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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)**

**ANNOUNCEMENT OF ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

The board of directors (the “**Board**”) of LUZHENG FUTURES Company Limited (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020. This announcement, containing the full text of the 2020 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

The consolidated annual results of the Group for the year ended 31 December 2020 have been reviewed by the audit committee of the Company.

This result announcement will be available for viewing on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.luzhengqh.com](http://www.luzhengqh.com)), and the printed version of the 2020 annual report of the Company will be published and delivered to the holders of the H shares of the Company in due course.

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

Jinan, the PRC  
25 March 2021

*As at the date of this announcement, the Board consists of Mr. ZHONG Jinlong and Mr. LIANG Zhongwei as executive directors, 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.*

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LUZHENG FUTURES Company Limited  
Annual Report 2020

# Definition



“Articles of Association”	the Articles of Association of LUZHENG FUTURES Company Limited
“Audit Committee”	the Audit Committee of the Board of Directors
“Board” or “Board of Directors”	the board of directors of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“China”, “PRC” or “Country” or “Mainland China”	the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “LUZHENG FUTURES”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a company reorganized in the PRC on 10 December 2012 with limited liability (previously known as Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), renamed as Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司), and then renamed as LUZHENG FUTURES CORPORATION LIMITED (魯証期貨有限公司)), and its H Shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01461)
“Controlling Shareholder(s)”	Zhongtai Securities, Laiwu Steel and Shandong Steel
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	the issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, subscribed for or credited as fully paid in Renminbi
“Group”, or “we” or “us”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a company established in the PRC on 6 May 1999 with limited liability, 80.52% of which is owned by Shandong Steel and being one of the Controlling Shareholders of the Company



“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 15 February 2015
“Luzheng Capital”	Luzheng Capital Management Co., Ltd. (魯証資本管理有限公司), previously know as Luzheng Trading Co., Ltd. (魯証經貿有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 24 April 2013
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the Nomination Committee of the Board of Directors
“OTC Option”	A non-standardized trading of option contracts on a non-centralized trading places
“PRC Futures Exchanges”	China Financial Futures Exchange (中國金融期貨交易所), Dalian Commodity Exchange (大連商品交易所), Zhengzhou Commodity Exchange (鄭州商品交易所), Shanghai Futures Exchange (上海期貨交易所), and Shanghai International Energy Exchange (上海國際能源交易中心)
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board of Directors
“Reporting Period”	the year ended 31 December 2020
“Risk Control Committee”	the Risk Control Committee of the Board of Directors
“RMB” or “Renminbi”	the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a company established in the PRC on 17 March 2008 with limited liability, 70% of which is owned by the State-owned Assets Supervision and Administration Commission of the Shandong Provincial Government (山東省人民政府國有資產監督管理委員會) and being one of the Controlling Shareholders of the Company

## Definition



“Share(s)”	the ordinary share(s) of the Company with a nominal nature of RMB1.00 each, including the Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Strategic Development Committee”	the Strategic Development Committee of the Board of Directors
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券股份有限公司), previously known as Qilu Securities Co., Ltd. (齊魯證券有限公司), a company established in the PRC on 15 May 2001 with limited liability, and listed in Shanghai Stock Exchange on 3 June 2020 (Stock code: 600918), 41.32% of which is owned by Laiwu Steel, and being one of the Controlling Shareholders of the Company

# Risk Warnings

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

The Company may be mainly exposed to the following risks:

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

With respect to the above potential risks, the Company has managed to prevent such risks by optimizing organization structure, establishing perfect systems and taking effective measures, etc. Please refer to pages 51 to 54 of this report for the possible risks, uncertainties that the Company may face, and the countering measures taken.



# Company Profile

## I. PROFILE

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

**Registered English Name:** LUZHENG FUTURES Company Limited

2. **Registered office**

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

3. **Head office in the PRC**

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

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

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

5. **Board of Directors**

Executive Directors:

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

Non-executive Directors:

Mr. Liu Hongsong<sup>Note</sup>  
Mr. Hu Kainan  
Mr. Ming Gang  
Mr. Liu Feng

Independent Non-executive Directors:

Mr. Gao Zhu  
Mr. Wang Chuanshun  
Mr. Li Dapeng  
Mr. Zheng Jianping

Note: On 10 March 2021, Mr. Liu Hongsong resigned as the non-executive director of the Company.

### 6. Authorized representatives

Mr. Zhong Jinlong  
Room 602, Unit 1, Building 13, 2nd East Area of Ming Hu Village, Lixia District, Jinan, Shandong Province, the PRC

Mr. Liang Zhongwei  
Room 301, Unit 1, Building 14, West Area of Yanzishan Village, Lixia District, Jinan, Shandong Province, the PRC

### 7. Joint company secretaries

Mr. Liang Zhongwei  
Ms. Ng Wing Shan

### 8. Auditors

#### **PRC Auditor**

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

#### **International Auditor**

PricewaterhouseCoopers  
*Certified Public Accountant*  
22/F, Prince's Building, Central, Hong Kong

### 9. Legal advisers

As to Hong Kong law: Clifford Chance  
27/F, Jardine House, One Connaught Place, Central, Hong Kong

As to PRC law: Jia Yuan Law Office  
F408, Ocean Plaza, 158 Fuxing Men Nei Ave, Xicheng District, Beijing, the PRC



## Company Profile

### 10. Principal banks

**China Construction Bank (Jinan Shizhong Sub-branch)**

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

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

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

**Bank of China (Jinan Branch)**

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

**Bank of Communications (Jinan Shizhong Sub-branch)**

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

**Agricultural Bank of China (Jinan Wanda Plaza Branch)**

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

### 11. H Share registrar

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

### 12. Stock code

01461

### 13. Investor enquiries

Investors' Service Line: +86-531-81678648  
Fax: +86-531-81678006  
Website: <http://www.luzhengqh.com>  
E-mail: [investors@luzhengqh.com](mailto:investors@luzhengqh.com)

## II. HISTORY

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

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

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

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

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

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

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

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



## Company Profile

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

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

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

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

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

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



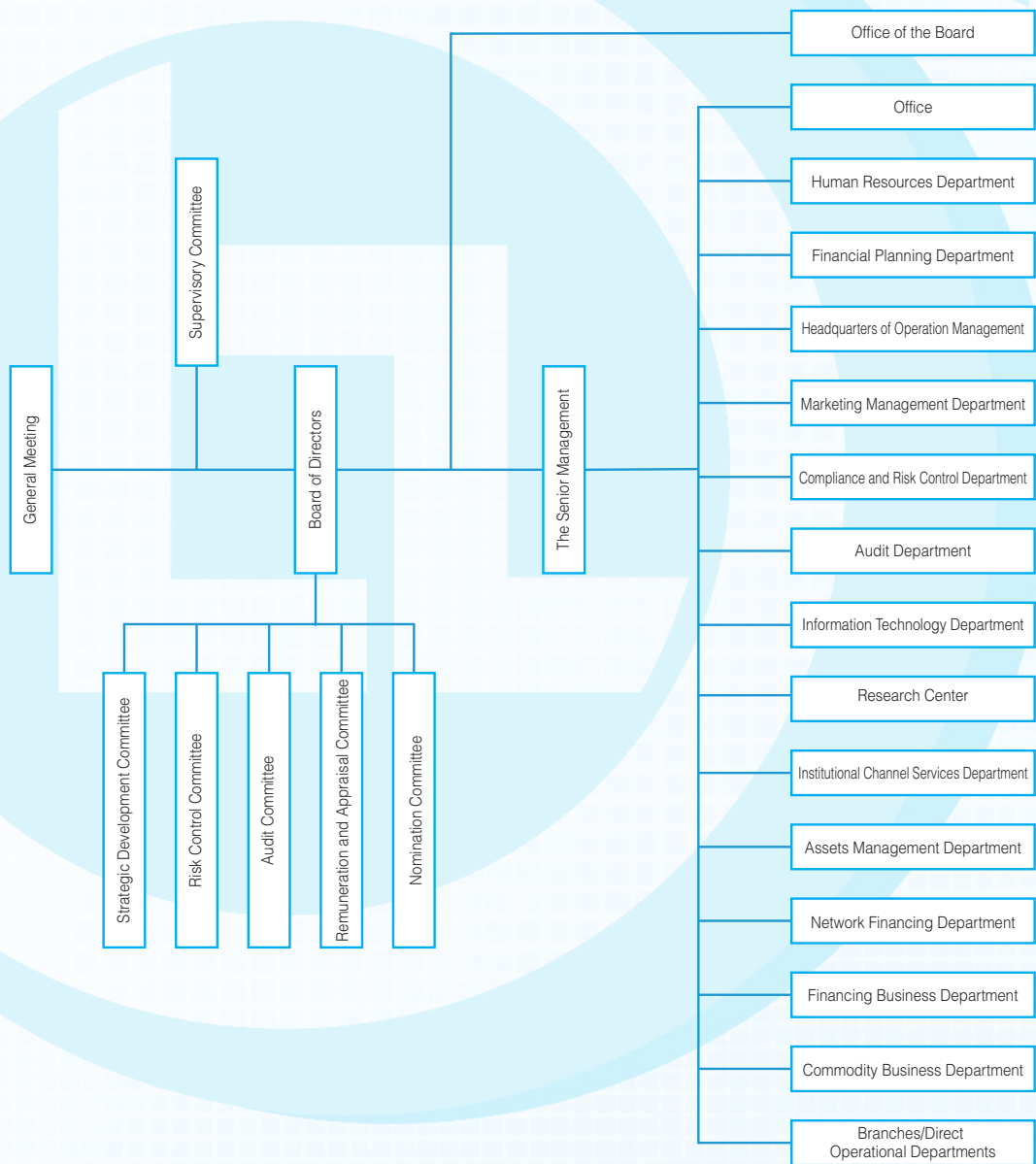
### III. STAFF PROFILE

As at the end of the Reporting Period, the Group had 530 employees in total, and the breakdown of the composition of the employees is as follows:

	Category	Number	Proportion (%)
By profession	Administrative management	41	7.74
	Financial planning	16	3.02
	Management of brokerage business	43	8.11
	Information technology	24	4.53
	Risk control & Clearing	17	3.21
	Compliance and audit	37	6.98
	Research and development	25	4.72
	Customer services	40	7.55
	Assets management	7	1.32
	Marketing	185	34.91
	Luzheng Capital	87	16.42
	Luzheng Information Technology	8	1.51
	Total	530	100
By age	Below 30	167	31.51
	31-35	152	28.68
	36-40	106	20.00
	41-45	55	10.38
	Above 45	50	9.43
	Total	530	100
By education background	Post-graduate and above	120	22.64
	Bachelor degree	343	64.72
	College degree and below	67	12.64
	Total	530	100

IV. BRIEF INTRODUCTION OF THE ORGANS AND BRANCHES

According to the Company Law (《公司法》), the Futures Trading Management Regulations (《期貨交易管理條例》) and the Supervisory and Administrative Measures on Futures Companies (《期貨公司監督管理辦法》) of the PRC, the Listing Rules and laws and regulations of Hong Kong, as well as the relevant provisions under the Articles of Association, the Company has established the legal corporate governance structure, namely the structure of “three organisations and one management level”. Under this structure, the general meeting will serve as the highest authority of the Company, with the Board of Directors, Supervisory Committee and senior management serving as the organs of decision-making, supervision and execution, respectively. As at the end of the Reporting Period, the Company has set 12 functions departments, 2 business segments and 27 branches. The organization structure of the Company is set out below:



## Company Profile

As at the end of the Reporting Period, the Company has set up a total of 27 branches operating futures products, with details as follows:

Name of branch/ sales office	Date of opening	Address of branch/ sales office (China)	Contact number
Jinan Sales Office	18 October 2007	Area B, 4/F, Jihua Building, No. 19 Yingxian Street, Tianqiao District, Jinan	+86-531-81916261
Beijing Sales Office	16 April 2007	Unit 301-304, 3/F, No. 3, Xijiekou North Street, Xicheng District, Beijing	+86-10-82194010
Shanghai Sales Office	13 October 2008	Room 1801, No. 438 Pudian Road, China (Shanghai) Pilot Free Trade Zone	+86-21-61049968
Tianjin Sales Office	10 April 2007	Units 2-05, Building 2-2-101, No. 11 Olympic Road Economy and Technology Development Zone, Tianjin	+86-22-66283471
Dalian Sales Office	11 February 2003	Units 1902, 1903 and 2009, Dalian Futures Building, Tower A of Dalian International Financial Center, No. 129 Huizhan Road, Shahekou District, Dalian	+86-411-84807388
Shenyang Sales Office	6 November 2007	Unit 2, 18/F (21/F in lift), Area I of Northeast World Trade Plaza (Building 1, Sunland Centre), No. 10 Youhao Street, Shenhe District, Shenyang, Liaoning Province	+86-24-23259108



## Company Profile

Name of branch/ sales office	Date of opening	Address of branch/ sales office (China)	Contact number
Hangzhou Sales Office	31 July 2008	Units 4001, Yueming Building, No. 231 Moganshan Road, Xihu District, Hangzhou, Zhejiang	+86-571-28118966
Zhengzhou Sales Office	11 June 2009	Unit 1705、1706, 17/F, Weilai Building, No. 69 Weilai Road, Zhengzhou	+86-371-65629609
Ningbo Sales Office	8 June 2010	Unit 9-1, Block 004, No. 475 Jiangdongbei Road, Jiangdong District, Ningbo, Zhejiang	+86-574-27893883
Qingdao Sales Office	4 November 2008	No. 78 Jiangxi Road, Shinan District, Qingdao	+86-532-80776050
Yantai Sales Office	27 May 2002	4/F, Block B, Guanhai Building, No. 267 Guanhai Road, Laishan District, Yantai	+86-535-6605095
Zibo Sales Office	25 July 2008	9/F, Securities Building, No. 66 Renmin West Road, Zhangdian District, Zibo	+86-533-2770098
Linyi Sales Office	29 October 2007	Unit 602, IFC International Financial Center, Intersection of Yimeng Road and Zhisheng Road, Liuqing Street, Lanshan District, Linyi	+86-539-8055816
Jining Sales Office	16 May 2008	Unit 807, Xingtang Jinmao Building, No. 123, Guanghe Road, Jining	+86-537-2715707
Weifang Sales Office	30 October 2008	4/F, Office Building, No. 166 Dongfeng West Road, Weicheng District, Weifang	+86-536-8232653

Name of branch/ sales office	Date of opening	Address of branch/ sales office (China)	Contact number
Dongying Sales Office	11 November 2008	Unit 417, 419, 420 and 422, No. 787, North 1st Road Dongying District, Dongying	+86-546-8279996
Dezhou Sales Office	29 January 2010	3/F, No. 1186 Hubin Central Road, Dezhou, Shandong	+86-534-2617088
Wenzhou Sales Office	12 August 2011	Unit 103, Block 1-2 Renhe Jiayuan Station Road, Lucheng District, Wenzhou, Zhejiang	+86-577-85552188
Shenzhen Sales Office	27 December 2011	Unit 03, 25th Floor, Zhaobangji Building, No. 319, Fuhua Road, Gangxia Community, Futian Avenue Futian District, Shenzhen	+86-755-83509686
Guangzhou Sales Office	22 October 2012	904 East, No. 30 Tianhe North Road, Tianhe District, Guangzhou	+86-20-38838558
Changsha Sales Office	12 March 2013	Room 706, Kairui Building No. 245 Laodong Road West, Tianxin District, Changsha	+86-731-89737711
Rizhao Sales Office	26 December 2014	Unit 1203, Block 001, Hangmao Center, No. 277 Beijing Road, Rizhao Economy and Technology Development Zone, Rizhao, Shandong	+86-633-8088158
Shanghai Branch	1 February 2016	Unit 01, 20/F (nominal floor, 18/F actual floor), 759 Yanggao South Road, China (Shanghai) Pilot Free Trade Zone	+86-21-61620325

## Company Profile

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

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

2020 marks the 30th anniversary of China's futures market. With the impact of the COVID-19 pandemic, the global industrial chain and supply chain faced severe challenges, leading to more violent fluctuation in the prices of commodities and other assets. Domestic entities suffered from high inventories, difficult sales, ineffective industrial chain, and short supply of raw materials and cash flow. In such circumstances, the futures market gave full play to its risk management function, and contributed "power of futures" to stabilizing the production and operation of enterprises, with exciting achievements.

Firstly, record highs were set for both the scale of capital and the trading volume in the market. At the end of December 2020, client equity in China's futures market exceeded RMB824.724 billion, representing a year-on-year increase of 62.66%; the cumulative trading volume and turnover for the year reached 6.153 billion board lots and RMB437.5 trillion, representing a year-on-year increase of 55% and 51%, respectively. Secondly, new varieties were launched to the market at a faster pace. With addition of 12 new varieties during the year, there were 90 listed varieties; With addition of 32 new market-making varieties, there were 65 market-making varieties. Thirdly, institutional clients were more involved. The market were witnessing rapidly-increasing Capital in 2020, primarily driven by investment from institutional clients. The positions and trading volume of institutional investors accounted for 55.59% and 37.4% of the total market, representing a year-on-year increase of 38% and 98.6%, respectively. Fourthly, initial progress was made in the construction of the over-the-counter (the "OTC") derivatives market. Three commodity futures exchanges have launched their respective OTC futures plus spot business platforms for warehouse receipt trading, basis trading, commodity swaps, etc. Fifthly, more and more varieties were available to foreign investors through more diversified channels. There were 7 special futures varieties available to foreign investors. "China Price" was exported successfully through the settlement price authorization for the first time. Since the restriction on the proportion of foreign investment in futures companies was removed, the first futures company wholly-owned by foreign investment was established. Sixthly, the overall strength of companies with futures business was improved. As at the end of December 2020, the total assets, net assets, and net profit of the industry were RMB984.825 billion, RMB135.001 billion and RMB8.603 billion, representing a year-on-year increase of 52.63%, 11.18%, and 42.20%, respectively.



However, competition among futures companies were becoming increasingly fierce, leading to accelerated decline in traditional brokerage businesses. It became more and more clear that the strong players are always getting stronger as the equity balance dominated by the top 10 companies were increasing year by year.

## VI. BUSINESS BRIEFINGS OF THE COMPANY

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

## VII. BRIEFINGS OF OUR SUBSIDIARIES

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

The business scope of Luzheng Capital includes investment activities and investment planning with self-owned capital, investment planning; enterprise management consulting; sale and wholesale of agricultural products, metal products, metallurgical materials, mineral products (except special provisions of the state), precious metals, chemical products (except hazardous chemicals, monitored chemicals, fireworks, civil explosives, precursor chemicals); import and export activities (except for the items prohibited by laws, administrative regulations and the decisions of the state council, the limited items shall be operated only after obtaining a license); technical consultation; investment consultant (except restricted items); edible oil sales and wholesale (licensed business projects), etc.

The business scope of Luzheng Information Technology includes sale of electronic products, office automation equipment, computers, cultural office machinery, control equipment, machine room equipment; computer information system integration service; development, sales and related technical services of computer network products and software; electronic engineering design and construction and information technology consulting services, etc.

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

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

LUZHENG INTERNATIONAL FUTURES LIMITED is currently in a state of voluntary winding up.

JINOVA S.A. is currently in a state of liquidation.

## Company Profile

Details are as follows:

Name of the company	Shareholding percentage (%)	Date of establishment	Registered address	Contact number
Luzheng Capital Management Co., Ltd. (魯証資本管理有限公司), (previously know as Luzheng Trading Co., Ltd. (魯証經貿有限公司))	100	2013.04.24	Room 201, Block A, No. 1 Qianwanyilu, Shenzhen – Hong Kong Cooperation Zone, Qianhai, Shenzhen, Guangdong Province, the PRC (in Shenzhen Qianhai Commercial Secretary Co., Ltd)	+86-531-86161199
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)	100	2015.02.15	Room 1515, Floor 15, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC	+86-531-81678620
ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED (中泰匯融(香港)有限公司)	100	2013.11.21	40th Floor, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong	+86-531-86161199
LUZHENG INTERNATIONAL HOLDING LIMITED (魯証國際控股有限公司)	100	2018.04.16	40th Floor, Dah Sing Financial Centre 248 Queen's Road East, Wanchai, Hong Kong	+852-39120800
LUZHENG INTERNATIONAL FUTURES LIMITED (魯証國際控股有限公司)	100	2018.05.17	40th Floor, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong	+852-39120800
JINOVA S.A.	100	2018.08.29	Carrefour de Rive 1, 1207 Geneva, Switzerland	+86-531-81916284

## VIII. HONOURS AWARDED TO THE COMPANY DURING THE REPORTING PERIOD

In 2020, the Company was honored with “Best Commodity Futures Industry Service Award”, “Best Financial Futures Service Award”, “Best Precision Poverty Alleviation and Public Welfare Award”, and “Best Corporate Brand Building Award”, “Most Popular Self Media by Futures Companies”, “Best Risk Management Futures Subsidiary Service Innovation Award”, “Best Futures IT System Construction Award”, “Best Derivatives Comprehensive Service Innovation Award”, “China’s Futures Research Institute Gold Award” and “Best Futures Operation Branch in China” in the 13th selection of best futures operation institutions in China;

The Company was awarded the title of “Provincial Spiritual Civilization Unit” by the Spiritual Civilization Construction Committee of Shandong Province;

The Company was awarded the title of “March 15 Integrity Financial Brand” and “Shandong’s Most Influential Financial Brands in Poverty Alleviation” by Dazhong Daily Newspaper;

The Company was awarded the “Technology Management Award” by China Financial Futures Exchange;

The Company was awarded the “Excellent Member for Industrial Service Award”, “Excellent Member for Technical Support Award”, “Excellent Service Member for Apple Variety Award” and “Excellent Service Member for Red Dates Variety Award” by Zhengzhou Commodity Exchange;

The Company was awarded “Excellent Member Award”, “Excellent Industrial Service for Agricultural Product Award”, “Excellent Industrial Service for Ferrous Metals Award”, “Excellent Technical Support Award” and “Excellent Market Support for OTC Products Award” by Dalian Commodity Exchange;

The Company was awarded “Energy and Chemical Industry Service Award” and “Option Market Service Award” by Shanghai Futures Exchange;

The Company was awarded “Outstanding Investor Education Award in the 14th National Futures (Options) Real Trading Competition”; and

The Company was awarded “2020 China’s Leading Model in Apple Industry” by the China Apple Industry Association.



