committee of the Board, the Board and various internal departments of the Company (including but not limited to the finance department and audit and supervision department of the Company) to ensure that the terms of the Futures Brokerage Services Framework Agreement are in compliance with relevant regulations and guidelines (if applicable) and market practices and will not deviate from the terms of the Futures Brokerage Services Framework Agreement disclosed in this announcement;
- When determining the actual prices of services provided by the Group to Shandong Steel and/or its associates, the Group will provide the counterparties with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of Continuing Connected Transaction are fair and reasonable, the aforesaid proposed price will be evaluated and approved by the finance department, audit and supervision department and various relevant business departments of the Company in advance. In addition, the transactions under the Futures Brokerage Services Framework Agreement shall be conducted on a non-exclusive basis. Payments shall be calculated on the aforementioned bases. However, the Group usually makes enquiries on relevant prices to not less than two other independent third-party suppliers providing similar services, and makes reference to the pricing and certain other transaction terms we offered to independent third parties for similar services, to make sure that the pricing and terms offered by the Group to Shandong Steel and/or its associates are fair, reasonable and are no less favorable than those offered to independent third-party suppliers;

- The audit committee of the Board, the office of the Board and various internal departments of the Company also regularly monitor the fulfillment status and the transaction updates under the Futures Brokerage Services Framework Agreement. In addition, the management of the Company also regularly reviews the pricing policies of the Futures Brokerage Services Framework Agreement. The Independent Non-executive Directors of the Company conduct annual review for the implementation and execution of Continuing Connected Transaction (including related pricing mechanisms); the auditors of the Company would conduct annual assessment and evaluation on the internal control measures of the Company and engage annual review of the Continuing Connected Transaction under the Futures Brokerage Services Framework Agreement pursuant to the requirements of the Listing Rules, in order to confirm that, among others, the transactions are conducted in accordance to the pricing policies of the Company and relevant transaction agreements.

After taking into consideration of aforementioned pricing policies, the basis of, the reasons for and the benefits of determining proposed annual caps and internal control procedures, the Directors (including Independent Non-executive Directors) are in the opinion that the terms of the contemplated transactions under the Futures Brokerage Services Framework Agreement and the proposed annual caps thereunder are entered into based on normal commercial terms in the ordinary and usual course of business of the Company that are fair and reasonable and in the interest of the Company and all Shareholders as a whole. In the meantime, the Company considers that it has adequate mechanisms, internal control procedures and external monitoring measures to ensure that the Continuing Connected Transaction is in strict compliance with relevant regulations and guidelines and the terms of the Futures Brokerage Services Framework Agreement.

### **III. LISTING RULES IMPLICATIONS**

As at the date of this announcement, as Shandong Steel holds 80.52% shares in Laiwu Steel, which holds 41.32% shares in Zhongtai Securities, a Controlling Shareholder of the Company, and Laiwu Steel is the holding company of Zhongtai Securities, Shandong Steel is therefore a Connected Person of the Company under Chapter 14A of the Listing Rules. Also, the transaction under the Futures Brokerage Services Framework Agreement between the Company and Shandong Steel constitutes a Continuing Connected Transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Futures Brokerage Services Framework Agreement between the Company and Shandong Steel is more than 0.1% but less than 5% pursuant to the Listing Rules, the Continuing Connected Transaction under the Futures Brokerage Services Framework Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

#### **IV. THE OPINIONS OF THE BOARD**

As Mr. Zhong Jinlong, Mr. Liu Hongsong and Mr. Hu Kainan are holding office at Zhongtai Securities and/or its associates, it is deemed that they are related to the Futures Brokerage Services Framework Agreement and the transactions thereunder. Therefore, they have abstained from voting on the resolutions of the Board for the approval of the Futures Brokerage Services Framework Agreement and its proposed annual caps. Save as disclosed, there are no other Directors involved in any material interests of the aforementioned framework agreement and none of other Directors are required to abstain from voting on the resolutions of the Board for the consideration and approval of the aforementioned agreement and its proposed annual caps.

In consideration of the pricing policies, the basis of determining proposed annual caps, the reasons for and benefits of the Continuing Connected Transaction and the internal control procedures of the Company, the Directors, including Independent Non-executive Directors, are of the view that the terms of the transactions contemplated under the Futures Brokerage Services Framework Agreement and the proposed annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and all Shareholders as a whole.

#### **V. INFORMATION ABOUT THE TRANSACTION PARTIES**

##### **(1) Information about the Company**

The Company is principally engaged in commodity futures brokerage, financial futures brokerage, futures asset management and futures investment consultancy.

## (2) Information about Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008, and is principally engaged in investment in third-parties with internal funds and investment management, smelting, processing and sales businesses of ferrous metal. Its ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province (山東省人民政府國有資產監督管理委員會).

## VI. DEFINITIONS

Unless the context requires otherwise, the following terms of this announcement have the meanings as set out below:

“associate(s)”	meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“China” or “PRC”	the People's Republic of China (in this announcement, it does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
“Company”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a joint stock limited company incorporated in the PRC and its H shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 01461)
“Connected Person(s)”	meaning ascribed thereto under the Listing Rules
“Connected Transaction(s)”	meaning ascribed thereto under the Listing Rules
“Continuing Connected Transaction(s)”	meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

“Futures Brokerage Services Framework Agreement”	the futures brokerage services framework agreement entered into between the Company and Shandong Steel on 27 November 2020
“Group” or “we” or “us”	the Company and its subsidiaries (the Company and its subsidiary or various subsidiaries as the context requires)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Non-executive Director(s)”	independent non-executive Directors of the Company
“Laiwu Steel”	Laiwu Steel Group Ltd. (萊蕪鋼鐵集團有限公司), a limited company incorporated in the PRC on 6 May 1999. 80.52% of its shares is held by Shandong Steel and it is a holding company of Zhongtai Securities and a Controlling Shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Original Futures Brokerage Services Framework Agreement”	the new futures brokerage services framework agreement entered into between the Company and Shandong Steel on 28 April 2017
“RMB”	Renminbi, lawful currency of the PRC
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a limited company incorporated in the PRC on 17 March 2008. 70% of its shares are held by the State-owned Assets Supervision and Administration Commission of the People’s Government of Shandong Province (山東省人民政府國有資產監督管理委員會) and it is a Controlling Shareholder of the Company
“Shares”	the ordinary shares of the share capital of the Company with a nominal value of RMB1.00 each, including domestic shares and H shares

“Shareholder(s)”	holder(s) of the Share(s)
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券股份有限公司) (previously known as Qilu Securities Company Limited (齊魯證券有限公司), whose A shares are listed on Shanghai Stock Exchange (stock code: 600918)), a limited company incorporated in the PRC on 15 May 2001. 41.32% of its shares are directly held by Laiwu Steel and it is a subsidiary of Laiwu Steel and a Controlling Shareholder of the Company
“%”	percentage

By order of the Board  
**LUZHENG FUTURES Company Limited**  
**ZHONG Jinlong**  
*Chairman*

Jinan, the PRC  
27 November 2020

*As at the date of this announcement, the Board comprises Mr. ZHONG Jinlong and Mr. LIANG Zhongwei as executive Directors, Mr. LIU Hongsong, Mr. HU Kainan, Mr. MING Gang and Mr. LIU Feng as non-executive Directors, and Mr. GAO Zhu, Mr. WANG Chuanshun, Mr. LI Dapeng and Mr. ZHENG Jianping as Independent Non-executive Directors.*