# Financial Summary

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

## I. MAJOR ACCOUNTING DATA OF THE GROUP

Unit: RMB'000

Item	2020	2019	Increase/decrease over corresponding period of last year	2018
Operating income	488,819	321,867	51.87%	423,148
Operating profit	113,197	45,286	149.96%	147,412
Profit before income tax	97,890	42,363	131.07%	152,745
Net profit attributable to shareholders of the Company	56,834	29,750	91.04%	117,719
Net cash (outflow)/inflow from operating activities	(223,450)	430,648	(151.89)%	334,458

Unit: RMB'000

Item	31 December 2020	31 December 2019	Increase/decrease over corresponding period of last year	31 December 2018
Total assets	12,925,647	8,928,814	44.76%	7,900,430
Total liabilities	10,686,253	6,744,152	58.45%	5,667,104
Total equity attributable to shareholders of the Company	2,239,394	2,184,201	2.53%	2,208,442
Total share capital	1,001,900	1,001,900	0.00%	1,001,900

## II. MAJOR FINANCIAL INDICATORS OF THE GROUP

Item	2020	2019	Increase/decrease over corresponding period of last year	2018
Basic earnings per Share (RMB)	0.06	0.03	100%	0.12
Diluted earnings per Share (RMB)	0.06	0.03	100%	0.12
Weighted average return on net asset	2.57%	1.33%	increased by 1.24 percentage points	5.14%

Item	31 December 2020	31 December 2019	Increase/decrease over corresponding period of last year	31 December 2018
Net asset per Share attributable to shareholders of the Company (RMB)	2.24	2.18	2.75%	2.20
Gearing ratio	18.69%	13.97%	increased by 4.72 percentage points	13.72%

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

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

Indicators	31 December 2020	31 December 2019	Regulatory standard
Net capital (RMB)	967,024,667.25	1,150,992,769.04	30,000,000.00
Net capital/total risk capital reserves	279.89%	468.45%	100.00%
Net capital/net assets	44.88%	55.16%	20.00%
Current assets/current liabilities	659.46%	722.96%	100.00%
Liabilities/net assets	12.88%	9.91%	150.00%
Settlement reserve funds (RMB)	420,410,762.68	755,051,116.06	12,000,000.00

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

## Financial Summary

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

#### 1. Profitability

Unit: RMB'000

Item	2020	2019	2018	2017	2016
Operating income	488,819	321,867	423,148	465,865	398,915
Operating expenses	375,622	276,581	275,736	258,377	244,106
Profit before income tax	97,890	42,363	152,745	206,568	154,926
Net profit attributable to shareholders of the Company	56,834	29,750	117,719	158,631	113,003

#### 2. Assets Condition

Unit: RMB'000

Item	31 December 2020	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Total assets	12,925,647	8,928,814	7,900,430	8,828,934	8,204,293
Total liabilities	10,686,253	6,744,152	5,667,104	6,644,231	6,125,765
Equity attributable to shareholders of the Company	2,239,394	2,184,201	2,208,442	2,156,571	2,048,755
Total share capital	1,001,900	1,001,900	1,001,900	1,001,900	1,001,900

#### 3. Key financial indicators

Item	2020	2019	2018	2017	2016
Basic earnings per Share (RMB)	0.06	0.03	0.12	0.16	0.11
Diluted earnings per Share (RMB)	0.06	0.03	0.12	0.16	0.11
Weighted average return on net asset	2.57%	1.33%	5.14%	7.36%	5.59%
Net asset per Share attributable to shareholders of the Company (RMB)	2.24	2.18	2.2	2.15	2.04
Gearing ratio	18.69%	13.97%	13.72%	19.98%	16.24%



# Chairman Statement

Dear Shareholders,

2020 put a successful ending of the drive of the People's Republic of China in building a well-off society in an all-round way and its "13th Five-Year Plan". In the year, the country achieved decisive success in realizing its first centenary goal, and met its goal of eradicating poverty. The year also marks the 30th anniversary of the establishment of China's futures market. The futures market is playing an increasingly important role in the new journey of building a modern socialist country in an all-round way. Given the sudden outbreak of the COVID-19 pandemic at the beginning of the year, China's futures market further highlighted its role of stabilizing economic operation and risk management. It made encouraging progress in many areas, and contributed a lot to the country's economic recovery at the earliest time.

In 2020, under the guidance of various governments and regulatory authorities at all levels, with the support and help of Shareholders, and under the leadership of the new session of the Board of Directors, Luzheng Futures continued to see improvements in various business indicators and significant increase in financial performances, as well as the goal of recovering growth while doing a good job in pandemic prevention and control. On behalf of the new session of the Board of Directors, I hereby thank all Shareholders for your consistent trust in and support of Luzheng Futures, and thank all members of the community for their care and help to Luzheng Futures.

2020 saw vigorous development in the futures market, evidenced by record highs set by both the scale of market capital and the trading volume, and the much faster pace at which new products were introduced. However, competition among futures companies were becoming increasingly fierce, leading to accelerated decline in traditional brokerage businesses featuring that the strong players are always getting stronger. Given increasingly fierce competition in the industry, all employees of Luzheng Futures made concerted efforts towards the same goal and purpose with stronger confidence. They are always committed to serving the real economy, continuously exploring basic futures brokerage business and prudently developing risk management business with an aim of building their professional research capabilities and establishing their professional research brand. By doing so, the brand influence of Luzheng Futures was further enhanced, and the Company has won numerous honors such as "China's Futures Research Institute Gold Award " and "Best Corporate Brand Building Award".

In 2020, Luzheng Futures leveraged on its financial advantages to fulfill its social responsibilities and reward the society. A total of 12 "insurance + futures" projects were launched in 13 counties and districts of 4 provinces, involving 6 varieties. These projects covered a total of about 58,000 farmers. The corn income insurance project in Huachuan County, Heilongjiang Province, continued to help the local people to consolidate results of the poverty alleviation; the Corn Income Insurance Project in Jiyang District of Jinan City in Shandong Province was the first of its kind in the country to improve the local agricultural subsidy policy.

## Chairman Statement

2021 marks the opening of China's "14th Five-Year Plan" and the new journey of building a socialist modern country in an all-round way. In the new year, Luzheng Futures will continue to forge ahead forcefully in all aspects, operate with wholeheartedly, bravely pioneer innovation with a determination for self-improvement against all difficulties, perseverantly and painstakingly, for a general improvement; accelerate the building of a marketing and service team to improve efficiency per person; quickly enhance research capacity and promote the transformation of brokerage business; put more efforts on developing special legal person corporate customers and industrial customers, and optimize the customer mix; carry out risk management business in a sound manner; optimize the business coordination mechanism between parent and subsidiary companies to stimulate synergy potential and vitality; proceed with various reforms, optimize the management system and mechanism; adhere to the goal of zero deduction for compliance, continuously strengthen compliance and risk control management, in order to achieve high-quality development and become one of the leading players in the industry sooner, and give back to all Shareholders with practical actions and excellent results!

**LUZHENG FUTURES Company Limited**

**ZHONG Jinlong**

*Chairman*

25 March 2021



# Management Discussion and Analysis

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

### (1) Economic Conditions

In 2020, despite the general declining trend amidst the global spread of the COVID-19 pandemic (the “Pandemic”), China’s economy saw growth, benefiting from the effective disease combat and prevention. The annual gross domestic product (the “GDP”) climbed to a record of RMB100 trillion. At the beginning of the year, given the severe and complex domestic and foreign environment, especially the havoc of the Pandemic, China took the lead in controlling the Pandemic and resuming work and production, benefiting from the jointed efforts of the whole country. In late March, the spread of the Pandemic was almost blocked in China, and by mid-April, more than 90% of enterprises above designated size commenced operation. The GDP grew by 3.2% in the second quarter, turning around from negative growth, and by 4.9% and 6.5% respectively in the third quarter and in the fourth quarter, translating into an annual growth rate of 2.3%. In 2020, China’s GDP amounted to RMB101.6 trillion, indicating a new level of RMB100 trillion for the total economic volume.

In 2020, China has achieved not only positive growth in the overall economy, but also coordinated recovery and development of the three major industries. Agricultural production reaped a bumper harvest despite the Pandemic, floods and other shocks, consolidating its underlying position in the economy. The annual added value increased by 3% as compared with the previous year. The industrial production, especially the manufacturing sector, generally showed a steady recovery season-by-season. The annual added value of industries above designated size increased by 2.8% as compared with the previous year, gradually returning to the normal level. The pillar industries were playing an increasingly supporting role, and the equipment manufacturing sector was recovering rapidly. Following the sharp decline at the beginning of the year, the service sector showed a quarter-by-quarter recovery in production and operation, and saw continued improvement in the key indicators. New drivers were active and market continued to gain confidence. The annual value added increased by 2.1% as compared with the previous year. The modern service sector featuring new technologies showed a strong growth momentum, injecting new vitality into economic development.

In 2020, due to remarkable macro-economic control, China’s core macro-economic indicators basically returned to normal levels and the goals stated in the government work report was completed on schedule. The quarterly economic growth indicators returned to normal levels. In the fourth quarter, the GDP and the added value of industries above designated size increased by 0.7% and 1.1%, respectively, as compared with the previous year. 11.86 million new jobs were created in cities and towns throughout the country, and the average surveyed unemployment rate at 5.6%. The growth of residential income is basically in line with the economic growth. The per capita disposable income of Chinese residents grew by 2.1%, which is basically in line with the economic growth. The overall balance of international payments was improved as the balance of foreign exchange reserves at the end of the year was US\$3,216.5 billion, representing an increase of US\$108.6 billion as compared with the previous year.



## Management Discussion and Analysis

In 2020, China's economic development not only displayed growth in volume, but also a leap in quality. The new industries, new business forms, and new products recorded rapid development, while the output of industrial robots, new energy vehicles, and integrated circuits reported significant increase of 19.1%, 17.3%, and 16.2%, respectively. The number of small and medium-sized technological enterprises and high-tech enterprises exceeded 200,000. Energy consumption per unit of GDP declined while the proportion of consumed natural gas, water, nuclear, wind, photovoltaic and other clean energy in total energy consumption increased by 1% as compared with the previous year. This reflects the effect of concept of green development, and the energy saving and consumption reduction. In the context of shrinking global trade and cross-border investment, both China's total imports and exports of goods and the actual use of foreign capital achieved positive growth, which has played an important role in stabilizing the general economy. The construction of Hainan's free trade port was paced up. Economic and trade exchanges with countries along the "One Belt, One Road" initiative were active. The country has officially signed the "Regional Comprehensive Economic Partnership Agreement" (RCEP), and concluded negotiations on the China-EU Investment Agreement.

In summary, in 2020, China has made an extraordinary achievements and delivered an astonishing answer that can be recorded in the history of the world, given that the Pandemic was spreading around the world and pushing the world economy into a severe recession, and the external environment became more complex and severe. The main tasks of the "13th Five-Year Plan" were completed successfully.

### (2) Futures Market Analysis

2020 marks the 30th anniversary of China's futures market. With the impact of the pandemic, the global industrial chain and supply chain faced severe challenges, leading to more violent fluctuation in the prices of commodities and other assets. Domestic entities suffered from high inventories, difficult sales, ineffective industrial chain, and short supply of raw materials and cash flow. In such circumstances, the futures market gave full play to its risk management function, and contributed "power of futures" to stabilizing the production and operation of enterprises, with exciting achievements.

Firstly, record highs were set for both the scale of capital and the trading volume in the market. At the end of the Reporting Period, client equity in China's futures market exceeded RMB824.724 billion, representing a year-on-year increase of 62.66%; the cumulative trading volume and turnover for the year reached 6.153 billion board lots and RMB437.5 trillion, representing a year-on-year increase of 55% and 51%, respectively.

Secondly, new varieties were launched to the market at a faster pace. With addition of 12 new varieties during the year, there were 90 listed varieties; With addition of 32 new market-making varieties, there were 65 market-making varieties.

Thirdly, institutional clients were more involved. The market were witnessing rapidly-increasing capital in 2020, primarily driven by investment from institutional clients. The positions and trading volume of institutional investors accounted for 55.59% and 37.4% of the total market, representing a year-on-year increase of 38% and 98.6%, respectively.

Fourthly, initial progress was made in the construction of the OTC derivatives market. China's commodity futures exchanges have launched their respective OTC futures plus spot business platforms for warehouse receipt trading, basis trading, commodity swaps, etc.

Fifthly, more and more varieties were available to foreign investors through more diversified channels. There were 7 special futures varieties available to foreign investors. “China Price” was exported successfully through the settlement price authorization for the first time. Since the restriction on the proportion of foreign investment in futures companies was removed, the first futures company wholly-owned by foreign investment was established.

Sixthly, the overall strength of companies with futures business was improved. As at the end of Reporting Period, the total assets, net assets, and net profit of the industry were RMB984.825 billion, RMB135.001 billion and RMB8.603 billion, representing a year-on-year increase of 52.63%, 11.18%, and 42.20%, respectively.

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

During the Reporting Period, given the complex and changeable economic environment in China and overseas and the volatile market conditions resulting from the global Pandemic among others, the Group took the initiative to carry out various reforms in a practical manner, and strived to remove the institutional obstacles that hinder the development of the Group, while effectively preventing and controlling the Pandemic, and achieved a satisfactory result of operation.

### (1) Futures Brokerage Business

#### Market Analysis:

During the Reporting Period, the number of China's listed futures and options varieties increased steadily, with an addition of 12 newly listed derivatives, including 4 futures varieties such as liquefied petroleum gas, low-sulfur fuel oil, short fiber, and international copper, as well as 8 option varieties such as rapeseed meal, liquefied petroleum gas, and power coal, polypropylene, polyvinyl chloride, linear low-density polyethylene, aluminum, and zinc, and live pig futures was also approved. As at the end of the Reporting Period, a total of 90 derivatives were listed in China, including 22 option varieties, which further expanded the futures market in terms of the scope and extent for serving the real economy.

#### Development Plans and Results:

Firstly, the Company aggressively carried out various reforms, optimized the operation and management system and mechanism, with a priority on the construction of compliance and risk control system, leading to continued improvement in the result of operation.

Secondly, the Company formulated a series of feasible and effective incentives to stimulate the enthusiasm and creativity of various business entities, driving the balance of equity in futures to a new high.

Thirdly, the Company improved user experience leveraging on the Internet business model, as well as brand promotion, user operation, investor education, Internet services. Business volume and brand influence were also increased. Relying on the Company's Internet business base and resources, the Company conducted additional work related with Internet business, improved the quality and efficiency of related work, which advanced the transformation of traditional special business operation to Internet business.



## Management Discussion and Analysis

Fourthly, the Company further optimized the layout of sales offices, sped up the construction of talent teams, improved business expansion capabilities.

Fifthly, the Company integrated its resources, and optimized the business coordination mechanism so as to provide a full range of services to our clients.

During the Reporting Period, the Group's key financial indicators (such as income from brokerage business, client's equity, trading turnover) continued to increase. Among them, income from brokerage business was RMB349,759.6 thousand, representing a year-on-year increase of 41.69%.

### (2) Futures Investment Consulting Business

#### Market Analysis:

With the accelerated innovation of the futures market, the on-going diversification in the offerings of futures and derivatives and continuous improvement in the functions of the futures market, the demand for risk management associated with the spot commodities are increasing with time, leading to gradual growth of participation, which fueled expansion of the futures market. Objectively speaking, the futures industry confronts an increasing demand for systematic and personalized risk management. However, certain shortcomings remain in the research and service capabilities. Therefore, income from investment consulting services in the futures industry has not yet become very significant, and its contribution to the revenue of futures companies is relatively limited. As the futures industry and industrial clients explore continuously, the risk management approaches and ways leveraging on the futures market will be improved gradually, and the investment consulting business in the futures industry will have a very bright prospects in the future.

#### Development Plans and Results:

Firstly, it set up a high-quality variety research and development team to strengthen services to key clients using the Company's key advantageous varieties; secondly, it increased the internal assessment and incentive mechanism within research services to promote the development of investment consulting business. During the Reporting Period, the Company's cumulated income from investment consulting business grew by 4.8% as compared with the previous year.

### (3) Futures Asset Management Business

#### Market Analysis:

During the Reporting Period, the industry scale showed rapid recovery growth after the futures companies and their subsidiaries explored and adjusted the asset management business development model in the past. As at the end of the Reporting Period, the scale of asset management business of futures companies and their subsidiaries was RMB218.1 billion, representing an increase of RMB74.8 billion or approximately 52% as compared with RMB143.3 billion in 2019.



### Development Plans and Results:

During the Reporting Period, the Company was committed to continuously improving internal control and disposal of liquidated products without expansion of its asset management business.

### (4) Risk Management Business

#### Market Analysis:

Since the outbreak of the Pandemic, China had been upgrading its prevention and control measures. The epidemic prevention and control led to an extreme shortage of manufacturing workers, and blocked transportation and logistics. Companies engaged in the production, warehousing, and logistics and transportation on the bulk commodity industrial chain have found it much difficult to resume work and operation. This has hindered the basis trading business based on trading of spot bulk commodities such as grains and ferrous metals.

Due to the global outbreak of the Pandemic and the price war between oil-producing countries, the bulk commodity market represented by crude oil and other energy and chemicals encountered turbulence. Trading businesses such as over-the-counter derivatives, market-making business, and futures investment were heavily hurt.

#### Development Plans and Results:

The Company continued to carry out commodity trading and risk management business through Luzheng Capital, including basis trading, warehouse receipt services, cooperative hedging business, market-making business, and OTC derivatives business, which primarily involves management of commodity price risks and inventory management for clients.

During the Reporting Period, amidst the on-going Pandemic and the significant year-on-year decline in the trading volume of the bulk commodity OTC derivatives market, the Group's OTC business moved on steadily. All the three business segments, including commodity, equity OTC business, and "insurance + futures" saw steady growth of business with a cumulative nominal principal of transactions of RMB64.901 billion and the market share of OTC Option business was approximately 10%, maintaining its leading position in the industry. The Group has launched a total of 12 "insurance + futures" projects involving 13 counties in 4 provinces including Heilongjiang, Shandong, Liaoning and Xinjiang, in respect of 6 varieties, namely corn, soybeans, cotton, red dates, chicken feed, and eggs. The project covers approximately 900,000 mu of agricultural products with insurance amounting to RMB950 million.

During the Reporting Period, the Group's market-making business entered a fast development lane. The number of market-making products increased approximately 188%. The improved market-making business strategies and the more diversified varieties have contributed to a significant increase of revenue. The market-making business will provide more options and futures products with good liquidity services, and promote the development of the on-exchange options and futures markets.

## Management Discussion and Analysis

### (5) Information Technology (“IT”)

#### Market Analysis:

The futures industry is one of the key elements of the construction of the national financial system. In recent years, with the further opening up of the domestic market to the outside world, and as an informatization-based industry, the state and industry regulatory authorities have put forward more immediate requirements on its informatization construction.

After several years of development, the investment boom in the global Fintech are heating up, and the Fintech are receiving much attention as contrast to being overlooked upon in the past. Fintech can create new business models, applications, processes or products, which will have a significant impact on the financial markets, financial institutions, or the way in which financial services are provided.

IT is changing the ecological pattern of the financial industry, and transforming the traditional financial industry relying on the two major advantages of data and technology. Intelligence, convenience, and low cost are advantages of the Fintech to reshuffle the traditional finance. The “intermediary and channel” roles of the traditional futures industry will be challenged by the new technologies. In terms of product and service forms, Fintech prompted the financial industry to pay more attention to customer experience. IT has gradually turned from a foothold to a leadership in business development.

#### Development Plans and Results:

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

During the Reporting Period, on one hand, the Company focused on IT, scientific prevention and control of the Pandemic, reasonable arrangements, operation in compliance with safety standards, improved business and management efficiency, ensured the flawless operation of the system, completed upgrades and reconstruction of see-through supervision, and optimization and adjustments of quantitative business system, strengthened compliant management, reviewed and established related systems; successfully completed the phased transformation of IPV6 (Internet Protocol Sixth Edition) and national secret codes. Meanwhile, technological innovative attempts were made in the construction of Fintech and big data platform, the mobile phone applications of Luzheng Finance, automated operation and maintenance, etc., to further expand the Company's business development space.

On the other hand, Luzheng Information Technology established by the Company is still the only IT subsidiary in the futures industry. Luzheng Information Technology has built a software development business platform and team, independently developed an OTC Option business management system and a futures risk control management system, providing a solid technical guarantee for the daily business development of Luzheng Capital and serving the real economy; it has developed the Futures Company's unified risk control platform, realized the comprehensive risk control, early warning and management for the Company's multiple business lines. In addition, Luzheng Information Technology has made certain progress in the development of terminal software for trading clients, quantitative trading software, mobile terminal service platform and futures information release platform.



### (6) Major Work Plans for 2021

In 2021, the Group will concentrate its efforts and seize opportunities for the purpose of the high-quality development of the Group. The overall plan and main development tasks of the Group include: accelerate the construction of a marketing and service team to improve the efficiency per person; accelerate the construction of research capacity and advance the transformation of brokerage business; increase the development of special legal person corporate clients and industrial clients, and improve the customer structure base; carry out risk management business in a sound manner; optimize the business coordination mechanism between parent and subsidiary companies to stimulate synergy potential and vitality; proceed with various reforms, optimize the management system and mechanism; adhere to the goal of zero deduction in compliance performance, continue to strengthen compliance and risk control management. Benchmarking against its peers for improvement and truly implementing stated plans in practice, it strives to enhance our competitiveness of all businesses and achieve high-quality development.

By business types, the main work plans of the Group in 2021 are as follows:

#### **Futures Brokerage Business**

Firstly, it will optimize the performance appraisal policies to stimulate potential and vitality; secondly, it will devote more efforts on the building of a research team and improve its professional support service capabilities; thirdly, it will devote more efforts on the building of a marketing service team; fourthly, it will continue to push ahead with Internet business related work, and strengthen brand promotion, user operation, and Investor education over the Internet, Internet services and other related work; fifthly, it will strengthen the development of industrial customers and special legal person corporate customers; sixthly, it will strengthen the business synergy between parent and subsidiary companies; seventhly, it will deepen and optimize the reform of the operation and management mechanism.

#### **Futures Investment Consulting Business**

It will continue to improve research service support system and the assessment and incentive mechanism of investment consulting business, and launch our research results onto the market, and further improve the research service capabilities based on the market feedback, and promote the Company's research service capabilities and transformation of research value through investment consulting business.

#### **Futures Asset Management Business**

Its determination to return to the origin of the asset management business remains unchanged, In order to achieve the goal and priority of building active management capabilities, it will enhance the professional capabilities of the asset management business. Firstly, it will continue to optimize the construction of the internal control mechanism of the asset management business; secondly, it will establish and cultivate an independent investment management team; thirdly, it will strengthen the construction of IT for the asset management business; fourthly, it will cultivate investment strategies and asset management products that can give full play to the advantages of futures.



## Management Discussion and Analysis

### Risk Management Business

The Group will further improve the human resources system, strengthen the investment and research capabilities, rationally adjust and allocate research resources to each product line, and increase the support of research to risk management business. Firstly, it will create an OTC business system with core competitiveness, achieve qualitative improvement through quantitative accumulation, realize scale and efficiency; secondly, it will steadily improve the market-making business ability, and make it an important earning stream for the Group as soon as possible; thirdly, it will further develop those industries where it has advantages, and seek better development in basis-spread trading business; fourthly, it will review and improve the system and procedures to make sure that the compliance are effectively incorporated, and risk management measures are in place; fifthly, it will strengthen team building in accordance with market-orientated approach, so that the business scale, type and level of risks match its team's ability; sixthly, it will increase the collaboration between the institute and other business entities.

### Information Technology

The Group will make full use of the professional advantages of Luzheng Information Technology and form core competitiveness, and quickly occupy the market. Firstly, it will improve the operation and maintenance system and enhance the operation and maintenance management; secondly, it will strengthen the information security, standardize external access, compliance, risk control and construction of information systems to ensure the compliant operation and healthy development of related businesses; thirdly, it will actively promote the application of Fintech, accelerate the Company's digital transformation using big data platforms, cloud computing, artificial intelligence, and improve customer service capabilities; fourthly, it will proceed with the transformation of IPV6 (Internet Protocol Sixth Edition) and national secret transformation projects, and implement the key requirements of Xi Jinping (the General Secretary of the CPC Central Committee) about Network power and adhering to the general tone of seeking progress while maintaining stability and the new development concept.

## III. FINANCIAL STATEMENT ANALYSIS

### (1) Profitability Analysis

During the Reporting Period, the Group achieved significant growth of its net profit attributable to shareholders for the year ended 31 December 2020, because it carried out various reforms to further stimulate the vitality of operating entities, accelerated business transformation to improve online business and online customer service experience, which gave full play to the advantages of Internet business mode and led to significant increase in income from brokerage business; and the OTC Options business maintained its leading position in the industry, resulting in increases in income from hedging business.

During the Reporting Period, the Group achieved operating income of RMB488.819 million, which represented an increase of 51.87% as compared with RMB321.867 million in 2019; operating expense of RMB375.622 million, which represented an increase of 35.81% as compared with RMB276.581 million in 2019; and profit attributable to Shareholders amounting to RMB56.834 million, which represented an increase of 91.04% as compared with RMB29.75 million in 2019. Earnings per share attributable to Shareholders were RMB0.06.

### (2) Asset Structure and Asset Quality

At the end of the Reporting Period, affected by the increase in customers' equity, both total assets and total liabilities of the Group grew at different paces.

At the end of the Reporting Period, the Group's assets totalled RMB12.926 billion, representing an increase of 44.76% as compared with RMB8.929 billion at the end of 2019. The Group's liabilities totalled RMB10.686 billion, representing an increase of 58.45% as compared with RMB6.744 billion at the end of 2019. Net assets attributable to shareholders were RMB2.239 billion, representing a increase of 2.53% as compared with RMB2.184 billion at the end of 2019.

At the end of the Reporting Period, the Group's total assets were as follows: non-current assets were RMB306 million, which represented an increase of 70.95% as compared with RMB179 million at the end of 2019, and current assets were RMB12.620 billion, which represented an increase of 44.25% as compared with RMB8.749 billion at the end of 2019. The increase in the non-current assets was mainly due to the increase in the financial assets at fair value through profit or loss. The increase in current assets was mainly due to the increase in margins deposited with exchange-clearing agencies. 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 RMB515 million, which represented a increase of 45.07% as compared with RMB355 million at the end of 2019. The Group's gearing ratio was 18.69%, representing an increase of 4.72 percentage points as compared with 13.97% at the end of 2019. During the Reporting Period, asset and liability levels were relatively stable, without facing any liquidity pressure as a result of the Pandemic.

### (3) Financing Channels and Ability

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

### (4) Liquidity Level Management

The Company places great emphasis on liquidity management based on the principle of "being comprehensive, prudent and predicable" while focusing on the organic combination of the security, liquidity and profitability of capital. The liquidity monitor index of the Company in each month throughout 2020 complied with the regulatory requirements of the CSRC.

### (5) Cash Flow Situation

During the Reporting Period, net cash outflow generated from operating activities of the Group was RMB223 million, representing a decrease of RMB654 million as compared with the net inflow of RMB431 million in 2019; net cash inflow generated from investing activities was RMB9 million, representing an increase of RMB23 million as compared with the net outflow of RMB14 million in 2019; net cash outflow generated from financing activities was RMB9 million, representing an increase of RMB70 million as compared with net cash outflow of RMB79 million generated from financing activities in 2019; and net decrease in cash and cash equivalents was RMB224 million, representing a decrease of RMB562 million as compared with the net increase of RMB338 million in 2019, which was mainly due to the decrease in net cash flow generated from investing activities.



## Management Discussion and Analysis

### (6) Items of Income Statement

During the Reporting Period, the Group's profit before income tax amounted to RMB97,890 thousand, representing a year-on-year increase of RMB55,527 thousand or 131.07%. The summary of the financial results is as follows:

Stated in RMB'000	Year ended 31 December	
	2020	2019
Revenue	376,485	287,409
(Loss)/gains on physical commodities trading	(34,747)	37,897
Net investment gains/(losses)	112,582	(29,464)
Other income	34,499	26,025
<b>Operating income</b>	<b>488,819</b>	<b>321,867</b>
Staff costs	(185,584)	(145,318)
Commission to brokerage agents	(12,936)	(7,689)
Introducing broker commission	(10,247)	(8,905)
Depreciation and amortization	(19,206)	(18,312)
Credit impairment losses	(619)	(147)
Other operating expenses	(147,030)	(96,210)
<b>Operating expenses</b>	<b>(375,622)</b>	<b>(276,581)</b>
<b>Operating profit</b>	<b>113,197</b>	<b>45,286</b>
Share of losses of investment in associates	(16,555)	(1,224)
Other gains/(losses), net	1,248	(1,699)
<b>Profit before income tax</b>	<b>97,890</b>	<b>42,363</b>
Income tax expense	(41,117)	(12,862)
<b>Profit for the year</b>	<b>56,773</b>	<b>29,501</b>



## Management Discussion and Analysis

Stated in RMB'000	Year ended 31 December	
	2020	2019
<b>Other comprehensive income</b>		
Currency translation differences	(1,689)	1,118
<b>Other comprehensive income for the year, net of income tax</b>	<b>(1,689)</b>	<b>1,118</b>
<b>Total comprehensive income</b>	<b>55,084</b>	<b>30,619</b>
Profit attributable to:		
– Shareholders of the Company	56,834	29,750
– Non-controlling interests	(61)	(249)
	<b>56,773</b>	<b>29,501</b>
Total comprehensive income attributable to:		
– Shareholders of the Company	55,193	30,860
– Non-controlling interests	(109)	(241)
	<b>55,084</b>	<b>30,619</b>
<b>Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)</b>		
<b>Basic/Diluted</b>	<b>0.06</b>	<b>0.03</b>

## Management Discussion and Analysis

### 1. Operating Income

During 2020, the Group achieved total operating income of RMB488,819 thousand, which represented a year-on-year increase of 51.87%, among which, revenue amounted to RMB376,485 thousand, losses on physical commodities trading amounted to RMB34,747 thousand, and net investment gains amounted to RMB112,528 thousand. The income structure of the Group is as follows:

Stated in RMB'000	Year ended 31 December				Increase/growth rate in 2020 as compared with 2019	
	2020 Amount	2020 Proportion	2019 Amount	2019 Proportion	Amount	Rate
Revenue <sup>(1)</sup>	376,485	77.02%	287,409	89.29%	89,076	30.99%
(Losses)/gains on physical commodities trading	(34,747)	(7.11%)	37,897	11.77%	(72,644)	(191.69%)
Net investment gains/(losses) <sup>(2)</sup>	112,582	23.03%	(29,464)	(9.15%)	142,046	482.10%
Other income <sup>(3)</sup>	34,499	7.06%	26,025	8.09%	8,474	32.56%
Total operating income	488,819	100.00%	321,867	100.00%	166,952	51.87%

#### (1) Revenue

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

Stated in RMB'000	Year ended 31 December	
	2020	2019
Net commission and fee income <sup>1</sup>	70,890	45,837
Net interest income <sup>2</sup>	145,490	158,306
Net refunds of trading fees <sup>3</sup>	160,105	83,266
Total revenue	376,485	287,409

## Management Discussion and Analysis

Notes:

### 1 Net commission and fee income

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

Stated in RMB'000	Year ended 31 December	
	2020	2019
<b>Commission and fee income</b>		
Futures brokerage service	242,737	231,265
Options brokerage service	72,015	34,559
Settlement and clearing service income from other futures firms	30,553	15,192
Investment consultancy service	208	198
Asset management service	37	388
	<b>345,550</b>	<b>281,602</b>
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	244,107	220,573
Settlement and clearing service expense to exchange-clearing organizations	30,553	15,192
	<b>274,660</b>	<b>235,765</b>

During the Reporting Period, the Group achieved net commission and fee income of RMB70,890 thousand, representing a year-on-year increase of 54.66%.

Commission and fee income increased by RMB63,948 thousand, representing a year-on-year increase of 22.71%, while commission and fee expense increased by RMB38,895 thousand, representing an increase of 16.5%. Therefore, after consolidating income and expense factors, net commission and fee income increase of 54.66% as compared with the previous year.



## Management Discussion and Analysis

### 2 Net interest income

During the Reporting Period, the Group achieved net interest income of RMB145,490 thousand, representing a year-on-year decrease of 8.1%. The composition of the Group's net interest income in 2020 is as follows:

Stated in RMB'000	Year ended 31 December	
	2020	2019
<b>Interest income</b>		
Interest income from deposits with banks	148,184	162,227
Interest income from deposits with exchange-clearing organizations	46,002	21,014
Interest income from financial assets held under resale agreements	2,480	14,867
	<b>196,666</b>	<b>198,108</b>
<b>Interest expense</b>		
Interest expense to brokerage clients	48,438	35,000
Interest expense on lease liabilities	1,659	2,203
Interest expense on settlement and clearing services to other futures firms	1,079	694
Interest expense on financial assets sold under repurchase agreements	—	1,809
Interest expense on borrowings	—	96
	<b>51,176</b>	<b>39,802</b>

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 RMB1,442 thousand, representing a year-on-year decrease of 0.73%, which was primarily due to a decrease in the market interest rates.

Interest expense increased by RMB11,374 thousand, representing a year-on-year increase of 28.58%, which was primarily due to an increase in interests payable to clients.

### 3 Net refunds of trading fees

Net refunds of trading fees reflect the refunds of trading fees from futures exchanges to the Group, partially offset by the consequential return from the Group to its customers. To improve the development of the futures markets, the futures exchanges implement a practice to partially refund trading fees to their clearing members. Policies on the timing and calculation method of refund are made and adjusted periodically at the discretion of the futures exchanges. In some cases, the Group further returns all or part of these refunds to its customers.

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

During the Reporting Period, the Group achieved net investment gains of RMB112,582 thousand. The composition of the Group's investment gains in 2020 is as follows:

Stated in RMB'000	Year ended 31 December	
	2020	2019
Net realized gain/(losses):		
– Financial assets at fair value through profit or loss	(14,998)	4,520
– Financial liabilities at fair value through profit or loss	(23,360)	(34,927)
– Derivative financial instruments	69,261	4,827
Unrealized fair value changes of:		
– Financial assets at fair value through profit or loss	17,581	(5,431)
– Financial liabilities at fair value through profit or loss	24,304	5,536
– Derivative financial instruments	21,761	(17,288)
– Physical commodities	5,094	1,532
Dividend from financial assets at fair value through profit or loss	12,939	11,767
	<b>112,582</b>	<b>(29,464)</b>

## (3) Other income

Stated in RMB'000	Year ended 31 December	
	2020	2019
Exchange service fees	32,326	21,117
Software service fees	28	396
Cooperative hedging fees	–	923
Other	2,145	3,589
	<b>34,499</b>	<b>26,025</b>

## Management Discussion and Analysis

### 2. Operating expenses

During 2020, the Group's operating expenses amounted to RMB375,622 thousand, representing a year-on-year increase of RMB99,041 thousand or 35.81%. The breakdown is as follows:

Stated in RMB'000	Year ended 31 December				Increase/decrease in 2020 compared with 2019	
	2020 Amount	2020 Proportion	2019 Amount	2019 Proportion	Amount	Rate
Staff costs <sup>(1)</sup>	185,584	49.41%	145,318	52.54%	40,266	27.71%
Commission to brokerage agents	12,936	3.44%	7,689	2.78%	5,247	68.24%
Introducing broker commission	10,247	2.73%	8,905	3.22%	1,342	15.07%
Depreciation and amortization <sup>(2)</sup>	19,206	5.11%	18,312	6.62%	894	4.88%
Credit impairment losses <sup>(3)</sup>	619	0.17%	147	0.05%	472	321.09%
Other operating expenses <sup>(4)</sup>	147,030	39.14%	96,210	34.79%	50,820	52.82%
<b>Total operating expenses</b>	<b>375,622</b>	<b>100.00%</b>	<b>276,581</b>	<b>100.00%</b>	<b>99,041</b>	<b>35.81%</b>

#### (1) Staff costs

Stated in RMB'000	Year ended 31 December	
	2020	2019
Salaries and bonus	154,227	116,531
Other social securities	12,859	11,461
Pension	8,594	12,350
Labor union funds and employee education funds	6,715	4,760
Other welfares	3,189	216
	<b>185,584</b>	<b>145,318</b>

#### (2) Depreciation and amortization

Stated in RMB'000	Year ended 31 December	
	2020	2019
Depreciation of right-of-use assets	8,671	8,435
Depreciation of property and equipment	7,609	7,047
Amortization of long-term prepaid expenses	1,542	1,196
Amortization of intangible assets	1,384	1,634
	<b>19,206</b>	<b>18,312</b>



### (3) Credit impairment losses

Stated in RMB'000	Year ended 31 December	
	2020	2019
Net impairment losses on other receivables	1,965	—
Net impairment losses on bank balances	(499)	—
Net impairment losses on accounts receivable	(847)	147
	619	147

### (4) Other operating expenses

Stated in RMB'000	Year ended 31 December	
	2020	2019
Provision (Note 36)	29,219	—
Insurance expenses	27,340	17,511
Marketing and distribution expenses	25,716	15,271
Information system maintenance fees	19,438	17,424
Office expenses	14,098	11,144
Professional service expenses	7,000	7,145
Rentals	3,903	4,672
Property maintenance fee	3,444	4,224
Consulting expenses	2,736	3,711
Tax and surcharges	2,014	1,369
Auditors' remuneration		
– PwC	1,740	1,800
– Other auditors	519	104
Membership fees and annual fees	1,737	3,278
Bank charges	660	559
Futures Investors Protection Fund	503	312
Inventory stock damage	—	2,401
Other expenses	6,963	5,285
	147,030	96,210

Other operating expenses increased by RMB50,820 thousand, representing a year-on-year increase of 52.82%, which was primarily due to the increase in Provisions and Marketing and distribution expenses for the year.

## Management Discussion and Analysis

### (7) Items of Assets

As at 31 December 2020, the Group's total assets were RMB12,925,647 thousand, representing a year-on-year increase of 44.76%, among which cash assets amounted to RMB11,604,724 thousand, representing a year-on-year increase of 46.67%; financial investment assets amounted to RMB977,731 thousand, representing a year-on-year increase of 136.49%; and other assets amounted to RMB343,192 thousand, representing a year-on-year decrease of 43.12%. The Group's total assets are as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019 Amount	%
Cash assets	11,604,724	7,911,962	3,692,762	46.67%
Financial investment assets	977,731	413,443	564,288	136.49%
Other assets	343,192	603,409	(260,217)	(43.12%)
Total	12,925,647	8,928,814	3,996,833	44.76%

#### 1. Cash assets

As at 31 December 2020, the Group's cash assets increased by RMB3,692,762 thousand, representing a year-on-year increase of 46.67%. The composition of the Group's cash assets is as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019 Amount	%
Deposits with exchange-clearing organizations	6,196,152	3,735,024	2,461,128	65.89%
Bank balances held for clients	4,723,619	3,600,073	1,123,546	31.21%
Cash and bank balances	684,953	576,865	108,088	18.74%
Total cash assets	11,604,724	7,911,962	3,692,762	46.67%

Changes in cash assets are mainly attributable to the deposits with exchange-clearing organizations and money held for clients. The deposits with exchange-clearing organizations amounted to RMB6,196,152 thousand, accounting for 47.94% of the total assets of the Group, representing an increase of RMB2,461,128 thousand or 65.89% as compared with the previous year; the bank balance held for clients amounted to RMB4,723,619 thousand, accounting for 36.54% of the total assets of the Group, representing an increase of RMB1,123,546 thousand, or 31.21% as compared with the previous year. Cash and bank balances amounted to RMB684,953 thousand, accounting for 5.3% of the Group's total assets, representing an increase of RMB108,088 thousand or 18.74% as compared with the previous year.

## 2. Financial investment assets

As at 31 December 2020, the Group's financial investment assets increased by RMB564,288 thousand, representing a year-on-year increase of 136.49%. The composition of the Group's financial investment assets is as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019 Amount	%
Financial assets at fair value through profit or loss <sup>(1)</sup>	539,767	270,369	269,398	99.64%
Financial assets at fair value through other comprehensive income	1,400	1,400	—	—
Investments in associates	41,235	57,790	(16,555)	(28.65%)
Derivative financial assets	90,291	53,628	36,663	68.37%
Financial assets held under resale agreements <sup>(2)</sup>	305,038	30,256	274,782	908.19%
Total assets of financial investment	977,731	413,443	564,288	136.49%

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

	31 December 2020	31 December 2019
Non-current		
Income certificates	101,014	—
Private securities investment funds	49,693	—
Trust scheme	12,914	—
Non-current assets	163,621	—
Current		
Asset management schemes	115,636	66,250
Income certificates	113,346	—
Private securities investment funds	60,434	59,809
Trust schemes	45,892	144,305
Bank wealth management products	40,831	—
Listed equity securities	7	5
Current assets	376,146	270,369
Total	539,767	270,369



## Management Discussion and Analysis

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

At 31 December 2020, the Group's financial assets held under resale agreements was RMB305,038 thousand, representing an increase of RMB274,782 thousand as compared with last year, primarily due to carrying out of treasury bond reverse repo.

	31 December 2020	31 December 2019
Analysed by asset type:		
– Debt securities	222,575	–
– Warehouse receipts <sup>(1)</sup>	82,463	30,256
	<b>305,038</b>	30,256

Note:

- (1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2020, the Group has accepted collateral that can be re-pledged with a fair value of RMB135,280 thousand (31 December 2019: RMB33,518 thousand).

### 3. Other assets

As at 31 December 2020, the Group's other assets amounted to RMB343,192 thousand, representing a year-on-year decrease of RMB260,217 thousand or 43.12%. The composition of the Group's other assets is as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019	
			Amount	%
Property, plant and equipment	38,245	42,593	(4,348)	(10.21%)
Intangible assets	6,768	8,479	(1,711)	(20.18%)
Other non-current assets	22,559	18,897	3,662	19.38%
Deferred income tax assets	856	18,915	(18,059)	(95.47%)
Refundable deposits	31,346	31,170	176	0.56%
Contract assets	6,462	12,371	(5,909)	(47.76%)
Physical commodities	114,533	309,256	(194,723)	(62.96%)
Other current assets	122,423	161,728	(39,305)	(24.3%)
Total other assets	<b>343,192</b>	603,409	(260,217)	(43.12%)

## (8) Items of Liabilities

As at 31 December 2020, the Group's total liabilities amounted to RMB10,686,253 thousand, representing a year-on-year increase of RMB3,942,101 thousand or 58.45%, among which accounts payable to brokerage clients amounted to RMB10,171,452 thousand, representing a year-on-year increase of 59.2%. The Group's key changes of total liabilities are as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019 Amount	%
Deferred income tax liabilities	6,242	11	6,231	56,645.45%
Other non-current liabilities	28,615	13,454	15,161	112.69%
Other current liabilities	312,592	266,682	45,910	17.22%
Current income tax liabilities	6,614	5,585	1,029	18.42%
Derivative financial liabilities	109,160	44,600	64,560	144.75%
Financial liabilities at fair value through profit or loss	—	24,562	(24,562)	(100%)
Accounts payable to brokerage clients	10,171,452	6,389,258	3,782,194	59.2%
<b>Total liabilities</b>	<b>10,686,253</b>	<b>6,744,152</b>	<b>3,942,101</b>	<b>58.45%</b>

### 1. Accounts payable to brokerage clients

As at 31 December 2020, the Group's accounts payable to brokerage clients amounted to RMB10,171,452 thousand, representing 95.18% of the Group's total liabilities and a year-on-year increase of RMB3,782,194 thousand or 59.2%. The composition of the Group's accounts payable to brokerage clients is as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019 Amount	%
Domestic				
Individual clients	5,197,420	3,621,915	1,575,505	43.5
Corporate clients	4,974,032	2,767,343	2,206,689	79.74
Overseas	—	—	—	—
<b>Total</b>	<b>10,171,452</b>	<b>6,389,258</b>	<b>3,782,194</b>	<b>59.2</b>

## Management Discussion and Analysis

### (9) Items of Equity

As at 31 December 2020, the Group's total equity amounted to RMB2,239,393 thousand, representing a year-on-year increase of 2.51%. The composition of Group's equity is as follows:

Stated in RMB'000	As at 31 December 2020	As at 31 December 2019	31 December 2020 compared with 31 December 2019	
			Amount	%
Share capital	1,001,900	1,001,900	—	—
Share premium	650,630	650,630	—	—
Other reserves	282,453	259,037	23,416	9.04%
Retained earnings	304,411	272,634	31,777	11.66%
Total equity attributable to shareholders of the Company	2,239,394	2,184,201	55,193	2.53%
Non-controlling interests	—	461	(461)	(100%)
Total equity	2,239,394	2,184,662	54,732	2.51%

### (10) Charges over Assets

As at 31 December 2020, trading commodities with carrying amount of RMB3,159 thousand are placed as collateral of margin deposits on futures exchanges by the Group (31 December 2019: RMB229,225 thousand).

### (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 2020, the Group does not use any derivative financial instruments to hedge the exchange risk.



### (12) Contingencies

The Group acted as the asset manager of five asset management schemes which were established between November 2017 and May 2018 and all distributed by a joint stock commercial bank. These schemes incurred certain losses and subsequently commenced their liquidation process in December 2018. Since 2019, the Group received a number of complaints from investors of the schemes, alleging the Group's non-compliance and misconducts as asset manager. Based on the information and evidence available and present, the Group disclaims any significant misconduct of its duties as asset manager.

To properly cope with above issue, starting from February 2021, the Group is working with the distributor bank to negotiate with those investors holding the schemes at the liquidation commencement date and successfully reached an agreement with certain investors. After serious consideration of current development, the Group makes a provision of RMB29,219 thousand as at 31 December 2020 which comprises both the Group's obligation to investors who have reached the agreement and the best estimate of its exposure to the investors who have not reached the agreement. The Group also believes the possibility of outflow of resources to other parties involved is very low.

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

### (13) Contingencies

Several investors of five asset management schemes described above submitted demands for arbitrations to Jinan Arbitration Commission claiming RMB9 million against the Group. In addition, by the date of issuance of these financial statements, the remaining investors still under negotiation with the Group suffered a total loss of RMB419 million. There are no other material contingencies involved by the Group.

### (14) Gearing Ratio

Item	As at 31 December 2020	As at 31 December 2019	Increase/ decrease in 2020 compared with the same period of 2019	As at 31 December 2018
Gearing ratio (%)	18.69	13.97	increased by 4.72 percentage points	13.72

## Management Discussion and Analysis

### IV. EMPLOYEES STRUCTURE, REMUNERATION AND TRAINING

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

During the Reporting Period, the total remuneration expenses of the Group were RMB185,584 thousand, details of which are as follows (amounts stated in RMB'000):

	Year ended 31 December	
	2020	2019
Salaries and bonus	154,227	116,531
Other social security	12,859	11,461
Pension	8,594	12,350
Labor union charge and employee education charge	6,715	4,760
Other welfare	3,189	216
	<b>185,584</b>	<b>145,318</b>

#### The five highest paid individuals

During the Reporting Period, the five highest paid individuals do not include any Directors or Supervisors (2019: the five highest paid individuals do not include any Directors or Supervisors). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2020	2019
Salaries, allowances and other welfares	6,599	5,195
Bonus	1,015	3,073
	<b>7,614</b>	<b>8,268</b>

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

	Year ended 31 December	
	2020	2019
RMB1,000,001 to RMB1,500,000	3	2
RMB1,500,001 to RMB2,000,000	2	2
RMB2,000,001 to RMB2,500,000	–	1
	<b>5</b>	<b>5</b>

The Group did not provide any compensation to any 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, performance-linked wage, sales commission, bonus and staff benefits and various allowances. 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, enterprise annuities 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. It promoted learning by examination and foster nursing of talents by training. A total of 71 internal trainings were held, and a total of 41 live training were held by associations and exchanges, covering the New and existing Varieties, futures and subsidiary business, business support such as integrity, compliance, information technology, new employee, marketing skills improvement, middle and senior management leadership improvement, the leadership improvement of the general manager of the business entities, finance management, special training on compliance risk control, and the Company's regulations. In addition, 12 employees were selected to participate in 3 external training sessions organized by exchanges, associations, industry organizations, etc., including trainings on options strategies and human resources.

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

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

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

During the Reporting Period, on 8 January, the Company completed the relocation of the Linyi Sales Office in the same city. On 20 January, the Company completed the relocation of the Beijing Sales Office in the same city. On 5 February, the Company completed the relocation of the Dezhou Sales Office in the same city. On 23 April, the Company completed the relocation of the Shenyang Sales Office in the same city. On 29 June, the Company completed the relocation of the Wuxi Sales Office in the same city. On 20 August, the Company completed the relocation of the Zhengzhou Sales Office in the same city. On 11 December, the Company completed the relocation of the Wuhan branch in the same city. On 30 December, the Company completed the relocation of the Shanghai branch in the same city.

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



## Management Discussion and Analysis

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

During the reporting period, on 3 March, ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED (中泰匯融(香港)有限公司) completed the acquisition of 1.7% of JINOVA S.A.'s shares that were held by an individual shareholder Thibaut Lefeu, and after the acquisition, the shareholding proportion of JINOVA S.A. increased from 96.60% to 98.30%; on 15 April, ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED completed the acquisition of 1.7% of JINOVA S.A.'s shares that were held by an individual shareholder Erel-Antoine Goren, and after the acquisition, the shareholding proportion of JINOVA S.A. increased from 98.30% to 100%.

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

#### 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 Group on the results

During the Reporting Period, changes of the subsidiaries of the Group had no material effect on the results.

## VI. MAJOR INVESTMENTS AND FINANCING

### (1) Major investments

During the Reporting Period, the Group had no investment activity.

### (2) Major financing

During the Reporting Period, the Group had no financing activity.

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

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

### 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, option pricing risk, hedge risk and interest rate risk.
2. **Liquidity Risk:** the capital liquidity risk due to insufficient capital to meet the obligations of the liabilities or payment settlement during operation; the trading liquidity risk due to the failure to buy or dispose of option, physical commodity and option contract at the market prices.
3. **Credit Risk:** the risk of incurring losses resulting from the failure of a counterparty to perform its contractual obligations. The major risks that the Group may encounter are default risk and settlement risk.
4. **Operational Risk:** the risk related to a series of non-financial issues, including unsatisfactory performance of internal operation process, staff, system and losses resulting from external incidents.
5. **Compliance Risk:** the risk that the Group or its staff may face legal sanction, regulatory measure and disciplinary punishment and may incur economic losses and reputation harm due to the violation of laws, regulations and regulatory rules of our business activities or by our staff.

#### (2) Countering measures adopted

##### 1. General countering measures adopted

##### (1) *Establish Scientific and Effective Risk Management Organizational Structure*

The Board of Directors of the Company is the highest decision-making institution of risk management, with Risk Control Committee and Audit Committee to review and audit major risk matters. The Supervisory Committee is responsible for supervising the performance of risk management of the Board of Directors; The management team is responsible for organizing and carrying out the Company's daily comprehensive risk management; The chief risk officer is responsible for organizing, coordinating and implementing all kinds of comprehensive risk management; The compliance and risk control department is the centralized management department of the Company's overall risk management, which is responsible for the implementation of specific risk management work and the evaluation of its effectiveness; other functional departments and branches are responsible for setting up own compliance risk control respectively, and are responsible for organizing the identification, assessment, response and reporting of various types of risks of own units.



## Management Discussion and Analysis

### **(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) The Company has established systematic investment mechanism, and continuously strengthen the analysis of the financial market. The operation teams are required to submit an application to the Company's senior management before conducting new investment project, which includes details of the nature of transaction, an analysis of the potential market risks and possible outcome.
- (ii) The Company adopts diversified trading strategies avoiding excessive concentration of capital use, reducing systemic risk losses, strengthening interest rate and exchange rate risk research, improving the forward-looking decision of capital use, and the investment decision committee of the treasury operations of the Company will decide the feasibility through a standardized process.
- (iii) The Group tracks monitoring risk limits by using quantitative index within the process of trading and risk control, strengthening the monitor of the exposure limit, concentration limits, preset line, stop line and position size, arranging personnel monitoring, strengthening risk hedge, 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 PRC Futures Exchanges. The risk control personnel will strictly comply with the internal control measures of the Company to close out the position compulsorily if such margin deposits fall short, with reference to the clients' past dealing history and reputation. This measure can control the risk of margin calls and at the same time, retain premium clients.

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

- (i) To establish a risk evaluation and monitor system on net capital, and continuously monitoring the company's risk regulatory indicators such as 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. The Company has a strict control on the position ratio to the option business in order to reduce the liquidity risk of trading.

## Management Discussion and Analysis

### **(4) Operational Risk**

- (i) 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.
- (ii) 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.
- (iii) 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.
- (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.

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

- (i) 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, etc.
- (ii) The Company has designated compliance controllers in each branch to strengthen risk management in advance and during the event.
- (iii) The compliance and risk control department and the audit department of the Company operate under the guidance of the chief risk officer. The Company has adopted certain measures to reduce compliance risk, including interpreting the latest laws and regulations in a timely manner, conducting compliance training, offering compliance consultation and carrying out internal audit, etc.



# Report of the Board of Directors

## I. PRINCIPAL BUSINESSES

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

## II. RESULTS AND FINAL DIVIDENDS

Please refer to Chapter XIV of this report for the details of the Group's results for the year ended 31 December 2020.

The Board of Directors recommends the payment of a final dividend (the "2020 Final Dividend") of RMB0.236 (tax inclusive) per 10 Shares for the year ended 31 December 2020. The total amount of dividends to be distributed is RMB23,644,840 (No final dividend was distributed for the year ended 31 December 2019). The proposal for distribution of the 2020 Final Dividend shall come into effect upon the approval by the Shareholders at the 2020 annual general meeting (the "AGM") to be held on 17 June 2021. After the 2020 Final Dividend comes into effect with the approval, it will be paid to domestic Shareholders in RMB and H Shareholders in Hong Kong dollars. The actual amount to be paid in Hong Kong dollar shall be calculated on the basis of the average benchmark exchange rate of RMB to Hong Kong dollar announced by the People's Bank of China for five working days before the date of the AGM. The Company expects the 2020 Final Dividend will be distributed on or around 1 August 2021.

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

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



## Report of the Board of Directors

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

### III. BUSINESS REVIEW

A review of the business for the year and a discussion on future development of the Group are set out from pages 25 to 32 of this report. An analysis of the major financial key performance indicators on the performance of the Group for the year is set out from pages 32 to 47 of this report. Details of the significant events that have material impact on the Group during the Reporting Period and since the end of the financial year are set out from pages 84 to 101 of this report. Major risks and uncertainties that may be faced by the Group are set out in pages 51 to 54. Major relationship with employees, customers and suppliers were set out on pages 48 to 49 and page 62 of this report, respectively.

### IV. DIRECTORS AND DIRECTORS' BIOGRAPHIES

#### (i) Directors

During the Reporting Period and as at the date of this report, the Directors of the Company including Mr. Zhong Jinlong and Mr. Liang Zhongwei as executive Directors; Mr. Liu Hongsong (resigned on 10 March 2021), Mr. Hu Kainan, Mr. Ming Gang and Mr. Liu Feng as non-executive Directors; Mr. Gao Zhu, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping as independent non-executive Directors.

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

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

#### (ii) Directors' biographies

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

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

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

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

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

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

As at 31 December 2020, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be owned under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Report of the Board of Directors

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

As at 31 December 2020, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executive of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, are as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) <sup>(1)</sup>	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. <sup>(1), (2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Iron & Steel Group Co., Ltd. <sup>(2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CM International Capital Limited <sup>(3)</sup>	H Shares	Beneficial owner	18,211,000 (long position)	1.82%	6.57%
CMIG International Capital Limited (中民投國際資本有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
Xu Guiqin	H Shares	Beneficial owner	18,276,000 (long position)	1.82%	6.59%

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 31 December 2020.



Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 41.32% of the equity interest in Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 80.52% by Shandong Iron & Steel Group Co., Ltd. Therefore, Shandong Iron & Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel Group Co., Ltd. for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 18,211,000 (long position) H Shares of the Company. According to the form of disclosure of interest submitted by China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) to the Hong Kong Stock Exchange on 4 October 2018, CMIG International Capital Limited (中民投國際資本有限公司) directly holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Group Corp., Ltd. and CMI Financial Holding Corporation (is wholly-owned by CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司, which is wholly-owned by China Minsheng Investment Group Corp., Ltd.)), hold 31.5% and 68.5% of equity interests in CMIG International Capital Limited, respectively. Therefore, China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司), CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司), CMI Financial Holding Corporation and CMIG International Capital Limited (中民投國際資本有限公司) are deemed to be interested in the 18,211,000 (long position) H Shares of the Company held by CM International Capital Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2020, the Directors of the Company are not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the Reporting Period, none of the Directors, Supervisors and senior management of the Company has been penalized by regulatory authorities.

## Report of the Board of Directors

### IX. THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

#### (1) THE COMPANY'S COMMITMENT TO SOCIAL RESPONSIBILITIES

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

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

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

During the Reporting Period, the Company had no material environmental or other social security issues.

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

As at the end of the Reporting Period, the Company has signed paired assistance agreements with 11 national-level poverty-stricken counties, helping more than 30,000 poverty-stricken households to achieve poverty alleviation. In the appraisal of the poverty alleviation work of futures companies for 2019-2020, the Company stood out from the 130 futures companies being appraised, with a second place. It has successively won the "Best Precision Poverty Alleviation and Charity Award" and "The most influential brand for poverty alleviation in the industry of Shandong Financial industry" and other honorary titles, the Company's professional poverty alleviation cases were selected into the outstanding story collection of poverty alleviation in China's futures industry. Especially in March 2020, the "insurance + futures" pilot project featuring corn income insurance conducted by the Company in Huachuan County in last year, Heilongjiang Province was successfully paid. The final claim amount was RMB87,873,100, and the compensation rate was as high as 376%. It became an income insurance project in the country with a big pilot area and satisfactory payment. It proved the effectiveness of "insurance + futures" in helping poor areas to consolidate the poverty alleviation achievements.

### X. ISSUE OF SHARES AND USE OF PROCEEDS

As at the end of the Reporting Period, the Company has utilized the net proceeds raised in the amount and usages as prescribed in the Prospectus and in the resolution approved by the Board on 13 April 2018.



### **XI. CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM to be held on 17 June 2021 and their entitlement to the final dividend for 2020, the register of members of the Company will be closed respectively from 18 May 2021 to 17 June 2021, both days inclusive, and from 24 June 2021 to 29 June 2021, both days inclusive, during which no transfers of Shares shall be effected. Shareholders whose names appear on the Company's register of members on 17 June 2021 will be entitled to attend and vote at the AGM, and Shareholders whose names appear on the Company's register of members on 29 June 2021 will be entitled to receive the final dividend for 2020. In order for holders of H Shares of the Company to qualify for attending and voting at the AGM, transfers of Shares must be lodged with H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 17 May 2021. In order for holders of H Shares of the Company to qualify for receiving the final dividend for 2020 subject to the approval of Shareholders at AGM, transfers of Shares must be lodged with H Share registrar of the Company at the aforementioned address, no later than 4:30 p.m. on 23 June 2021.

### **XII. OTHER DISCLOSURES**

#### **(1) Permitted Indemnity Provision**

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

#### **(2) Management Contract**

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

#### **(3) Environment Policies and Performance**

The Group is a low-energy consumption, non-manufacturing financial enterprise with slight-pollution. The main impacts on environment in the ordinary course of business of the Group are the consumption of paper, electricity, water and automobile exhaust emission. In the daily operations, the Group strictly abides by the relevant state environmental protection laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and the Air Pollution and Control Law of Atmospheric Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》). The Group actively promotes environmental protection concepts and puts them into action.

The Group has maintained an internal practice of recycling consumables (such as toner cartridges and paper) to minimize resource consumption and environmental impact in the course of our business. The Group encourages employees to use double-sided printing when printing is needed, and recycle single-sided paper.

The Group promotes energy-saving practices in our offices, sales offices and other places by encouraging employees to reduce unnecessary use of lighting and air conditioning. Through the abovementioned policies and measures, the Group has improved the overall environmental awareness and reduced consumption of energy effectively.



## Report of the Board of Directors

### (4) Compliance of Laws and Regulations

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

### (5) Relationship with Key Stakeholders

#### 1. Employees

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

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

#### 2. Major customers and suppliers

The Group provides services for the individual in the different industries and the institutional customers. The Company's large customers include institutional and high-net-worth individuals. For the year ended 31 December 2020, the revenue from the five largest customers of the Company represented less than 30% of operating income.

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

### (6) Directors' Competing Business

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

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

During the Reporting Period, save as disclosed in the section "III Connected Transactions" in Chapter X of this report, there is no transactions, arrangements or contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or Supervisor of the Company or entities connected with a Director or Supervisors has a material interest, whether directly or indirectly, has been entered into or subsisted during the Reporting Period.

### **(8) Equity-linked Agreements**

No equity-linked agreements were entered into by the Company during the Reporting Period.

### **(9) Reserves and Reserves Available for Distribution to Shareholders**

During the Reporting Period, the changes of the reserves and reserves available for distribution to Shareholders of the Group are set out in Note 33 to the consolidated financial statements and the consolidated statements of changes in equity in this report.

### **(10) Pre-Emptive Rights**

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

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

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

### **(12) Property and Equipment**

Please refer to the Note 18 to the consolidated financial statements of this report for details of property and equipment of the Group during the Reporting Period.

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

During the Reporting Period, the public float of the Company was in compliance with the minimum public float requirement of 25% of the Stock Exchange.

### **(14) Share Capital**

As at the end of Reporting Period, the total share capital of the Company was RMB1,001,900,000, divided into 1,001,900,000 Shares (including 724,810,000 Domestic Shares and 277,090,000 H Shares) with a nominal value of RMB1.00 each. The details of changes in share capital of the Company during the Reporting Period is set out in Note 32 to the consolidated financial statements of this report.

### **(15) Issuance of Debentures**

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

## Report of the Board of Directors

### (16) Donation

In February 2020, the Company donated RMB100,000, totaling RMB300,000, for the prevention and control the Pandemic and treatment of infected people in the three counties abovementioned.

In October 2020, the Company donated RMB500,000 to Maigaiti County, being a national-level poverty-stricken county, in Xinjiang Uygur Autonomous Region, for the implementation of the Pilot “Insurance + Futures” Industrial Poverty Alleviation Project of Red Dates in Maigaiti County.

In December 2020, the Company donated RMB100,000 to Taihu County, a national-level poverty-stricken county in Anhui Province for industrial poverty alleviation purpose, which was intended for implementing the tea plantation coverage project by Taihu County People’s Government in Lesheng Village, Liufan Township, to help Taihu County to consolidate poverty alleviation achievements.

By order of the Board  
*Chairman*

**Zhong Jinlong**  
25 March 2021



# Work Report of the Supervisory Committee in 2020

In 2020, the Supervisory Committee independently exercised its supervision functions and performed its duties, kept themselves informed of and supervised the Company's operating activities, financial status, execution of major decisions, general meetings and Board resolutions, and also supervised the compliance of the Company in operation and the performance of duties by the Directors and senior management in strict compliance with the requirements of the Company Law of the PRC, the Listing Rules, the Articles of Association, the Rules of Procedure of the Supervisory Committee of the Company, and other relevant laws and regulations. The work report of the Supervisory Committee in 2020 is as follows.

## I. ROUTINE WORK OF THE SUPERVISORY COMMITTEE IN 2020

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

### (I) The second meeting of the third session of the Supervisory Committee was held on 26 March 2020. The following five proposals were approved by voting at the meeting and through video:

1. The "Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019年度總經理工作報告的議案》);
2. The "Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019年度監事會工作報告的議案》);
3. The "Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019年度報告(國際財務報告準則)的議案》);
4. The "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019年度報告(中國企業會計準則)的議案》);
5. The "Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for the Year 2019" (《關於魯証期貨股份有限公司2019年度利潤分配的議案》).

### (II) The third meeting of the third session of the Supervisory Committee was held on 20 August 2020. The following proposal was approved by voting at the meeting and through video:

The "Proposal on the Interim Report of LUZHENG FUTURES Company Limited for the Year 2020" (《關於魯証期貨股份有限公司2020中期報告的議案》).

### (III) The fourth meeting of the third session of the Supervisory Committee was held on 3 November 2020. The following proposal was approved by voting at the meeting and through video:

The "Proposal on Election of the Chairman of the Third Session of the Supervisory Committee" (關於選舉第三屆監事會主席的議案).

## Work Report of the Supervisory Committee in 2020

### II. MAJOR WORK OF THE SUPERVISORY COMMITTEE IN 2020

#### (1) Supervision and inspection of daily business activities

During the Reporting Period, the Supervisory Committee insisted to carry out daily supervision and inspection of the Company's operating activities despite of the travelling difficulty during the epidemic outbreak. Firstly, it carried out supervision and inspection on 11 branches, which consist of Wuhan, Wuxi, Jinan, Shanghai, Tianjin, Guangzhou, Beijing, Hangzhou, Qingdao Sales Offices and Jinan, Shanghai branches; secondly, it conducted special internal inspection on how the Company's information technology was managed and how the risk management subsidiary companies operated; thirdly, it conducted special supervision and inspection of the Company's annual status of anti-money laundering.

#### (2) Supervision and inspection of financial status and major investments

During the Reporting Period, the Supervisory Committee reviewed the Company's financial reports regularly or irregularly, and were provided updates about the Company's assets and liabilities, cash flow and operating results, and other financial information in a timely manner. It paid close attention to the Company's own funds, customer margin liquidity, and net capital and other risk regulatory indicators. At the same time, it monitored and inspected the legal compliance of the Company's major investment decision-making procedures irregularly.

#### (3) Supervision and inspection of the duty-performance by directors and senior management

During the Reporting Period, members of the Supervisory Committee implemented supervision and inspection functions by attending general meetings of the Company, and meetings of the Board and management. By attending general meetings and Board meetings, it supervised and inspected the legal compliance of relevant working procedures and voting on important issues, and supervised the performance of duties by the directors of the Company; by attending management meetings, it kept abreast of the Company's business and management activities and decision-making on major issues in a timely manner, and monitored the performance of duties by the Company's senior management.

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

During the Reporting Period, in accordance with the standard requirements for the operation of listed companies of the Hong Kong Stock Exchange, arrangements were made for the members of the Supervisory Committee to learn the latest regulatory policies and regulations continuously, and understand the relevant laws and regulations relating to listing and regulatory rules so as to strengthen the Supervisors' ability to perform their duties, and ensure that all tasks were done in a satisfactory manner.



### III. REVIEW OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS IN 2020

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

- (i) The Supervisory Committee believed that: during the Reporting Period, the overall operating activities of the Company were in compliance with related laws, regulations and related requirements of regulatory policies; the Board practically implemented all resolutions and key decision-making procedures conformed to the requirements of the Company Law of the PRC and the Articles of Association; the Directors and senior management tried their best in performing their duties pursuant to national laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association nor harm the interest of the Company when discharging their duties in the Company.
- (ii) The Supervisory Committee believed that: during the Reporting Period, the financial system of the Company was sound, and the financial operation was legal. The financial statements prepared by the Company gave a true, objective and accurate picture of the financial conditions of the Company. According to requirements of International Financial Reporting Standards ("IFRSs") and Accounting Standard for Chinese Enterprises, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP issued unqualified audit reports respectively, which gave a true and fair picture of the financial performance and operating results of the Company in 2020.
- (iii) The Supervisory Committee believed that: during the Reporting Period, the Company has established an appropriate internal control system in all material aspects and the overall internal control system has been sound and operated effectively, thus ensuring normal production and operation.
- (iv) The Supervisory Committee believed that: during the Reporting Period, the transactions between the Company and its Controlling Shareholder Zhongtai Securities and its connected persons, were entered into in line with the general market transaction principles. The price was fair and the information disclosure was complete, and relevant procedures were implemented to ensure that the transactions were fair and reasonable, and no incident was found to use connected transactions to harm the interests of the Company and other minority Shareholders.
- (v) The Supervisory Committee believed that: during the Reporting Period, no illegal external guarantees, debt restructurings, non-monetary transactions, asset replacements, major acquisitions or disposal of assets were found. There was no incidents that harmed the interests of the Shareholders of the Company or resulted in the loss of assets of the Company.
- (vi) The Supervisory Committee believed that: during the Reporting Period, the Company had implemented the relevant regulations and strictly controlled the scope of insiders when dealing with periodic report preparation, profit distribution, and external investment. There were no such incidents as disclosure of secrets, insider transactions, or illegal trading of the Company's Shares by Directors, Supervisors, senior management and other insiders.



## Work Report of the Supervisory Committee in 2020

### IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2021

#### (1) Fulfill its duties and missions and intensify its responsibilities

For the purpose of the Company's business development, the Supervisory Committee will continue to strengthen its supervision tools and diversify its approaches, conduct effective supervision on key areas and important matters, and give full play to the role of consistent supervision and continuous supervision. Firstly, it will continue to strictly supervise material matters such as the Company's compliant operation, financial management, construction and implementation of the internal control system, connected transactions, guarantees for external investment, and management of inside information, make proactive inspections of operations at all levels to understand the actual conditions for the purpose of analysis and solution of any problem; secondly, it will continue to diligently investigate issues that the Company's shareholders and employees are concerned with, through effective ways such as attending Board meetings as non-voting delegates and regularly convening meetings of the Supervisory Committee and provide comments and rational proposals to the Board of Directors in a timely manner.

#### (2) Optimize the supervision system and enhance the effectiveness of supervision

The Supervisory Committee will continue to improve the mechanism for an effective communication with the Company's discipline inspection, audit, compliance and risk control and other functions, and actively promote the organized integration of the supervision of the Supervisory Committee with the discipline supervision, administrative supervision, financial supervision, audit supervision, legal supervision, etc., to give full play to the monitoring role of internal resources within the Company. Meanwhile, the Supervisory Committee will make full use of the external supervision role of accounting firms and other third-party institutions, strengthen communication with external service providers such as accounting firms, law firms, and further enhance the effectiveness of supervision.

#### (3) Prevent risks and extend its functions

The Supervisory Committee will serve as the functions as the immune system by urging, coordinating and appropriately maintaining the relationship between business development and risk prevention and control, and urge the Company to improve its comprehensive capabilities in early consideration and judgment of risks, and full coverage of risks treatment, and play a more prominent role in risk management.

#### (4) Improve its own capability for better performance of duties

The Supervisory Committee will continue to cause members of the Supervisory Committee to learn about national laws and regulations, the latest regulatory policies and regulations, and financial knowledge, improve their ability to discover, analyze and solve problems so that they dare to supervise and are good at supervision, and make supervision more pertinent and effective, promoting the work of the Supervisory Committee to a new level.

By Order of the Supervisory Committee  
Chairman

**An Tie**

25 March 2021

# Directors, Supervisors, Senior Management and Staff

## I. BRIEFINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Set out below is the brief introduction of the Company's Directors, Supervisors and senior management as at the date of this report.

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



## Directors, Supervisors, Senior Management and Staff

### (I) The Board

#### Executive Directors

Mr. Zhong Jinlong (鍾金龍) (without former name), aged 56, joined the Company in September 2019. At present, he is the secretary to the party committee, an executive Director and the Chairman of the Board of the Company, the deputy general manager of Zhongtai Securities (中泰證券), as well as a member of the Council under Shandong Zhongtai Charity Foundation (山東中泰慈善基金會), and a member of the Council under Shandong Finance Industry Association (山東金融業聯合會). Mr. Zhong Jinlong worked as assistant engineer and engineer at the Electric Power Test and Research Institute of Shandong Electric Power Supply Bureau (山東省電力局電力試驗研究所) and Shenzhen Nuclear Power Engineering Company (深圳核電工程公司) from July 1986 to September 1993; served as the chief and director of the Administrative Office of Shandong International Trust and Investment Corporation (山東省國際信託投資公司) from August 1995 to June 2000; served in succession as vice general manager, executive vice general manager, director, vice chairman of the executive committee of the board, and general manager in Minsheng Securities Co., Ltd. (民生證券股份有限公司) (formerly known as Yellow River Securities Co., Ltd. (黃河證券有限公司)) from June 2000 to January 2008; he held various positions, such as compliance officer and deputy general manager of Zhongtai Securities since January 2008; served as the secretary to the party committee of the Company since September 2019; served as the executive Director and the Chairman of the Board of the Company since December 2019; served as the member of the Council under Shandong Finance Industry Association since April 2020 and the member of the Council under Shandong Zhongtai Charity Foundation since June 2020. Mr. Zhong Jinlong graduated from Xi'an Jiaotong University with a bachelor's degree in power system and automation in July 1986; graduated from Shanghai University of Foreign Trade (formerly known as Shanghai Institute of Foreign Trade) with a bachelor's degree in international trade in July 1995; graduated from Peking University with a master's degree in EMBA in March 2005. Mr. Zhong Jinlong was awarded the professional qualification of the engineer in August 1987.

Mr. Liang Zhongwei (梁中偉) (without former name), aged 47, joined the Company in March 2009. At present, he is a member of the party committee, an executive Director, a staff representative Director, secretary to the Board, as well as the director of the Office of the Board of the Company. He also serves as a director of LUZHENG INTERNATIONAL HOLDING LIMITED, a director of LUZHENG INTERNATIONAL FUTURES LIMITED, and a director of JINOVA S.A., as well as the general manager of LUZHENG INTERNATIONAL HOLDING LIMITED. Mr. Liang Zhongwei served as an employee of Shandong Province Qilu Trust and Investment Co., Ltd. from July 1997 to May 2001; held several positions in Zhongtai Securities, including assistant to the departmental general manager and departmental senior business manager in succession, from May 2001 to March 2009; served as the office manager and the general manager of human resources department of the Company from March 2009 to September 2013; served as executive Director and staff representative Director of the Company since June 2012; served as the secretary general of Shandong Futures Association from September 2013 to August 2017; served as the director of the organizational department of the party committee from October 2017 to December 2020; served as the director of the Office of the Board of the Company since February 2018; served as a director of LUZHENG INTERNATIONAL HOLDING LIMITED since April 2018; served as a director of LUZHENG INTERNATIONAL FUTURES LIMITED since May 2018; served as a member of the party committee of the Company since August 2018; served as the Secretary to the Board since June 2019; served as a director of JINOVA S.A. since July 2019; and served as the General Manager of LUZHENG INTERNATIONAL HOLDING LIMITED since November 2020. Mr. Liang Zhongwei graduated from Shandong University with a bachelor's degree in international economic in July 1997. Mr. Liang Zhongwei obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 2001.



## Directors, Supervisors, Senior Management and Staff

### Non-executive Directors

Mr. Hu Kainan (胡開南) (without former name), aged 53, joined the Company in December 2019. At present, he is a non-executive Director of the Company, a general manager of the risk management department of Zhongtai Securities. Mr. Hu Kainan worked as an employee in the computer room of Jixi Locomotive Depot of Jinan Railway Sub-bureau (濟南鐵路分局濟西機務段) from July 1990 to November 1994; he served as the assistant to manager of Shenzhen Hongli Road Sales Office of Tiantong Securities Co., Ltd. (天同證券有限責任公司) (formerly known as Shangdong Securities Co., Ltd. (山東證券有限責任公司)) from November 1994 to November 1997; served as an employee in the supervision and inspection department of Tiantong Securities Co., Ltd. from November 1997 to January 2007; served as senior business manager of the compliance management headquarters and risk control department of Zhongtai Securities from January 2007 to July 2010; served as assistant to general manager of risk management department and risk compliance headquarters of Zhongtai Securities from July 2010 to November 2013; served as the deputy general manager of risk compliance headquarters of Zhongtai Securities from November 2013 to July 2016; served as the deputy general manager of the risk management department of Zhongtai Securities from July 2016 to October 2019; became general manager of the risk management department of Zhongtai Securities since October 2019; and served as the non-executive Director of the Company since December 2019. Mr. Hu Kainan graduated from Shanghai Railway College with a bachelor's degree in computer software in July 1990.

Mr. Ming Gang (明鋼) (without former name), aged 47, joined the Company in December 2019. At present, he is a non-executive Director of the Company, as well as the general manager of the International Trading Company of Yongfeng Group Co., Ltd. (永鋒集團有限公司). Mr. Ming Gang has held various positions in Yongfeng Group Co., Ltd. from August 2008 to December 2019, including general manager of Shandong Yongfeng International Trading Co., Ltd., deputy general manager of the marketing company and the head of the trade department, the general manager of Supply and Marketing Company of Yongfeng Group Co., Ltd; served as the general manager of the International Trading Company of Yongfeng Group Co., Ltd. since December 2019; and he has served as the non-executive Director of the Company since December 2019. Mr. Ming Gang graduated from Party School of the CPC Shandong Provincial Committee in December 2001, majoring in economic management.

## Directors, Supervisors, Senior Management and Staff

Mr. Liu Feng (劉峰) (former name Liu Feng (劉鋒)), aged 48, joined the Company in February 2015. At present, he is a non-executive Director of the Company, as well as the head of risk management department of Shandong State-owned Assets Investment Holdings Co., Ltd., a director of Zhongtong Bus Holding Co., Ltd. (中通客車控股股份有限公司), a supervisor of Shandong Geo-Mineral Co., Ltd. (山東地礦股份有限公司), and a supervisor of Shandong Marine Group Ltd. (山東海洋集團有限公司). Mr. Liu Feng served as an office staff member of the silk worm cocoon division and the deputy director member of trading and development department of Shandong Silk Corporation (山東省絲綢總公司) from July 1994 to June 2002; served as the manager of comprehensive administration department of Shandong Hengrun Silk Co., Ltd. (山東恆潤絲綢有限公司) from July 2004 to January 2005; served as a principal staff member in the silk worm cocoon unit of Qingdao Hairun Investment Group (青島海潤投資集團) from January 2005 to December 2005; served as the secretary and principal staff member of comprehensive administration office of Shandong Silk Group (山東省絲綢集團有限公司) from January 2006 to June 2009; served in several positions in Shandong State-owned Assets Investment Holdings Co., Ltd. in succession from June 2009 to May 2017 such as the clerical director of comprehensive department, the director of equity operation of capital operation department and the senior business manager and deputy director of capital operation department as well as the vice general manager of the capital operation center; served as the general manager and director of Shandong Juneng Investment Co., Ltd. (山東省巨能投資有限公司) from September 2014 to April 2016; served as a Director in the Company since February 2015; appointed as the deputy head of the People's Government of Shanting District, Zaozhuang City from July 2015 to July 2016; served as a director of Zhongtong Bus Holding Co., Ltd. since December 2016; served as general manager and director of Lukang Investment Co., Ltd. (魯康投資有限公司) from May 2017 to November 2019; served as the head of risk management department of Shandong State-owned Assets Investment Holdings Co., Ltd. since November 2019; served as the a supervisor of Shandong Geo-Mineral Co., Ltd. since December 2019; and served as a supervisor of Shandong Marine Group Ltd. since April 2020. Mr. Liu Feng graduated from Shandong Agricultural University, majoring in sericultural science and obtained a bachelor degree in July 1994; graduated from Renmin University of China majoring in business administration and obtained a master degree in July 2004; and graduated from Shandong Agricultural University majoring in the management of agricultural economy and obtained a doctoral degree in June 2011. Mr. Liu Feng obtained the qualification of agronomist issued by the Intermediate Review Commission of Professional Titles in Agriculture of Shandong Silk Corporation in October 1999.



## Directors, Supervisors, Senior Management and Staff

### Independent Non-executive Directors

Mr. Gao Zhu (高竹) (without former name), aged 58, joined the Company in December 2012. At present, he is an independent non-executive Director of the Company as well as the deputy chairman of UOB Investment (China) Limited (大華大陸投資有限公司). Mr. Gao Zhu served as the deputy general manager of Minmetals Investment & Development Co., Ltd. (五礦投資發展有限公司) from June 2002 to October 2010; served as the chairman of the board of directors of Minmetals Haiqin Futures Co., Ltd. (五礦海勤期貨有限公司) from August 2003 to November 2010; served as deputy chairman of the board of directors of Minmetals Star Futures Brokerage Co., Ltd. (五礦實達期貨經紀有限公司) from August 2003 to November 2010; served as the general manager and the deputy chairman of the board of directors of Minmetals Securities Co., Ltd. (五礦證券有限公司) from September 2010 to November 2011; served as the president of UOB Investment (China) Limited from November 2011 to April 2016; served as an independent director of AVIC Futures Co., Ltd. (中航期貨有限公司) from December 2014 to October 2018; served as independent non-executive Director of the Company since December 2012; and served as the deputy chairman of UOB Investment (China) Limited since April 2016. Mr. Gao Zhu graduated from University of Science and Technology Beijing majoring in industrial management engineering and obtained a master's degree in July 1988. Mr. Gao Zhu obtained the qualification of senior international business executive issued by the Occupation Qualification Review Committee for Senior International Business Expertise under the Ministry of Foreign Trade and Economic Cooperation of the PRC in March 1999.

Mr. Wang Chuanshun (王傳順) (without former name), aged 55, joined the Company in December 2012. At present, he is an independent non-executive Director of the Company, as well as the partner of Jinan Branch of Grant Thornton Certified Public Accountants (致同會計師事務所濟南分所), independent director of Shandong Aofu Environmental Protection Technology Co., Ltd. (山東奧福環保科技股份有限公司), independent director of Shandong Taihe Water Treatment Technology Co., Ltd. (山東泰和水處理科技股份有限公司), independent director of Shandong Qihe Biotechnology Co., Ltd. (山東七河生物科技股份有限公司) and independent director of Qingdao Langfu Technology Co., Ltd. (青島朗夫科技股份有限公司). Mr. Wang Chuanshun served as a division member in Shandong Audit Office from July 1990 to November 1994; served as deputy director of audit department of Shandong Accounting Firm (山東會計師事務所) from November 1994 to December 1998; served as vice general manager and senior accountant in Shandong Zhengyuan Hexin Accounting Firm (山東正源和信會計師事務所) from January 1999 to December 2004; served as director of Shandong Branch of Ruihua Certified Public Accountants from January 2005 to February 2020; and served as an independent non-executive Director in the Company since December 2012; served as an independent director of Shandong Aofu Environmental Protection Technology Co., Ltd. since March 2015; served as an independent director of Shandong Taihe Water Treatment Technologies Co., Ltd. since June 2015; served as the partner of Jinan Branch of Grant Thornton Certified Public Accountants since February 2020; served as an independent director of Shandong Qihe Biotechnology Co., Ltd. since June 2020; and served as an independent director of Qingdao Langfu Technology Co., Ltd. since August 2020. Mr. Wang Chuanshun graduated from Shandong Agricultural University majoring in management of agricultural economy and obtained a bachelor degree in July 1987; graduated from Southwest Agricultural University and obtained a master degree in July 1990, with research orientation of accounting and audit. Mr. Wang Chuanshun obtained the qualification of senior accountant issued by the Department of Personnel of Shandong Province in November 1997; obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province in June 1995; and obtained the qualification of Senior Accountant by Shandong Provincial Accounting Professional Qualification Assessment Committee in January 2018.



## Directors, Supervisors, Senior Management and Staff

Mr. Li Dapeng (李大鵬) (without former name), aged 61, joined the Company in June 2016. At present, he is an independent non-executive Director of the Company, the chief executive officer of Qingdao United Credit Asset Trading Center (青島聯合信用資產交易中心) and an independent non-executive director of China Energine International (Holdings) Limited (中國航天萬源國際(集團)有限公司). Mr. Li Dapeng served as a part-time professor in the University of Cincinnati and the Ohio State University from September 1990 to August 2001; and served as the technical advisor of Anthem Blue Cross and Blue Shield Insurance Company in the United States of America from January 1998 to August 2001; served as the chief architect of New York Mercantile Exchange from August 2001 to August 2003; served as an expert of Committee of Formulation of Capital Market Standards and the associate director of STEP working group of CSRC participating in the formulation of information technology standards of the capital market in the CSRC from September 2003 to March 2008; and served as the chief information officer and the chairman of Technology Management Committee of Shanghai Futures Exchange from September 2003 to March 2010; joined the formulation of the 12th Five-Year Plan of CSRC and directly involved in the drafting of its section headed "Internationalization" from September 2010 to February 2011; served as the senior advisor to chief executive officer of Hong Kong Exchanges and Clearing Limited from March 2010 to June 2015; served as the chief information officer of Haier Finance Holdings (Qingdao) Company Limited (海爾金融控股(青島)有限公司) from July 2015 to February 2018; served as an independent non-executive director of China Energine International (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 01185) since November 2015; he has served as the independent non-executive Director of the Company since June 2016 and he has served as chief executive officer of Qingdao United Credit Asset Trading Center since February 2018. Mr. Li Dapeng graduated from University of Science and Technology Beijing (formerly known as Beijing Steel Institute) with a bachelor degree in computer engineering in February 1982 and a master degree in computer engineering in June 1986, and graduated from the University of Cincinnati with a doctoral degree in computer engineering in December 1991 specializing in the theory of computing models of neural networks and the implementation of pattern recognition in the field of artificial intelligence.

Mr. Zheng Jianping (鄭堅平) (without former name), aged 57, joined the Company in December 2019. At present, He is an independent non-executive Director of the Company, a director, executive vice president, managing director and head of Investment Bank Department of Huizhi International Capital Holdings Co., Limited (匯智國際金融控股有限公司). He had worked at London, Singapore, Beijing and Hong Kong as the executive officer of Rothschild, and a director of Rothschild China and Rothschild Hong Kong Limited from September 1994 to May 2002; served as executive director of ICEA (工商東亞有限公司) from June 2002 to August 2003; he held various positions at Investment Banking division of HSBC (滙豐銀行), such as executive director, managing director, head of Resources and Energy Group for Asia Pacific from September 2004 to September 2008; served as a partner, senior managing director, head of Greater China Advisory of the Blackstone Group from October 2008 to April 2011; served as managing director, head of China M&A, Investment Banking Division of Citigroup Group from July 2011 to April 2015; served as a director, executive vice president, managing director and head of the Investment Bank Department of Huizhi International Capital Holdings Co., Limited since October 2015; and served as the independent non-executive Director of the Company since December 2019. Mr. Zheng Jianping graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in July 1985; he graduated from Shanghai Jiao Tong University with a master's degree in computer science in January 1988.

### (II) The Supervisory Committee

Mr. An Tie (安鐵) (without former name), aged 51. At present, he is the chairman of the Supervisor Committee of the Company, as well as a staff representative supervisor, the general manager of the compliance management headquarters of Zhongtai Securities Co., Ltd. Mr. An Tie served in succession as the director of the trust department and the deputy general manager of the securities clearing department of Shandong Qilu Trust and Investment Co., Ltd. (山東省齊魯信託投資股份有限公司) from July 1997 to May 2001; served in succession as the person in charge of the clearing center and the general manager of the securities business department of Zhongtai Securities from May 2001 to December 2004; served as the general manager of the audit department of Zhongtai Securities from January 2005 to January 2010; served as a staff representative supervisor, the general manager of the audit department of Zhongtai Securities from January 2010 to May 2017; served as a member of the disciplinary committee of Zhongtai Securities from January 2010 to August 2020; served as a staff representative supervisor, the general manager of the compliance management headquarters of Zhongtai Securities since May 2017; served as the Supervisor of the Company since June 2020; and served as the chairman of the Supervisor Committee of the Company since November 2020. Mr. An Tie graduated from Shandong University (山東大學) majoring in archive management and obtained a college diploma in July 1989; graduated from Shandong Cadre Correspondence University (山東幹部函授大學) majoring in economic management, and obtained a diploma of bachelor's degree in June 1997; completed his courses majoring in monetary banking in Chinese Academy of Social Sciences (中國社會科學院) in July 1999; and graduated from Asia International Open University (Macau) (亞洲(澳門)國際公開大學) majoring in business management and obtained a master degree in April 2008.

Mr. Tan Shaojie (譚少傑) (without former name), aged 42, joined the Company in December 2019. At present, he serves as a non-staff representative Supervisor of the Company, as well as the head of the Comprehensive Management Office of Jinan Energy Investment Co., Ltd. (濟南市能源投資責任有限公司). Mr. Tan Shaojie was a trainee at Jinan Energy Investment Co., Ltd. from July 2005 to July 2006; served as an assistant economist at Jinan Energy Investment Co., Ltd. from July 2006 to May 2012; served as an intermediate economist at Jinan Energy Investment Co., Ltd. from May 2012 to September 2017; served as a third-level clerk of the Human Resources Department of Jinan Industrial Development Investment Group Co., Ltd. from September 2016 to November 2016; served as head of the Planning and Finance Department of Jinan Energy Investment Co., Ltd. from September 2017 to December 2017; he has been the head of the Comprehensive Management Office of Jinan Energy Investment Co., Ltd. since December 2017; served as executive director (legal representative) of Jinan Chanfa Industrial Co., Ltd. (濟南產發實業有限公司) from April 2019 to May 2020; and served as the Supervisor of the Company since December 2019. Mr. Tan Shaojie graduated from Shandong University of Economics with a bachelor's degree in information management and information system in July 2005; graduated from Shandong University of Finance with a master's degree in business administration in June 2009. Mr. Tan Shaojie obtained the qualification of intermediate economist issued by the Human Resources and Social Security Department of Shandong Province in November 2010; and obtained the qualification of senior economist issued by the Human Resources and Social Security Department of Shandong Province in May 2020.



## Directors, Supervisors, Senior Management and Staff

Mr. Hu Yuyue (胡俞越) (without former name), aged 60, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the consultant to the drafting group of Futures Law in the National People's Congress, the director of institute of securities and futures of Beijing Technology and Business University (北京工商大學), a part-time professor of China Agricultural University (中國農業大學), Central South University (中南大學) and Qingdao University (青島大學), a standing director of the Capital Enterprise Reform and Development Society (首都企業改革與發展研究會), the director of the Beijing University for Business Administration (北京工商管理學會), a member of the Advisory Committee of Zhengzhou Commodity Exchange (鄭州商品交易所), a member of the Product Committee of Shanghai Futures Exchange (上海期貨交易所), a member of the Advisory Committee and deputy director of the Expert Committee of the Research Institute of Dalian Commodity Exchange (大連商品交易所), a consulting expert of Shanghai Stock Exchange (上海證券交易所), deputy director of the Financial Work Committee of China Market Society (中國市場學會金融工作委員會), deputy director of Expert Committee of CFLP Bulk Commodity Market (中物聯大宗商品市場分會專家委員會) and an independent director of six companies (please see below for details of these companies). Mr. Hu Yuyue served in several positions in succession in the department of economics of Beijing College of Commerce from August 1983 to April 1999, including teaching assistant, lecturer, associate professor and the director of the teaching and research office of trade and economics; served as a professor of the school of economics and the director of securities and futures institute in Beijing Technology and Business University since May 1999; served as an independent director of Minmetals & Jingyi Futures Co., Ltd. (五礦經易期貨有限公司) since April 2006; served as the independent Supervisor of the Company since June 2015; served as an independent director of Jinneng Holding Shanxi Electric Power Co., Ltd. (晉能控股山西電力股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 000767) since May 2016; served as an independent director of Zhejiang Juhua Co., Ltd (浙江巨化股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600160) since November 2016; served as an independent director of Beijing Urban Construction Investment & Development Co., Ltd. (北京城建投資發展股份有限公司) (listed in Shanghai Stock Exchange; stock code: 600266) since July 2018; served as an independent director of Addisino Co., Ltd (航天工業發展股份有限公司) (listed in Shenzhen Stock Exchange; stock code: 000547) since May 2019; and served as an independent director of Tianfeng Futures Co. Ltd (天風期貨股份有限公司) (listed in National Equities Exchange and Quotations; stock code: 834277) since February 2020. Mr. Hu Yuyue was granted by the Ministry of Education of the PRC the "Research Achievement Award of the Second National Regular Institutions of Higher Learning in Social Science" in December 1998; rewarded as "Excellent Young Elite Teacher in Beijing" by Beijing Municipal Education Commission in 1998; selected to the "Hundred Theoretical Talents Plan for the New Century in Beijing" by Beijing Committee of the Communist Party of China in 2001; and was entitled by Beijing Federation of Trade Unions "Hu Yuyue Securities and Futures Research Team – Municipal Staff Innovation Studio" (胡俞越證券期貨研究團隊 – 市級職工創新工作室) in 2011. Mr. Hu Yuyue graduated from Nanjing University majoring in history and obtained a bachelor's degree in July 1983. Mr. Hu Yuyue was granted the title of professor by Beijing High Professional Technical Title Review Committee in September 1999.



## Directors, Supervisors, Senior Management and Staff

Mr. Mu Yong (牟勇) (without former name), aged 44, joined the Company in June 2015. At present, he is an independent Supervisor of the Company, as well as the chief investment officer of China Forestry Group Corporation (中林集團控股有限公司). Mr. Mu Yong served as a staff member in Sichuan Branch of King & Wood Mallesons (金杜律師事務所) from February 2000 to August 2000; served as a legal consultant of Beijing Capital Management Company Limited (北京首創資產管理有限公司) from July 2003 to March 2005; served in succession as level-4 assistant, level-3 assistant, principal staff member and deputy director of the CSRC from March 2005 to May 2013; served as the general manager of Shanxi Dianshi Equity Investment Co., Ltd. (山西典石股權投資管理有限公司) from June 2013 to December 2014; served as the deputy general manager of Beijing Goldstone Agri-Investment Funds Management Center (北京金石農業產業投資基金管理中心) from January 2014 to June 2015; served as an independent Supervisor of the Company since June 2015; served as the director and general manager of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) from June 2015 to April 2020; served as the representative of the Beijing Fruit Industry Development Fund (北京市果樹產業發展基金) from March 2016 to March 2020; served as the representative of the Beijing Foreign Economic and Trade Development Guidance Fund (北京外經貿發展引導基金) from April 2016 to April 2020; and served as the chief investment officer of China Forestry Group Corporation (中林集團控股有限公司) since September 2020. Mr. Mu Yong graduated from Dalian Maritime University majoring in foreign trade transportation and obtained a bachelor degree in 1999; graduated from Renmin University of China majoring in Civil Law and Commercial Law and obtained a master degree in July 2003.

Mr. Yu Xuehui (于學會) (without former name), aged 55, joined the Company in January 2008. At present, he is an independent Supervisor of the Company as well as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所), an independent director of Cinda Futures Co., Ltd. (信達期貨有限公司), an independent director of Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司), and an independent director of Ruida Futures Co., Ltd. (瑞達期貨股份有限公司). Mr. Yu Xuehui served in succession as the broker and deputy manager of the trading department of China International Futures Co., Ltd. (中國國際期貨經紀有限公司) from March 1993 to October 1997; served as a partner of Beijing Hanhua Law Firm (北京市漢華律師事務所) from November 1997 to October 2005; served as a partner of Beijing Besthold Law Firm (北京市必浩得律師事務所) from November 2005 to April 2007; served as a partner of Beijing Zhongtian Law Firm (北京市眾天律師事務所) since May 2007; served as an independent director of Cinda Futures Co., Ltd. since March 2008; served as a director of Minsheng Royal Fund Management Co., Ltd. since August 2012; served as an independent Supervisor of the Company since December 2019; and served as an independent director of Ruida Futures Co., Ltd. since May 2020. Mr. Yu Xuehui graduated from Peking University majoring in economic law and obtained a bachelor degree in July 1988. Mr. Yu Xuehui was granted the qualification of lawyer by Beijing Municipal Bureau of Justice in June 1993.

## Directors, Supervisors, Senior Management and Staff

Mr. Lin Zongheng (林宗恆) (without former name), aged 48, joined the Company in February 2008. At present, he is a staff representative Supervisor of the Company, as well as the chief risk officer and general manager of Compliance and Risk Control Department of Luzheng Capital, the supervisor of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED. Mr. Lin Zongheng held various positions, such as officer, deputy section chief, section chief and financial manager of Qilu Chemical Fiber Group Co., Ltd (齊魯化纖集團有限責任公司) from July 1996 to June 2006; served as director of audit department of Jinan Coca-Cola Beverage Co. Ltd (濟南可口可樂飲料有限公司) from June 2006 to February 2008; held various positions, such as officer, supervisor and deputy general manager of financial planning department of the Company from February 2008 to June 2013; served as deputy general manager and chief financial officer of Luzheng Capital from June 2013 to January 2016; served as deputy general manager of financial planning department of the Company from February 2016 to July 2017; served as director of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED from November 2013 to July 2020; served as general manager of audit department of the Company from July 2017 to December 2019; served as staff representative Supervisor of the Company since April 2019; served as the chief risk officer and general manager of Compliance and Risk Control Department of Luzheng Capital since January 2020; and served as the supervisor of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED since July 2020. Mr. Lin Zongheng graduated from Shandong University of Economic majoring in accounting and obtained a bachelor degree in July 1996. Mr. Lin Zongheng obtained the qualification of intermediate accountant issued by Ministry of Finance of the PRC in May 2004; and obtained the qualification of senior accountant issued by Ministry of Finance of the PRC in June 2019.

Mr. Liu Pu (劉普) (without former name), aged 49, joined the Company in April 2007. At present, he is a staff representative Supervisor and served as the general manager of audit department of the Company. Mr. Liu Pu served as an officer of Taian Hoisting Machinery Factory (泰安市起重機總廠) from July 1989 to November 1993; served in session as an officer of Taian office department, financial officer of Shanghai office department and chief accountant of Taian office department of Taian Trust and Investment Corporation (泰安市信託投資公司) from November 1993 to May 2001; served as financial officer of Shanghai office department and supervisor of Shanghai accounting center of Zhongtai Securities from May 2001 to April 2007; served as general manager of audit department of the Company from April 2007 to June 2009; served as director of office of the Company from June 2008 to March 2009; served as the secretary general of Shandong Futures Association from September 2009 to August 2013; served as general manager of IB business service department of the Company from October 2013 to June 2016; served as administrative head of branch service department of headquarters of operation management of the Company from June 2016 to August 2019; served as employee of office of the Board of the Company from August 2019 to December 2019; served as staff representative Supervisor of the Company since April 2019; and served as general manager of audit department of the Company since December 2019. Mr. Liu Pu graduated from Shandong University of Science and Technology majoring in accounting and obtained a bachelor degree in July 2004. Mr. Liu Pu obtained the qualification of intermediate economist issued by the Ministry of Personnel of the PRC in November 1999; and obtained the qualification of intermediate accountant issued by Ministry of Finance of the PRC in May 2005.



## Directors, Supervisors, Senior Management and Staff

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

### (III) Senior Management

Mr. Liu Qingbin (劉慶斌) (without former name), aged 51, joined the Company in May 2014. At present, he is a member of the party committee and the general manager of the Company, as well as a member of the fifth session of the Council and a director of Legal Committee of the fifth session of the Council under China Futures Association (中國期貨業協會), a director of Metal Variety Committee of Shanghai Futures Exchange (上海期貨交易所), a member of Trading Committee of the third session of the Council under Dalian Commodity Exchange (大連商品交易所), a deputy director of Variety Committee of the seventh session of the Council under Zhengzhou Commodity Exchange (鄭州商品交易所), the supervisor of Shandong Finance Association (山東金融業聯合會), and the chairman of Shandong Futures Association (山東省期貨業協會). Mr. Liu Qingbin served as a staff of Jinan First Machine Tool Plant (濟南第一機床廠) from July 1992 to July 1997; served as a section member of Jinan Securities Administration Office (濟南證券管理辦公室) from July 1997 to August 1998; served as a section member, deputy principal section member of Department of Integration, deputy principal section member and principal section member of Department of Intermediary Supervision of Jinan Securities Administration Office of the CSRC in succession from August 1998 to March 2004; served as a principal section member and the deputy director of Institutional Supervision Division, and deputy director and director of Futures Supervision Division of the Shandong Regulatory Bureau of CSRC (中國證監會山東監管局) in succession from March 2004 to August 2008; served as a department cadre and the director of company supervision department I of Futures Supervision Division, and director of the audit office and director of the general office of Futures Supervision Division II of CSRC in succession from August 2008 to April 2014; served as the secretary to the party committee of the Company from June 2014 to August 2016; served as the chairman of Luzheng Capital from August 2015 to March 2020; served as the director of ZHONGTAI HUIRONG INVESTMENT (HK) COMPANY LIMITED since August 2015 to July 2020; served as a member of the party committee and the general manager of the Company since August 2016; served as the chairman of Shandong Futures Association since August 2017; served as the director of Metal Variety Committee of Shanghai Futures Exchange since August 2018; served as the member of the fifth session of the Council under China Futures Association since September 2018; served as the director of Legal Committee of the fifth session of the Council under China Futures Association since November 2018; served as the supervisor of Shandong Finance Association since March 2019; served as the member of Trading Committee of the third session of the Council under Dalian Commodity Exchange since July 2019; and served as the deputy director of Variety Committee of the seventh session of the Council under Zhengzhou Commodity Exchange since June 2020. Mr. Liu Qingbin graduated from Luoyang Institute of Technology (洛陽工學院) majoring in marketing and obtained a bachelor's degree in July 1992. Mr. Liu Qingbin obtained the qualification of certified public accountant issued by the Institute of Certified Public Accountants of Shandong Province (山東省註冊會計師協會) in January 2005, and obtained the qualification of senior economist issued by the High Review Commission of Professional Title in Economics of Shandong Province (山東省經濟專業職務高級評審委員會) in February 2005.



## Directors, Supervisors, Senior Management and Staff

Mr. Liu Yunzhi (劉運之) (without former name), aged 51, joined the Company in January 2007. At present, he is a member of the party committee, the deputy general manager, the chief financial officer of the Company, as well as the chairman of the board of directors of LUZHENG INTERNATIONAL HOLDING LIMITED, a non-executive director of JINOVA S.A., and a member of the Talent Development Committee of the fifth session of the Council under China Futures Association. Mr. Liu Yunzhi served as a director of the Auditing Firm of the Audit Office of Shandong Province (山東省審計廳審計師事務所) from July 1993 to December 1999; served as a director and the departmental manager in Shandong Shenyuan CPA LLP (山東申元有限責任會計師事務所) from January 2000 to May 2001; served as the departmental manager and deputy senior accountant of Shandong Zhengyuan Hexin (Limited) Certified Public Accountants (山東正源和信有限責任會計師事務所) from June 2001 to January 2002; served as the deputy general manager of the planning and finance department of Zhongtai Securities from January 2002 to January 2007; served as the deputy general manager of Shandong Quanxin Futures Brokerage Co., Ltd. (山東省泉鑫期貨經紀有限公司) from January 2007 to October 2007; served as general manager of Jinan Sales Office of the Company from October 2007 to August 2008; served as the deputy general manager of the Company since January 2008; served as a member of the party committee of the Company since November 2008; served as the chief financial officer of the Company since December 2008; served as a director of Luzheng Capital from April 2013 to August 2019; served as secretary to the Board of Directors and Joint Company Secretary of the Company from January 2018 to June 2019; served as a member of the Talent Development Committee of the fifth session of the Council under China Futures Association since February 2019; served as the non-executive director of JINOVA S.A. since July 2019; served as director of LUZHENG INTERNATIONAL HOLDING LIMITED since August 2019; and served as the chairman of the board of directors of LUZHENG INTERNATIONAL HOLDING LIMITED since September 2019. Mr. Liu Yunzhi graduated from Jiangxi University of Finance and Economics (江西財經大學) majoring in auditing and obtained a bachelor degree in July 1993, and graduated from Asia International Open University (Macau) with a master degree majoring in business administration in April 2008. Mr. Liu Yunzhi obtained the qualification of senior auditor issued by the High Review Commission of Professional Title in Auditing of Shandong Province (山東省審計專業資格高級評審委員會) in May 2002; obtained the qualification of certified public account issued by the Institute of Certified Public Accountants of Shandong Province in December 2009; and obtained the qualification of asset valuer issued by the Ministry of Finance of the PRC in October 1999.

Ms. Jiang Hui (姜輝) (without former name), aged 49, joined the Company in December 2008. At present, she is the deputy general manager of the Company. Ms. Jiang Hui served as an employee of Heilongjiang Tobacco Futures Co., Ltd. (黑龍江煙草期貨有限公司) from October 1995 to October 1996; served as an employee in Changchun Gaosida Futures Co., Ltd. (長春高斯達期貨有限公司) from October 1996 to December 1999; served as the manager of Dalian Sales Office of Yunnan Binhai Futures Co., Ltd. (雲南濱海期貨有限公司) from December 1999 to January 2001; served as the manager of Dalian Sales Office of Dalian Wanheng Futures Co., Ltd. (大連萬恆期貨有限公司) from January 2001 to December 2003; served as the general manager of Pengda Futures Brokerage Co., Ltd. (蓬達期貨經紀有限公司) from December 2003 to November 2008; served as the deputy general manager of the Company since December 2008; and served as a director of Luzheng Capital from April 2013 to March 2020. Ms. Jiang Hui graduated from Shenyang Sport University (瀋陽體育學院) majoring in physical education and obtained a bachelor degree in July 1992.

## Directors, Supervisors, Senior Management and Staff

Mr. Pei Yingjian (裴英劍) (without former name), aged 47, joined the Company in November 2006. At present, he is the deputy general manager of the Company, as well as the executive director of Luzheng Information Technology, the chairman of the Supervisory Committee of Shandong Exchange Markets Clearing House Co., Ltd (山東交易市場清算所有限公司), and a member of the Information Technology Committee of the fifth session of the Council under China Futures Association. Mr. Pei Yingjian served in succession as an employee and manager of technology department of Tianjin business department of Jinan Yingda Trust Co., Ltd. (濟南英大信託有限公司) from September 1994 to August 1998; served as the director of the securities department of Shandong International Trust Corporation (山東省國際信託有限公司) from August 1998 to May 2001; served as the director of information and technology department of Zhongtai Securities from May 2001 to November 2006; served in several positions in succession in the Company from November 2006 to April 2015, including an employee of the information and technology department and general manager of information and technology department; served as the deputy general manager of the Company since July 2012; served as an executive director of Luzheng Information Technology since February 2015; served as and the chairman of the supervisory committee of Shandong Exchange Markets Clearing House Co., Ltd. since September 2016 and served as a member of the Information Technology Committee of the fifth session of the Council under China Futures Association since February 2019. Mr. Pei Yingjian graduated from Jinan Machinery University for Employees (濟南機械職工大學) majoring in foreign trade and economy, and obtained the college diploma in July 1994; graduated from Yunnan University majoring in computer science and technology, and obtained a bachelor degree in January 2009. Mr. Pei Yingjian obtained the qualification of engineer issued by Intermediate Review Committee of Shandong Provincial Economic and Trade Commission for Engineering Technology Titles (山東省經濟貿易委員會工程技術職務中級評審委員會) in November 2005.

Ms. Shen Mingxia (沈銘霞) (without former name), aged 50, joined the Company since November 2017. At present, she is the deputy general manager of the Company, the chairman of the board of directors of LUZHENG INTERNATIONAL FUTURES LIMITED, as well as a member of the Research and Development Committee of the fifth session of the Council of the China Futures Association. Ms. Shen Mingxia served as the head of Wuxi Office of Shanghai East Futures Co., Ltd (上海東方期貨有限公司) from July 1994 to September 1996; served as the head of Wuxi Office of Nanjing CIFCO Futures Co., Ltd. (南京中期期貨有限公司) from October 1996 to December 1999; served as the head of Wuxi Sales Office of Jianzheng Futures Co., Ltd. (建證期貨有限公司) from January 2000 to February 2005; served as the head of Shanghai Sales Office, assistant to general manager, and deputy general manager of Yongan Futures Co., Ltd. (永安期貨有限公司) from March 2005 to December 2015; served as the investor of Beijing Huiyu Consulting & Advisor Co., Ltd. (北京惠裕諮詢顧問有限公司) from February 2016 to November 2017; served as deputy general manager of Chang'an DERI VATIVES Investment Co., Ltd. (長安德瑞威投資公司) of Beijing Chang'an Investment Group (北京長安投資集團) from January 2017 to November 2017; would be the deputy general manager of the Company from November 2017 to May 2018; served as the deputy general manager of the Company since May 2018; served as the member of the Research and Development Committee of fifth session of the Council of the China Futures Association since February 2019; and served as a director and the chairman of the board of directors of LUZHENG INTERNATIONAL FUTURES LIMITED since August 2019. Ms. Shen Mingxia graduated from Jiangnan University, majoring in foreign trade and economy in July 1990, and obtained a college's degree; graduated from East China Normal University with a bachelor's degree in business administration in September 2008; and graduated from Shanghai Jiao Tong University with EMBA degree in June 2013.



## Directors, Supervisors, Senior Management and Staff

Mr. Liu Jianmin (劉建民) (without former name), aged 51, joined the Company in January 2000. At present, he is the chief risk officer of the Company and the chairman of the Supervisor Committee of Luzheng Capital. Mr. Liu Jianmin served in succession as the dealer, trading clearing principal and manager of Shanghai trading department of Shandong Metal Material Corporation (山東省金屬材料總公司) from September 1993 to January 2000; served in several positions in the Company from January 2000 to September 2014, including the manager of the market development department, manager of the trading clearing department, assistant of general manager, the general manager of compliance and review department, compliance supervisor, chief risk officer and general manager of the audit department; served as the deputy general manager of the Company from September 2014 to September 2018; served as the chief risk officer of the Company since September 2018; served as the supervisor of Luzheng Capital since April 2013; and served as the chairman of the Supervisor Committee of Luzheng Capital since March 2020. Mr. Liu Jianmin graduated from Tongji University majoring in inorganic non-metal material and obtained a bachelor degree in July 1993.

### (IV) Company Secretaries

As at the date of this report, Mr. Liang Zhongwei also serves as a joint company secretary of the Company. For the biography of Mr. Liang Zhongwei, please see “(I) The Board” of this section.

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

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

During the Reporting Period, Mr. Li Xuekui ceased to act as a staff representative Supervisor and the chairman of Supervisor Committee of the Company, Mr. An Tie was appointed to serve as a non-staff representative Supervisor of the Company, and then appointed to serve as the chairman of Supervisor Committee of the Company. Mr. Wang Hairan was appointed to serve as a staff representative Supervisor of the Company.

During the Reporting Period, there was no change of the Board of the Directors of the Company.

During the Reporting Period, there was no change of the Senior Management of the Company.



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

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

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

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

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

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

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

#### **(III) Long-term incentive scheme**

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

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

##### **1. Remuneration information of Directors and Supervisors**

Please refer to Note 11 of the consolidated financial statements of this report for details.

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

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

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

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

# Significant Events

## I. MATERIAL LITIGATIONS AND ARBITRATIONS

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

## II. SIGNIFICANT ACQUISITIONS, REORGANISATIONS AND DISPOSALS

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

## III. CONNECTED TRANSACTIONS

### (I) Connected transactions

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

### (II) Connected persons

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

- **Zhongtai Securities**

Zhongtai Securities was established under the laws of the PRC in May 2001 with a registered capital of approximately RMB6.9686258 billion. Its principal businesses include securities brokerage, securities underwriting and sponsorship, and proprietary trading of securities and etc.. As at the end of the Reporting Period, Zhongtai Securities owned approximately 63.10% of the total issued share capital of the Company and is therefore a Controlling Shareholder and a connected person of the Company.

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

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



- **Shandong Steel**

Shandong Steel was established under the laws of the PRC in March 2008 with a registered capital of RMB11,192.989834 million. It is primarily engaged in the production and sale of steel products such as steel and steel billets and etc. As at the end of the Reporting Period, Shandong Steel owned 80.52% equity interest in Laiwu Steel. Meanwhile, as known to the Company, Laiwu Steel is interested in approximately 41.32% of our Controlling Shareholder Zhongtai Securities, and Laiwu Steel is the holding company of Zhongtai Securities. Shandong Steel is therefore a Controlling Shareholder and connected person of the Company.

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

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

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

### **(III) Continuing connected transactions**

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

##### ***Financial Services Framework Agreement***

In the ordinary and usual course of business, the Group regularly provides certain financial services (as described below) to Zhongtai Securities and its associates. On the other hand, Zhongtai Securities and its associates also regularly provide various financial services (as described below) to the Group. To comply with the requirements of the Listing Rules, the Company entered into a financial services framework agreement (the "former Financial Services Framework Agreement") with Zhongtai Securities on 28 April 2017 (after trading hours) to accept the following services provided by Zhongtai Securities and/or its associates in the ordinary and usual course of business of the Group. The former Financial Services Framework Agreement is for a fixed term of three years, valid from the date of approval at the 2017 annual general meeting, subject to renewal. As the former Financial Services Framework Agreement is valid continuously for the three years ended 31 December 2018, 2019 and 2020, the highest applicable percentage ratio under Chapter 14A of the Listing Rules is expected to be more than 5% on an annual basis, such transactions constitute continuing connected transactions of the Company, and is subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, and the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.



## Significant Events

As the corresponding annual caps under the former Financial Services Framework Agreement will expire on 31 December 2020 and the Group will continue to enter into certain transactions under the former Financial Services Framework Agreement subsequent to 31 December 2020, and the Company intends to adjust the caps of securities brokerage and other financial services, and accept OTC option introduction services provided by Zhongtai Securities and/or its associates, the Company entered into the Financial Services Framework Agreement with Zhongtai Securities on 26 April 2019 (after trading hours). Pursuant to such agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, primarily including acceptance of IB services, asset management services, securities brokerage and other financial services as well as OTC option introduction services provided by Zhongtai Securities and/or its associates. The Financial Services Framework Agreement is for a term of three years, valid from the date of approval at 2018 annual general meeting (20 June 2019) and will expire on 31 December 2021. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Continuing Connected Transactions for the following three years (from 20 June 2019 to 31 December 2021). For the details of entering into the Financial Services Framework Agreement and the transactions thereunder, see the announcement dated on 26 April 2019 and the circular dated 28 May 2019 of the Company.

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

## Significant Events

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

Nature of transaction	Transaction amounts for the year ended 31 December 2020 (RMB' 000)	Proposed annual caps for the year ended 31 December 2020 (RMB' 000)
<b>A. Acceptance of IB Services Provided by Zhongtai Securities and/or its associates</b> Commissions charged by Zhongtai Securities and/or its associates for provision of IB services to the Group	10,247	28,900
<b>B. Purchase of Asset Management Schemes from Zhongtai Securities and/or its associates</b> Maximum daily amount invested Asset Management Fees charged by Zhongtai Securities and/or its associates	89,983 137	227,000 3,400
<b>C. Securities Brokerage and other Financial Services</b> Commissions charged by Zhongtai Securities and/or its associates	24	1,800
<b>D. OTC Option introduction Services</b> Introduction fee charged by Zhongtai Securities and/or its associates	0	3,600
<b>Total Commissions charged by Zhongtai Securities and/or its associates on the Group</b>	<b>10,408</b>	<b>37,700</b>

### Financial Services Framework Agreement

#### A. Acceptance of IB Services Provided by Zhongtai Securities and/or its associates

##### Principal terms:

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



## Significant Events

### Reasons for the transaction:

Acceptance of IB services by the Company (as a futures firm) provided by Zhongtai Securities (as a securities company) could give it quick access to the relatively abundant customer resources of Zhongtai Securities and/or its associates, and could effectively achieve synergies while enhancing the Company's customer service capabilities and increase its operating income. In addition, Zhongtai Securities and/or its associates have been providing IB services to the Company for many consecutive years and have a deep understanding of the Company's business needs. Thus, the continuous provision of such services by Zhongtai Securities and/or its associates to the Company would foster the development of the Company's futures brokerage business.

### Pricing terms:

- (i) the commission charged by Zhongtai Securities and/or its associates for provision of IB services to the Company will be 60% of the fee income generated from such customers introduced by Zhongtai Securities and/or its associates (the "Commission Split"). According to the Company's inquiry with other futures companies that conduct IB business with securities companies on the commission split of futures services, the Company believes that the 60% commission split is within a reasonable range of the market and is in line with market practice;
- (ii) the fee income equals the fees received from such customers, net of the trading and clearing fees paid to the PRC futures exchanges, including but not limited to, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Trading Center; and
- (iii) the Commission Split of 60% has been determined based on arm's-length negotiations between Zhongtai Securities and the Company with reference to the prevailing market commission rates for similar IB businesses and on normal commercial terms, and is in line with market practice.

B. *Purchase of the Asset Management Schemes in which Zhongtai Securities and/or its associates act as the manager*

### Principal terms:

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



### Reasons for the transaction:

Investment in asset management schemes could enhance the Group's investment return and, compared with other investments, the return on investment in assets management schemes is relatively more stable and thus in line with the Group's risk management requirements. In addition, the Group has invested in various asset management schemes in which Zhongtai Securities and/or its associates acted as managers for many consecutive years, and have developed a good understanding of the investment strategies and performances of Zhongtai Securities and/or its associates. This can effectively promote business cooperation between the two parties and increase the return on the Group's asset.

### Pricing terms:

- (i) asset Management Fees charged by Zhongtai Securities and/or its associates as the manager of the asset management schemes are calculated based on the Group's investment amounts times the Asset Management Fees rate; according to the Group's similar transactions with independent third parties in the past, the asset management fee rate is approximately 1.5%.
- (ii) for collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such schemes equally and evenly, including the Group and any other independent third party investor participants. Such Asset Management Fees rate is also consistent with the prevailing market rates for collective asset management schemes issued by any other independent third parties with similar scales of investment; and
- (iii) for targeted asset management schemes, (a) the Asset Management Fees rate charged by Zhongtai Securities and/or its associates as the manager is comparable to, or no less favorable than, those charged by Zhongtai Securities to any other independent third parties for similar targeted asset management schemes; (b) such Asset Management Fees rate charged on the Group is also comparable to, or no less favorable, than the asset management fees rate charged on the Group by any other independent third party managers in other similar targeted asset management schemes the Group participated in; and (c) the Asset Management Fees rate has been determined based on arm's length negotiations between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rates for similar targeted management schemes and on normal commercial terms, and is in line with market practice.

C. *Acceptance of Securities Brokerage and other Financial Services Provided by Zhongtai Securities and/or its associates*

### Principal terms:

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

## Significant Events

### Reasons for the transaction:

In consideration of the need of the Group to increase the capital return by securities investment during our wealth management activities, the Group needs to conduct securities investment and other financial businesses through companies who hold securities brokerage license. In addition, the Group has cooperated with Zhongtai Securities and/or its associates for securities brokerage and other financial services for many consecutive years. Zhongtai Securities and/or its associates have developed a good understanding of our needs. This is a key factor considered in selecting a provider of securities brokerage and other financial services.

### Pricing policy:

- (i) the commissions charged by Zhongtai Securities and/or its associates for provision of securities brokerage and other financial services will be determined based on arm's-length negotiations between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rate for similar business, and is in line with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee calculated with transaction amount being multiplied by the commission rate of 0.03% exceeds RMB5, the transaction will be charged at the commission rate of 0.03%). Different commission rates are applicable to the bond brokerage business provided to the Group by Zhongtai Securities and/or its associates depending on different types of bonds (such as reverse repo of bonds with the term of one day or exceeding 28 days), ranging from 0.001% to 0.03%. Such commission rates are also applicable to independent third parties; and
- (ii) the commissions charged by Zhongtai Securities and/or its associates for provision of securities brokerage and other financial services to the Group are comparable to, or no less favorable than the average market commission rate, and the corresponding commission rate is also within the range as specified by China's stock exchanges (i.e. Shanghai Stock Exchange and Shenzhen Stock Exchange).

### D. *Acceptance of OTC Option introduction services provided by Zhongtai Securities and/or its associates*

#### Principal terms:

In recent years, the Group's OTC derivatives business has achieved development at a large scale with solid profits and hold one of the largest market shares. It has formed a strong risk management capability and competitive advantage. As the largest securities Group in Shandong Province, Zhongtai Securities trades OTC derivatives with its customers. However, Zhongtai Securities' OTC derivatives business primarily focuses on stock index, ETFs and stocks. Therefore, Zhongtai Securities and/or its associates will introduce customers engaged in trading of commodity OTC derivatives to the Group, and at the same time, due to the restricted trading ability of Zhongtai Securities, it also needs to introduce certain customers trading equity OTC derivatives to the Group. Zhongtai Securities and/or its associates charge an introduction fee on the Group for such introduction services.

### Reasons for the transaction:

The Group's acceptance of the introduction service provided by Zhongtai Securities and/or its associates can enable the Group to share the abundant customer resources of Zhongtai Securities, enhance the synergy effect of the Group and increase its operating income.



### **Pricing terms:**

The introduction fee for Zhongtai Securities and/or its associates to introduce the OTC business to the Group will be based on 10% to 30% of the Group's income from its OTC Option business. The relevant split ratio is determined based on the risk level of different types of OTC Option businesses. The higher the risk, the lower the split ratio to be given to Zhongtai Securities. The Group will negotiate with Zhongtai Securities within the above-mentioned range to determine the split ratio of each specific business.

### **2. Continuing connected transactions with Shandong Steel and/or its associates**

#### **A. *New Futures Brokerage Services Framework Agreement***

In the ordinary and usual course of business of the Company, it provides futures brokerage and other related financial services to our customers, including Shandong Steel and/or its associates. The Company entered into the New Futures Brokerage Services Framework Agreement with Shandong Steel on 28 April 2017 (after trading hours) and proposed the annual caps for 2018, 2019 and 2020 under the New Futures Brokerage Services Framework Agreement.

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

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

## Significant Events

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

Nature of transaction	Transaction amounts for the year ended 31 December 2020 (RMB' 000)	Proposed annual caps for the year ended 31 December 2020 (RMB' 000)
<b>Derivatives brokerage</b> Commissions received by the Group for provision of derivatives brokerage service by the Group to Shandong Steel and/or its associates <sup>(i)</sup>	2,096	9,800

- (i) Commissions received by the Group for provision of derivatives brokerage service to Shandong Steel and/or its associates include those commission received by the Group from Zhongtai Securities and/or its associates for provision of derivatives brokerage services, netting off trading and clearing fees paid to exchange-clearing organization.

### Principal terms:

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

### Reasons for the transaction:

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

### Pricing terms:

- (i) although the Company's Futures Commissions for provision of futures brokerage services vary according to different kinds of futures products, such commissions for the identical futures products are applicable to all customers of the Company, including Shandong Steel and/or its associates, and other independent third party customers; and
- (ii) the Futures Commissions charged by the Company for provision of futures brokerage and other financial services are based on a percentage that is at a premium of the Futures Commissions rate specified by the PRC Futures Exchanges with reference to the prevailing market futures commissions rate, and is in line with market practice.



### B. Asset Management Service Framework Agreement

Reference is made to the announcement of the Company dated 28 April 2017 in relation to the Former Asset Management Service Framework Agreement entered into between the Company and Shandong Steel and its annual caps, pursuant to which Shandong Steel and/or its associates will continuously purchase the collective asset management schemes in which the Company acted as the manager. Being the asset manager, the Company invests in financial products of various aspects with the collective asset management schemes. As such, Shandong Steel and/or its associates will pay asset management fees to the Company. As the corresponding annual caps under the Asset Management Service Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct continuing connected transactions under the Asset Management Service Framework Agreement after 31 December 2019 and to sell asset management schemes to Shandong Steel and/or its associates, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The Asset Management Service Framework is for a term of three years, valid from 1 January 2020 to 31 December 2022. The continuing transactions thereunder are subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of Listing Rules, and the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.

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

Nature of transaction	Transaction amounts for the year ended 31 December 2020 (RMB' 000)	Proposed annual caps for the year ended 31 December 2020 (RMB' 000)
<b>Collective asset management schemes purchased by Shandong Steel and/or its associates</b>		
Daily maximum investment amount	0	50,000
Asset management fees received from Shandong Steel and/or its associates	0	750

#### Principal terms:

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

## Significant Events

### Reasons for the transaction:

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

### Pricing terms:

- (i) as the manager of the asset management schemes, the Company charges Asset Management Fees based on the calculation of the investment amounts in the asset management schemes by Shandong Steel and/or its associates times the Asset Management Fees rate; and
- (ii) For collective asset management schemes, the Asset Management Fees rate (approximately 1.5% on average) as stipulated in the collective asset management contracts is applicable to all investors participating in such plan, including Shandong Steel and/or its associates and any other independent third party investor participants. Such Asset Management Fees rate is also comparable to, or no less favorable than, the rates the Company charged any other independent third parties for comparable collective asset management schemes.

### C. Bulk Commodities Sale and Purchase Framework Agreement

Reference is made to the announcement of the Company dated 28 April 2017 in relation to the former Bulk Commodities Sale and Purchase Framework Agreement entered into between the Company and Shandong Steel. As disclosed in the announcement of the Company dated 28 April 2017, the Group will purchase and sell bulk commodities from or to Shandong Steel and/or its associates in accordance with the former Bulk Commodities Sale and Purchase Framework Agreement. As the corresponding annual caps under the former Bulk Commodities Sale and Purchase Framework Agreement will expire on 31 December 2019, and Luzheng Capital, a wholly-owned subsidiary of the Company, will continue to purchase bulk commodities, such as hot rolled wide steel plates from Shandong Steel and/or its associates in the future, and that Shandong Steel and/or its associates may continue to purchase raw materials, including coke and iron ores, from Luzheng Capital, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The Bulk Commodities Sale and Purchase Framework Agreement is for a term of three years, valid from 1 January 2020 to 31 December 2022. The continuing transactions thereunder are subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of Listing Rules, and the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of Listing Rules.



## Significant Events

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

Nature of transaction	Transaction Amounts for the year ended 31 December 2020 (RMB' 000)	Proposed annual caps for the year ended 31 December 2020 (RMB' 000)
The cost paid by the Group for purchase of physical commodities from Shandong Steel and/or its associates	32,179	450,000
The cost paid by Shandong Steel and/or its associates for purchase of physical commodities from the Group	0	240,000

### Principal terms:

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

### Reasons for the transactions:

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

## Significant Events

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

### **Pricing terms:**

For the Group's purchase of commodities such as hot-rolled wide steel plates from Shandong Steel and/or its associates, the prices were determined by Shandong Steel and/or its associates primarily with reference to comparable prices of similar products sold by independent third parties in the local market in order to ensure that the prices and terms of the commodities purchased by the Group from Shandong Steel and/or its associates are fair, reasonable and comparable to those offered by independent third parties for sale of similar products. The Group placed purchases orders through the e-commerce platform of Shandong Steel and/or its associates, and would refer to the prices offered by independent third parties before placing orders. This e-commerce platform adopts the principle of first-come-first-served, and the price published by the e-commerce platform on the day will prevail.

For the purchase of commodities such as cokes and iron ores by Shandong Steel and/or its associates from the Group, the prices were determined by the Group based on fair market value after arms' length negotiation with Shandong Steel and/or its associates, with reference to comparable prices of similar products sold by independent third parties in the local market in order to ensure that the prices and terms of the commodities such as cokes and iron ores purchased by Shandong Steel and/or its associates from Luzheng Capital are fair, reasonable and comparable to those offered by independent third parties for sale of similar products. The Group follows market-oriented principles in selling coke, iron ore and other commodities. In other words, the final transaction price was agreed after negotiation according to the market supply and demand, and based on the market price published by third-party information companies (such as My Steel Network <https://www.mysteel.com/>) on the date of transaction.



### D. Risk Management Services Framework Agreement

Reference is made to the announcements of the Company dated 22 May 2017 in relation to (among others) the former Risk Management Service Framework Agreement entered into between the Company and Shandong Steel and its annual caps. As disclosed in the announcement of the Company dated 22 May 2017, the Group will provide risk management services to Shandong Steel and/or its associates in accordance with the former Risk Management Service Framework Agreement. As the corresponding annual caps under the former Risk Management Service Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct continuing connected transactions under the former Risk Management Service Framework Agreement after 31 December 2019 and to provide risk management service to Shandong Steel and/or its associates, the Company entered into the Risk Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The Risk Management Service Framework Agreement is for a term of three years, valid from 1 January 2020 to 31 December 2022. These transactions thereunder constitute continuing transactions of the Company, and are subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of Listing Rules, and the reporting and announcement requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of Listing Rules.

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

Nature of transaction	Transaction amounts for the year ended 31 December 2020 (RMB' 000)	Proposed annual caps for the year ended 31 December 2020 (RMB' 000)
Premium paid by Shandong Steel and/or its associates to the Group	5,256	9,000
Premium paid by the Group to Shandong Steel and/or its associates	1,014	9,000

## Significant Events

### Principal terms:

In Group's ordinary and usual course of business, the Group provide Shandong Steel and/or its associates with risk management services, such as providing customized and comprehensive risk management service for the price risks which Shandong Steel and/or its associates are exposed to in the trading of derivatives instruments, including futures, options, swaps and forwards or their portfolio in the private market. Therefore, Shandong Steel and/or its associates purchase or sell OTC Options from or to the Group. At the beginning of such transactions, the buyers pay premium to the sellers. As the largest securities company in Shandong Province, Zhongtai Securities trades OTC derivatives with its clients, involving swaps and OTC Options of such underlying assets as stock indexes, ETFs, stocks and commodities. Zhongtai Securities will trade OTC Options with the Group due to its own needs for hedging and transfer risks associated with OTC derivatives transactions. As such, Zhongtai Securities and/or its associates purchase or sell OTC Options from or to the Company's subsidiaries, and, the buyers pay premium to the sellers at the beginning of the transactions.

### Reasons for the transaction:

As the largest steel manufacturing and trading enterprise in Shandong Province of the PRC, Shandong Steel has a great production capacity and asset scale. In order to overcome price fluctuation risk of commodities, such as raw materials, Shandong Steel has customized risk management demand with respect to part of its production and processing materials. From 2013 up to now, the OTC derivatives business of the Group gradually matured with greater improvement of its trading capacity, risk management and service capability. The Group plans to provide OTC Options on futures of rebars, iron ores, coke and rubber to Shandong Steel and/or its associates in order to meet the risk management demand of Shandong Steel and/or its associates, facilitate the development of the OTC derivatives business of the Group, as well as increase the revenue of the Group. Zhongtai Securities has advantages in equity OTC derivatives, while the Group has advantages in commodity OTC derivatives. Therefore, entering into OTC derivatives transactions between Zhongtai Securities and the Group can allow the parties to make good use of their respective advantages in different fields and overcome their disadvantages so as to meet their customers' needs for OTC derivatives transactions.

### Pricing terms:

Taking into consideration the factors including the market volatility and liquidity, the trading period of each OTC derivatives transaction with Shandong Steel ranging from one to six months, the premium ratio ranges from approximately 0.5% to 8% of the value of the underlying asset.

- (i) among them, the premium ratio for trading structured financial product ranges from approximately 0.1% to 0.5% of the value of the assets;
- (ii) though the premium of OTC derivatives business charged by the Group varies depending on the types of futures products, the premium ratio of the same futures products is applicable to all of the Group's clients including Shandong Steel and/or its associates and other independent third party clients; and
- (iii) the premium ratio charged by/paid by the Group for risk management services provided is determined based on internationally recognized pricing models and risk control systems, with reference to the quotation of market organizations and reference parameters including the volatility ratio provided by a third party, i.e. Wind Information, in order to ensure reasonable pricing in line with market practice on the premises of fairness and impartiality, which is in the interest of the Group and Shareholders as a whole.



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

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

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

In respect of the continuing connected transactions disclosed:

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

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

### 4. Confirmation on related party transactions

Details of the Group's related party transactions are set out in the consolidated financial statements and note 43. Except for the connected transactions and the continuing connected transactions disclosed in this report, no related party transactions constitutes a connected transaction or a continuing connected transaction for the Company and is subject to announcement, independent Shareholder approval under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules for connected transactions and continuing connected transactions as set out in this report.

## Significant Events

### IV. MAJOR CONTRACTS AND THEIR PERFORMANCE

There was no major contract signed by the Company during the Reporting Period.

### V. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the Reporting Period.

### VI. UNDERTAKINGS OF THE CONTROLLING SHAREHOLDERS AND THEIR PERFORMANCE

To avoid any actual or potential competition between the businesses of Zhongtai Securities, Laiwu Steel and Shandong Steel and the Company, our Controlling Shareholders undertook on 15 June 2015 (the “Non-Competition Undertaking”) that, subject to certain exceptions and save as disclosed in the section under “Relationship with Controlling Shareholders” of the Prospectus, our Controlling Shareholders shall not, and shall procure their associates (except for any members of our Group) will not, engage in the PRC in any business which directly or indirectly competes with the core businesses (futures brokerage, futures asset management, and commodity trading and risk management businesses) of the Company (“Restrained Businesses”) within the period that (a) the H Shares of the Company are listed on the Stock Exchange, and (b) our Controlling Shareholders and their respective associates are entitled to exercise no less than 30% voting power of the Company or are deemed to be the Controlling Shareholders of our Group (“Restrained Period”).

The Company has received confirmation letters from each of the Controlling Shareholders, which confronted that during the Reporting Period, they had been in compliance with all the undertakings made under the Non-Competition Undertaking as well as all its requirements (including but not limited to matters relating to the options for new business opportunities, pre-emptive rights, option for purchase, etc.).

The independent non-executive Directors of the Company have reviewed the compliance with the Non-Competition Undertaking of the Controlling Shareholders during the Reporting Period, and signed an annual confirmation letter concerning the Controlling Shareholders being in compliance with the Non-Competition Undertaking. The summary of the annual confirmation letter is as follows:

“We hereby confirm that:

We have reviewed the compliance with the Non-Competition Undertaking (the “Non-Competition Undertaking”) dated 15 June 2015 granted by Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.), Laiwu Steel Group Co., Ltd. and Shandong Iron & Steel Group Co., Ltd. (collectively referred as “Covenantors”) to the Company;

We did not find that the Covenantors were in breach of the undertakings made under the Non-Competition Undertaking as well as all its requirements (including but not limited to the options for new business opportunities, pre-emptive rights and option for purchase, etc.); and

We agree that the Company can disclose the content of this letter, including adding the content of this letter into the 2020 annual report of the Company.”



Save as disclosed above, during the Reporting Period, none of the independent non-executive Directors of the Company made any decision concerning whether to exercise options for new business opportunities, pre-emptive rights, option for purchase, etc.

### **VII. APPOINTMENT, CHANGE AND DISMISSAL OF AUDITORS**

#### **(1) Change of auditors of the Company in the past three years**

The Company appointed PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as its domestic and international auditors. The Company did not change the auditors during the past three years.

#### **(2) Auditors' Remuneration**

As of the year ended 31 December 2020, the remuneration of the Group's auditors, which are PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, was RMB1.74 million in total. The audit fees of the statutory audit report was RMB1.68 million, the fees of other assurance service was RMB0.06 million. The remuneration of the Group's other auditors was RMB0.5191 million in total.

Save as disclosed in the paragraph above, no other audit related or non-audit related fees were paid to the auditors by the Group for the year ended 31 December 2020.

# Corporate Governance Report

## I. OVERVIEW OF CORPORATE GOVERNANCE

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

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

During the Reporting Period, the Company convened total 29 meetings, of which there were one general meetings, fourteen Board meetings, four Supervisory Committee meetings, four Risk Control Committee meetings, three Audit Committee meetings, one Nomination Committee meeting and two Remuneration and Appraisal Committee meetings.

## II. GENERAL MEETING

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

### 1. The 2019 annual general meeting of LUZHENG FUTURES Company Limited

On 18 June 2020, the Company convened the 2019 annual general meeting by voting at the meeting and through video, at which the following resolutions were passed:

- (1) The “Proposal on the Work Report of the Board of Directors for the Year 2019”;
- (2) The “Proposal on the Work Report of the Supervisory Committee for the Year 2019” passed;
- (3) The “Proposal on the Annual Report for the Year 2019”;
- (4) The “Proposal on the Profit Distribution Plan for the Year 2019”;
- (5) The “Proposal on the Appointment of Accounting Firms for the year 2020”;
- (6) The “Proposal on election of Mr. An Tie as a non-staff representative Supervisor of the third session of the Supervisor Committee of the Company”;
- (7) The “Proposal on the General Mandate to Issue Domestic Shares and H Shares”;
- (8) The “Proposal on amendments to the Articles of Association of LUZHENG FUTURES Company Limited”; and
- (9) The “Proposal on amendments to the rules of procedure for general meeting of LUZHENG FUTURES Company Limited”.



### III. PERFORMANCE OF THE DIRECTORS

#### (1) Summary of the performance of the Directors

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

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

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

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

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

## Corporate Governance Report

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

							Attendance at general meeting
Name of Directors	Attendance at Board meetings					Two consecutive absents	No. of general meeting attended
	No. of Board meetings attended	Attended in person	Attended by means of tele-communication	Attended by proxy	Absent		
<b>Executive Directors</b>							
Zhong Jinlong	14	2	12	0	0	No	1
Liang Zhongwei	14	2	12	0	0	No	1
<b>Non-executive Directors</b>							
Liu Hongsong	14	1	12	1	0	No	0
Hu Kainan	14	2	12	0	0	No	0
Ming Gang	14	0	14	0	0	No	0
Liu Feng	14	0	14	0	0	No	0
<b>Independent non-executive Directors</b>							
Gao Zhu	14	0	14	0	0	No	1
Wang Chuanshun	14	0	14	0	0	No	1
Li Dapeng	14	0	14	0	0	No	1
Zheng Jianping	14	0	14	0	0	No	0
No. of Board meetings held during the year							14
In which: conducted by voting on site							2
conducted by means of tele-communication voting							12
No. of general meeting held during the year							1



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

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

#### 1. The 3rd Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 20 January 2020, the Company held the 3rd Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on the establishment of the Marketing management department”;
- (2) The “Proposal on the establishment of the Network finance department”;
- (3) The “Proposal on the establishment of the Commodity business department”;
- (4) The “Proposal on the revocation of external relations and cooperation department, and rename the Comprehensive Department as the Office”; and
- (5) The “Proposal on the revocation of OTC Derivatives department and Risk management services department”.

#### 2. The 4th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited

On 6 March 2020, the Company held the 4th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on formulating Comprehensive risk management basic system of LUZHENG FUTURES Company Limited”; and
- (2) The “Proposal on Changing Business Place of Shenyang Sales Office”.

## Corporate Governance Report

### **3. The 5th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 26 March 2020, the Company held the 5th Meeting of the third session of the Board of Directors by voting at the meeting and through video and passed the following proposals:

- (1) The “Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for 2019”;
- (2) The “Proposal on the Work Report of the Board of Directors of LUZHENG FUTURES Company Limited for 2019”;
- (3) The “Proposal on the 2019 Annual Report of LUZHENG FUTURES Company Limited (International Financial Reporting Standards)”;
- (4) The “Proposal on the 2019 Annual Report of LUZHENG FUTURES Company Limited (Chinese Accounting Standards for Business Enterprises)”;
- (5) The “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2019”;
- (6) The “Proposal on Risk Supervision Indicators of LUZHENG FUTURES Company Limited for 2019”;
- (7) The “Proposal on the appointment of the accounting firms of LUZHENG FUTURES Company Limited for 2020”;
- (8) The “Proposal on the General Mandate to Issue Domestic Shares and H Shares of LUZHENG FUTURES Company Limited”;
- (9) The “Proposal on amendments to the Articles of Association of LUZHENG FUTURES Company Limited”; and
- (10) The “Proposal on amendments to the rules of procedure for general meeting of LUZHENG FUTURES Company Limited”.

### **4. The 6th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 20 March 2020, the Company held the 6th Meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on Changing Business Place of Wuxi Sales Office”.



### **5. The 7th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 13 April 2020, the Company held the 7th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on Convening the 2019 Annual General Meeting of LUZHENG FUTURES Company Limited”;
- (2) The “Proposal on adjusting the distribution of international business”; and
- (3) The “Proposal on senior management remuneration management and performance appraisal methods”.

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

On 18 May 2020, the Company held the 8th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on formulating internal audit working system of LUZHENG FUTURES Company Limited”;
- (2) The “Proposal on Changing Business Place of Shanghai Branch”; and
- (3) The “Proposal on Changing Business Place of Shanghai Sales Office”.

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

On 26 May 2020, the Company held the 9th Meeting of the third session of the Board of Directors through voting by correspondence and passed the “Proposal on submitting to the general meeting to consider the election of Mr. An Tie as a non-staff representative Supervisor of the third session of the Supervisory Committee”.

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

On 9 June 2020, the Company held the 10th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on adjusting the responsibilities of part departments of the Company”; and
- (2) The “Proposal on giving up participating the capital increase of joint-stock company”.

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

On 20 July 2020, the Company held the 11th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The “Proposal on establishment of Shenzhen Branch”;
- (2) The “Proposal on the Environmental, Social and Governance Report of LUZHENG FUTURES Company Limited for 2019”; and
- (3) The “Proposal on Changing Business Place of Zhengzhou Sales Office”.

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

On 20 August 2020, the Company held the 12th Meeting of the third session of the Board of Directors by voting at the meeting and through video and passed the following proposals.

- (1) The “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2020”.
- (2) The “Proposal on Reporting Interim Risk Supervision Indicators of LUZHENG FUTURES Company Limited in 2020”;
- (3) The “Proposal on amendments to the rules of procedure for Board of Directors of LUZHENG FUTURES Company Limited”;
- (4) The “Proposal on formulating the rules of procedure for General Manager’s Office Meeting of LUZHENG FUTURES Company Limited”; and
- (5) The “Proposal on amendments to Capital management methods of LUZHENG FUTURES Company Limited”.



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

On 18 August 2020, the Company held the 13th Meeting of the third session of the Board of Directors through voting by correspondence and passed the "Proposal on the rectification plan of asset management business".

### **12. The 14th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 27 August 2020, the Company held the 14th Meeting of the third session of the Board of Directors through voting by correspondence and passed the "Proposal on the rectification plan of asset management business".

### **13. The 15th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 25 September 2020, the Company held the 15th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The "Proposal on formulating the management methods of members of the senior management of LUZHENG FUTURES Company Limited";
- (2) The "Proposal on the performance appraisal of senior management of LUZHENG FUTURES Company Limited in 2019"; and
- (3) The "Proposal on Changing Business Place of Wuhan Branch".

### **14. The 16th Meeting of the third session of the Board of Directors of LUZHENG FUTURES Company Limited**

On 27 November 2020, the Company held the 16th Meeting of the third session of the Board of Directors through voting by correspondence and passed the following proposals:

- (1) The "Proposal on Futures Broking Services Framework Agreement with Shandong Steel"; and
- (2) The "Proposal on determining the Company's risk appetite, risk tolerance and overall risk limitations".

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

The Articles of Association contains specific provisions on the appointment, reappointment and removal of the non-staff representative Directors. Pursuant to the Articles of Association, Directors who are not staff representatives shall be elected and removed by Shareholders at general meetings, while directors as staff representatives shall be elected and removed through democratic means by the staff of the Company, with a term of three years. Upon the expiration of the term of office, a Director shall be eligible for re-election and re-appointment. Candidates for Directors shall be nominated by Shareholders individually or jointly holding three percent or more of the Company's issued Shares with voting rights. Any person appointed by the Board of Directors to fill up a casual vacancy or as an additional member to the Board of Directors shall hold office only until the next annual general meeting of the Company, and shall be eligible for re-election and re-appointment at that time.

### (5) Training for Directors

The Company places high importance on continual training of Directors to ensure that they have appropriate understanding of the operations and business of the Company and the duties of a Director under the relevant legal and regulatory requirements of the CSRC and the Hong Kong Stock Exchange, Hong Kong Companies Ordinance, Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association. During the Reporting Period, the Company has established a multi-level information communication system and an information exchange platform to enhance to increase information sharing and exchanges among Directors, Supervisors and the senior management, enhancing the Directors' ability to fulfill their duties.

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

Name of Directors	Date	Duration	Organizer	Content
Zhong Jinlong	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Liang Zhongwei	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Liu Hongsong	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Hu Kainan	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Ming Gang	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Liu Feng	26 March 2020	4 hours	The Company	Training of Compliance of Directors
	18 November 2020 – 24 November 2020	16 hours	Shandong Listed Companies Association	Training of Directors of Listed Companies
Gao Zhu	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Wang Chuanshun	26 March 2020	4 hours	The Company	Training of Compliance of Directors
	18 November 2020 – 24 November 2020	16 hours	Shandong Listed Companies Association	Training of Directors of Listed Companies
Li Dapeng	26 March 2020	4 hours	The Company	Training of Compliance of Directors
Zheng Jianping	26 March 2020	4 hours	The Company	Training of Compliance of Directors



## IV. WORK PERFORMANCE OF BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

As at the end of the Reporting Period, the Board comprised of ten Directors: Mr. Zhong Jinlong as chairman of the Board and an executive Director, Mr. Liang Zhongwei as an executive Director, 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.

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

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

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- (11) pursuant to the general manager's nominations to appoint or dismiss deputy general managers, financial controller and other senior management officers of the Company and to fix their remuneration, bonus and punishment;
  - (12) to formulate the Company's basic management system;
  - (13) to formulate proposals for amendments to the Articles of Association;
  - (14) to manage the information disclosure of the Company;
  - (15) to determine the establishment of special committees under the Board of Directors and to appoint or dismiss the chairmen of these committees;
  - (16) to propose to general meetings for the appointment or replacement of the auditors of the Company;
  - (17) to hear the regular or non-regular work reports from the general manager of the Company or senior management officers appointed by the general manager and to approve the work reports of the general manager;
  - (18) to consider and decide on the security depository system for customer margins to ensure that the depositing of customer margins is in compliance with the requirements for the protection of customer assets as well as the safe depositing and monitoring of futures margins;
  - (19) to consider and decide on the Company's risk control system and internal control system;
  - (20) to decide on the risk investment, acquisition and disposal of assets, pledge of assets, external guarantees, trust asset management and connected transactions of the Company within the authorization of the general meeting; and
  - (21) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange where the Company's Shares are listed, general meetings and the Articles of Association.



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

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

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

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

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

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

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

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

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

## Corporate Governance Report

### (4) Composition and main duties of special committees

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

1. As at the date of this report, the Strategic Development Committee comprises six members: Mr. Zhong Jinlong as an executive Director, Mr. Gao Zhu, Mr. Li Dapeng and Mr. Zheng Jianping as the independent non-executive Directors, and Mr. Ming Gang and Mr. Liu Feng as the non-executive Directors. Mr. Zhong Jinlong, an executive Director, is currently the chairman of the Strategic Development Committee. The main duties of the Strategic Development Committee of the Company are as follows:
  - (1) to stay informed of and understand the general development conditions of the Company;
  - (2) to study and understand domestic and overseas industrial developments and relevant national policies;
  - (3) to study and formulate medium and long-term development strategies, plans and proposals of the Company, make recommendations on and evaluate and monitor the implementation of the medium and long-term strategic goals of the Company;
  - (4) to review the medium and long-term development goals and development plans of each business and management segments of the Company;
  - (5) to review and make recommendations on the annual operation and investment plans of the Company;
  - (6) to study and make recommendations on the proposals to increase or decrease the Company's registered capital and the merger, division, dissolution or change of corporate form of the Company;
  - (7) to study and make recommendations on matters requiring the Board's review and approval, such as material investment, financing, provision of guarantee, capital operation, asset reorganization and asset operation and management of the Company;
  - (8) to study and make recommendations on proposals to development new markets, businesses and products by the Company;
  - (9) to study and make recommendations on material structural reorganization and adjustment plan of the Company;
  - (10) to study, discuss and make recommendations on other material matters affecting the development the Company; and
  - (11) other duties as assigned by the Board of Directors.



2. As at the date of this report, the Risk Control Committee comprises five members: Mr. Liang Zhongwei as an executive Director, Mr. Gao Zhu and Mr. Zheng Jianping as the independent non-executive Directors, and Mr. Hu Kainan and Mr. Ming Gang as non-executive Directors. Mr. Hu Kainan, a non-executive Director, is currently the chairman of the Risk Control Committee. The main duties of the Risk Control Committee of the Company are as follows:

- (1) to study and assess the risk exposures of the Company;
- (2) to study and assess the risk control conditions of the Company;
- (3) to make recommendations to improve the risk management and internal control systems of the Company;
- (4) to monitor the legality and compliance of the basic management system, decision-making process and risk control system of the Company; and
- (5) other duties as assigned by the Board of Directors.

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

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

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

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

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

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- (4) to review the financial information of the Company and its disclosure:

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

- a. any changes in the accounting policies and practices;
- b. areas which involve significant judgements;
- c. significant adjustments according to the results of audit;
- d. assumptions on the ongoing operations of the Company and any qualified opinions;
- e. compliance with accounting standards; and
- f. compliance with the listing rules and other legal requirements of the place of listing in relation to financial reporting.

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

- (5) to review and supervise the effective implementation of the financial reporting system, internal control system and risk management system of the Company, including:
- a. to review and examine the financial control, internal control and risk management system of the Company;
  - b. to discuss the internal control system with the management about the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting and financial reporting function of the Company so as to ensure the management has performed its duty to establish an effective internal control system;
  - c. to review major findings on internal control matters and the responses of management on its own initiative or as delegated by the Board;



- d. to ensure co-ordination and communication between the internal and external auditors where an internal audit function exists in the Company; to ensure the internal audit function is provided with adequate resources and has appropriate standing in the Company; and to review and monitor its effectiveness;
  - e. to review the financial and accounting policies and practices of the Company;
  - f. to review the auditing descriptions from the external auditor to the management, any significant queries raised by the auditor to the management regarding the accounting records, financial accounts or supervision systems as well as responses of the management;
  - g. to ensure timely responses of the Board to the issues in the auditing descriptions raised by the external auditor;
  - h. to report to the Board of Directors in respect of the issues set out in the terms of reference; and
  - i. to consider other issues raised by the Board of Directors.
- (6) to evaluate and discuss the following arrangements formulated by the Company: whistleblowing system for employees of the Company to report on any potential misconducts regarding the financial reporting, internal control or other aspects of the Company, and to ensure that the Company has put in place appropriate arrangements to carry out fair and independent investigation and follow-up actions for such issues; to arrange a suitable personnel as a key representative between the Company and the external auditor and to supervise their relationship.
- (7) to audit and supervise connected transactions and evaluate their appropriateness.
- (8) other duties as assigned by the Board of Directors.
4. As at the date of this report, the Remuneration and Appraisal Committee comprises four members: Mr. Liang Zhongwei as an executive Director, Mr. Gao Zhu, Mr. Wang Chuanshun and Mr. Zheng Jianping as independent non-executive Directors. Mr. Gao Zhu, an independent non-executive Director, is currently the chairman of the Remuneration and Appraisal Committee. The main duties of the Remuneration and Appraisal Committee of the Company are as follows:
- (1) to provide suggestions to the Board of Directors in respect of the appraisal standards and the overall remuneration policies and structure for the Directors and senior management of the Company, and the establishment of formal and transparent procedures for the formulation of such remuneration policies;
  - (2) to conduct review and approval on the proposed remuneration of the operational level based on the corporate operating objectives. The Remuneration and Appraisal Committee shall consider factors including the remuneration paid by comparable companies, the time commitment and the scope of duties of Directors, the employment conditions of other positions within the Company and whether the remuneration shall be based on results performance;

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- (3) to provide the Board with suggestions on or determine the remuneration of individual executive Directors and senior management, including non-monetary benefits, pension and compensation (including compensation for the loss or termination of office or appointment) relying on authorization granted;
  - (4) to provide the Board of Directors with suggestions on the remuneration packages of individual executive Directors and senior management including non-monetary benefits, pension and compensation (including compensation for the loss or termination of office or appointment);
  - (5) to provide the Board of Directors with suggestions regarding the remuneration of non-executive Directors;
  - (6) to provide the Board of Directors with suggestions on the relevant compensation paid by the Company to executive Directors and senior management in respect of their loss or termination of office or appointment, and the compensation arrangements regarding the dismissal or removal of Directors due to misconduct (and to ensure that such arrangements comply with the terms of their service contracts, or otherwise, such compensation shall be reasonable and appropriate);
  - (7) to ensure that a Director shall not participate in determining his/her own remuneration;
  - (8) to conduct review and supervision in relation to the implementation of the remuneration system of the Company; and
  - (9) other duties as assigned by the Board of Directors.
5. As at the date of this report, the Nomination Committee comprises four members: Mr. Liang Zhongwei as an executive Director, Mr. Li Dapeng, Mr. Wang Chuanshun and Mr. Zheng Jianping as independent non-executive Directors. Mr. Li Dapeng, an independent non-executive Director, is currently the chairman of the Nomination Committee. The main duties of Nomination Committee of the Company are as follows:
- (1) to study the standards and procedures for selection of Directors and senior management, and make recommendations to the Board;
  - (2) the Nomination Committee shall study the structure, number of members and composition (including the skills, knowledge and experience of Directors) of the Board at least once a year, and make recommendations concerning changes to the Board arising from strategic changes of the Company, and the Committee has formulated a policy on diversity of members of the Board (for details please refer to the section "IX. Other Relevant Matters (vi) Policy on Board Diversity") under the corporate governance report;
  - (3) to make recommendations to the Board of Directors in respect of candidates for Directors and senior management and examine their qualifications, and make recommendations to the Board of Directors in respect of the appointment or reappointment of Directors and the succession plans of Directors (in particular the chairman of the Board of Directors and the general manager);
  - (4) to evaluate the independence of the independent non-executive Directors; and
  - (5) other duties as assigned by the Board.



## (5) Special Committees' Meetings

### 1. Risk Control Committee

On 2 March 2020, the second meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on formulating Comprehensive risk management basic system of LUZHENG FUTURES Company Limited" (《關於制定〈魯証期貨股份有限公司全面風險管理基本制度〉的議案》) voting by correspondence.

On 26 March 2020, the third meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Risk Supervision Indicators of LUZHENG FUTURES Company Limited for 2019" (《關於魯証期貨股份有限公司2019年度風險監管指標的議案》) voting at the meeting and through video.

On 20 August 2020, the fourth meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on Reporting Interim Risk Supervision Indicators of LUZHENG FUTURES Company Limited in 2020" (《關於報告魯証期貨股份有限公司2020年度中期風險監管指標的議案》) voting at the meeting and through video.

On 26 November 2020, the fifth meeting of the Risk Control Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on determining the Company's risk appetite, risk tolerance and overall risk limitations" (《關於確定公司風險偏好、風險容忍度和總體風險限額的議案》) voting by correspondence.

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

Name	Number of meetings attended/Number of meetings held
Hu Kainan (chairman of Risk Control Committee)	4/4
Gao Zhu	4/4
Liang Zhongwei	4/4
Ming Gang	4/4
Zheng Jianping	4/4

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### 2. Audit Committee

On 26 March 2020, the first meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2019” (《關於魯証期貨股份有限公司2019年度報告(國際財務報告準則)的議案》), the “Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for 2019” (《關於魯証期貨股份有限公司2019年度報告(中國企業會計準則)的議案》), the “Proposal on Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2019” (《關於魯証期貨股份有限公司2019年度利潤分配方案的議案》), and the “Proposal on the Appointment of Accounting Firms of LUZHENG FUTURES Company Limited for 2020” (《關於聘請魯証期貨股份有限公司2020年度會計師事務所的議案》) voting at the meeting and through video.

On 11 May 2020, the second meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on formulating Internal audit working system of LUZHENG FUTURES Company Limited” (《關於制定〈魯証期貨股份有限公司內部審計工作制度〉的議案》) voting by correspondence.

On 20 August 2020, the third meeting of the Audit Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the “Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2020” (《關於魯証期貨股份有限公司2020年中期報告的議案》) voting at the meeting and through video.

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

Name	Number of meetings attended/Number of meetings held
Wang Chuanshun (chairman of Audit Committee)	3/3
Gao Zhu	3/3
Li Dapeng	3/3
Liu Feng	3/3
Hu Kainan	3/3



### 3. Nomination Committee

On 24 September 2020, the first meeting of the Nomination Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on formulating the management methods of members of the senior management of LUZHENG FUTURES Company Limited" (《關於修訂〈魯証期貨股份有限公司經理層成員管理辦法〉的議案》) voting by correspondence.

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

Name	Number of meetings attended/Number of meetings held
Li Dapeng (chairman of Nomination Committee)	1/1
Wang Chuanshun	1/1
Zheng Jianping	1/1
Liang Zhongwei	1/1
Liu Hongsong <sup>Note</sup>	1/1

### 4. Remuneration and Appraisal Committee

On 10 April 2020, the first meeting of the Remuneration and Appraisal Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on senior management remuneration management and performance appraisal methods" (《關於高級管理人員薪酬管理與績效考核辦法的議案》) voting by correspondence.

On 24 September 2020, the second meeting of the Remuneration and Appraisal Committee of the third session of the Board of Directors of LUZHENG FUTURES Company Limited reviewed and approved the "Proposal on the performance appraisal of senior management of LUZHENG FUTURES Company Limited in 2019" (《關於魯証期貨股份有限公司高級管理人員2019年度績效考核的議案》) voting by correspondence.

Attendance of members of the Remuneration and Appraisal Committee at the meetings during the Reporting Period is as follows:

Name	Number of meetings attended/Number of meetings held
Gao Zhu (chairman of Remuneration and Appraisal Committee)	2/2
Wang Chuanshun	2/2
Zheng Jianping	2/2
Liang Zhongwei	2/2
Liu Hongsong <sup>Note</sup>	2/2

Note: Mr. Liu Hongsong resigned as member of Nomination Committee and Remuneration and Appraisal Committee on 10 March 2021.

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### 5. Strategic Development Committee

During the Reporting Period, the Strategic Development Committee of the Board of Directors of the Company believed that the Company can operate in accordance with the established strategy, and did not convene a meeting of the Strategic Development Committee.

## V. CHAIRMAN AND GENERAL MANAGER

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

Mr. Zhong Jinlong, the Chairman of the Board, is mainly responsible for:

1. Convening and presiding over general meetings and presiding over the Board meetings;
2. Supervising and inspecting the implementation of the resolutions of the Board of Directors and debriefing of relevant reports;
3. Supervising and organizing the formulation of rules and regulations on the operation of the Board of Directors, and coordinating the operation of the Board of Directors;
4. Signing the securities certificates issued by the Company;
5. Signing the documents of the Board of Directors and other documents that shall be signed by the Company's legal representative;
6. Exercising the functions and powers of the legal representative;
7. In the occurrence of force majeure and major emergency events, such as extraordinarily serious natural disasters, which renders the Board of Directors unable to convene a meeting in due course, exercising a special right to deal with the Company's affairs in compliance with the law and in the Company's interests, and reporting such to the Board of Directors and Shareholders thereafter; and
8. Exercising any other functions and powers specified in laws, regulations or the Articles of Association or conferred by the Board of Directors.



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

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

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

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

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

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

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

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

### VIII. SUPERVISION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

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



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

- (1) Complete cover of risk management and compliance requirements. Risk management and internal control system cover every business line: domestic and foreign currencies, on the statements and off the statements, and domestic and overseas businesses; cover all branches of associations, departments, positions and staff; cover every type of risks and the impact of different risks; cover all the management processes, from decision making to execution and monitoring; the risk management and internal control system of the Company cover all the domestic and foreign requirements in relation to internal control and risk management, such as “The Basic Rules on Enterprise Internal Control”, “Enterprise Internal Control Guidelines” and Listing Rules, which are all applicable to the Company;
- (2) The relative independency of risk management and internal control. The Company established an independent organization structure for comprehensive risk management and internal control system, granting sufficient authority, human resources and other resources to the risk management functions, and establishing a scientific and reasonable reporting channel, which forms an operation mechanism of checks and balances with business line; and
- (3) Risk-oriented internal control. On the basis that the satisfaction of the internal control requirements set out in Listing Rules are ensured, the Company adopts risk assessment methods with the focus on the high risk areas and management hotspots while selecting the major business flow and critical controlling links for fulfilling the relevant requirements of risk control and implements such methods in relevant business management. Through the comprehensive risk management and the whole-process of internal control system, the Company is committed to reasonably ensuring that the business risk appetite is in line with the Company's strategy and the work on risk management is undertaken in an orderly manner. The Company also aims at effectively identifying risk so as to avoid the unnecessary loss while reasonably ensuring the accuracy of the risk assessment method and timely delivery of the risk report. Meanwhile, the Company also reasonably ensures the effective operation of the supervision mechanism of internal control system to timely identify significant risk.

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

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

## Corporate Governance Report

The Company is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or when relevant decisions are made unless it falls within “Safe Harbours” as defined under the Securities and Futures Ordinance. Meanwhile, the Company has put in place real-time monitoring mechanism over information which could be the inside information and determines whether such information is inside information and is practicable for disclosure. If the disclosure standards are met, the information should be disclosed as early as possible. Before the disclosure, the scope of knowledge should be strictly controlled and the fluctuation of the stock price should be monitored until the completion of the disclosure of the inside information. If the disclosure standards are not met, the Company will also maintain strict confidentiality.

### IX. OTHER RELEVANT MATTERS

#### (i) Auditors and their remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as auditors of the Company for the financial statements prepared by the Company in accordance with International Financial Reporting Standards and Chinese Accounting Standards for Business Enterprises for the year ended 31 December 2020, respectively. During the period covered by this report, there was no occurrence of disagreement from the Board of Directors to the opinions of selection and appointment of external auditor from the Audit Committee. For details of the auditors' remuneration, Please refer to “VII. Appointment, Change and Dismissal of Auditors” in Chapter X of this report.

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

The Board of Directors acknowledged its responsibility of preparing the consolidated financial statements of the annual report for the year ended 31 December 2020 of the Group.

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

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

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



### (iii) Company secretaries

As of 31 December 2020, Mr. Liang Zhongwei and Ms. Ng Wing Shan were joint company secretaries of the Company. Please refer to “I. Briefings of the Directors, Supervisors and Senior Management and Staff” in Chapter IX of this report for the biographies of Mr. Liang Zhongwei and Ms. Ng Wing Shan. Mr. Liang Zhongwei, a joint company secretary and the secretary to the Board of Directors, is the main internal contact person between Ms. Ng Wing Shan and the Company. Pursuant to Rule 3.29 of the Listing Rules, for the year ended 31 December 2020, Mr. Liang Zhongwei and Ms. Ng Wing Shan, the joint company secretaries, had attended 15 or more hours of relevant professional training.

### (iv) Rights of Shareholders and communication policy

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

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

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

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

When the Company convenes a general meeting the Shareholders holding 3% or more of the Shares carrying voting rights of the Company, have the right to propose a provisional proposal in writing to the Company 10 days before convening the general meeting. The Company shall place the provisional proposal which falls within the functions and powers of general meetings on the agenda for the said meeting. Please refer to Articles 60 to 90 of Chapter VIII of the Articles of Association for specific details. The Articles of Association have been published on the websites of the Hong Kong Stock Exchange and the Company.

## Corporate Governance Report

### (v) Investor relations

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

### (vi) Policy on Board diversity

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

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

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

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

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

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

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



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

During the Reporting Period, the amendments to the Articles of Association were considered and approved by the Company at the annual general meeting of 2019 convened on 18 June 2020. For the details on the amendments to the Articles of Association, please refer to the notice and circular dated 23 April 2020 of the Company.

During the Reporting Period, the amended Articles of Association became effective on 18 June 2020, and was published on the website of the Hong Kong Stock Exchange and the website of the Company on the effective date mentioned above.

Save as the disclosed above, the Company did not make any significant changes to the Articles of Association of the Company during the Reporting Period.

### (viii) Remuneration of the senior management

The remuneration paid to the senior management by bands for the year ended 31 December 2020 is set out below:

Remuneration bands	Year ended 31 December 2020 Number
RMB300,001 to RMB500,000	0
RMB500,001 to RMB700,000	0
RMB700,001 to RMB900,000	3
RMB900,001 to RMB1,100,000	3
	6

### (ix) Terms of office of non-executive Directors

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

## Corporate Governance Report

### (x) Dividend Policy

The Company's dividend policy has been stipulated in the Articles of Association. According to the Articles of Association, in distributing the current year's profit after tax, 10% of the profit shall be allocated to the Company's statutory reserve fund. When the aggregate amount of the statutory reserve fund has reached 50% or more of the Company's registered capital, further appropriations are not be required. If the statutory reserve fund of the Company is insufficient to make up the losses of the previous year, the profits of the current year shall be used to make up such losses before allocating to the statutory reserve fund in accordance with the preceding paragraph. The Company shall allocate 10% of its annual profits after tax as a general risk reserve to compensate for risks. After allocation of its profits after tax to its statutory reserve fund and general risk reserve, the Company may allocate its profits after tax to its discretionary reserve fund upon a resolution of the Shareholders' general meeting. The remaining profits after tax after the Company has made up its losses and allocated to its reserve funds and general risk reserve may be distributed to its Shareholders in proportion to their shareholdings if profit distribution is to be made, unless it is stipulated in the Articles of Association that no profit distribution shall be made in proportion to shareholdings.

The Company may distribute dividends in the form of (or a combination of both):

- (1) cash;
- (2) shares.

Dividends and other payments payable by the Company to the holders of its Domestic Shares shall be denominated and declared in Renminbi and paid in Renminbi within three months from the date of declaration of dividends. Dividends and other payments payable by the Company to the holders of foreign shares shall be denominated and declared in Renminbi and paid in foreign currency within three months from the date of declaration of dividends. The exchange rate adopted for conversion shall be the average closing exchange rate of the relevant foreign currency against Renminbi as quoted by the People's Bank of China for the five business days prior to the declaration date. The foreign currency payable by the Company to the holders of foreign shares shall be subject to the relevant regulations on foreign exchange control in the PRC. The Board of Directors shall be authorized by way of ordinary resolution at a shareholders' general meeting to implement dividend distribution of the Company.



# Internal Controls

During the Reporting Period, the Company fully implemented the rules of internal control according to the regulatory requirements for Companies listed in Hong Kong and the requirements of “The Basic Rules on Enterprise Internal Control” and the relevant implementation guidelines, and in accordance with the principle of “comprehensiveness, importance, and objectivity”.

## I. ESTABLISHMENT OF INTERNAL CONTROL STRUCTURE

The Company has established and perfected the corporate governance structures comprising general meetings, the Board of Directors, the Supervisory Committee and the Management. The Board of Directors is accountable to establishing, improving and effective implementation of internal controls. The Supervisory Committee supervises the Board of Directors in establishing and implementing internal controls. The Management is accountable to organizing and leading the daily operation of the internal control of the Company. In order to strengthen the Company's internal supervision and risk control and improve internal control mechanism, the Audit Committee and Risk Control Committee are subordinated to the Company's Board of Directors, who are accountable and report to the Board of Directors. The Compliance and Risk Control Department and the Audit Department are subordinated to the Management. The Compliance and Risk Control Department and the Audit Department are headed by the chief risk officer, who is accountable to the Board of Directors.

## II. IMPLEMENTATION AND OPERATION OF INTERNAL CONTROL SYSTEM

Pursuant to the requirements of relevant laws and regulations, regulatory policies and the needs of corporate governance, the Company established and implemented internal control system for corresponding levels, including the Articles of Association, the Rules of Procedure of Shareholders' Meeting, the Board of Directors, and the Supervisory Committee and the Management, financial systems and administrative systems, IT system, compliance management system, various business systems, etc., and continuously optimized process control, tightened the appraisal and check mechanisms, and comprehensively improved the implementation of the systems.

## III. SUPERVISION AND INSPECTION OF INTERNAL CONTROL

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

## Internal Controls

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

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

During the Reporting Period, PricewaterhouseCoopers Zhongtian Certified Public Accountants audited the Company's internal control requirements and internal control related to financial statements through inquiries, observations, inspections, and tracking transactions. Control test were performed on internal control in relation to preparation of financial statements.

Upon inspection, no significant defects were found in the Company's internal control related to the financial statements.



# Independent Auditor's Report

## TO THE SHAREHOLDERS OF LUZHENG FUTURES COMPANY LIMITED

(incorporated in China with limited liability)

### Opinion

#### What we have audited

The consolidated financial statements of Luzheng Futures Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 138 to 234, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independent Auditor's Report

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

### Key Audit Matters

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

Key audit matter identified in our audit is related to valuation of financial instruments held at fair value.

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Valuation of financial instruments held at fair value</b>	
<p>Refer to notes 4.6, 4.7, 4.8, 4.9, 4.11, 26, 27 and 46.2 to the Group's consolidated financial statements.</p> <p>As at 31 December 2020, the Group's financial assets held at fair value were stated at RMB540 million, derivative financial assets at RMB90 million and derivative financial liabilities at RMB111 million.</p> <p>Financial assets of RMB268 million including trust schemes, bank wealth management products and income certificates were classified at level 3 with Discounted Cash Flows Model being applied for the valuation as at 31 December 2020. The remaining instruments were classified at either level 1 or level 2 in the fair value hierarchy and were valued through observable market data or net asset value provided by the relevant asset managers.</p>	<p>Our audit procedures in relation to the valuation of financial instruments included the following:</p> <ul style="list-style-type: none"><li>• Understood and evaluated the management procedures and controls over the identification and measurement of valuation risk of financial instruments.</li><li>• Assessed the appropriateness of the valuation methodologies applied by the Group and compared methodologies with our knowledge of the current industry practice.</li><li>• For the valuation of level 1 and level 2 non-derivative instruments, we performed sampling test to verify the reasonableness of fair value by independently obtaining the observable market data and the net asset value provided by relevant asset managers, and comparing the prices used by the Group with these data. For the valuation of level 1 and level 2 derivative instruments, we performed sampling test by independently examining the key inputs of the valuation model against observable market data, as well as checking the mathematical calculation.</li></ul>



Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Valuation of financial instruments held at fair value</b>	
Valuation of the Group's financial instruments held at fair value was a key area of audit focus due to the materiality of the balances. For those financial instruments that were classified at level 3, our audit also focused on the significant management judgments applied in determining the unobservable parameters to the model, including expected future cash flows, expected recovery or payment date and discount rates corresponded to the expected risk level.	<ul style="list-style-type: none"> <li>For the valuation of financial instruments that were classified at level 3, which depended on unobservable parameters, we challenged the assumptions and judgements made by management with our knowledge of the current industry practice. We assessed the external evidence, e.g., investment contracts, legal documents, updated trustee's credit assessment report on underlying investments, and correspondences with the counterparties, to corroborate the management's estimation of the future cash flows, expected recovery or payment date and discount rates. In addition, we applied Discounted Cash Flows Model to recalculate the fair value of all the financial instruments that were classified at level 3.</li> <li>We assessed the adequacy of the Group's financial statements disclosures in the context of the relevant accounting standards.</li> </ul> <p>Based on the procedures we performed, we found that management's key judgements applied in its fair value measurement were acceptable and supported by the evidence we gathered.</p>

### Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent Auditor's Report

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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



## Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 25 March 2021

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2020	2019
<b>Revenue</b>	7	<b>376,485</b>	287,409
(Losses)/Gains on physical commodities trading	8	<b>(34,747)</b>	37,897
Net investment gains/(losses)	9	<b>112,582</b>	(29,464)
Other income	10	<b>34,499</b>	26,025
<b>Operating income</b>		<b>488,819</b>	321,867
Staff costs	11	<b>(185,584)</b>	(145,318)
Commission to brokerage agents		<b>(12,936)</b>	(7,689)
Introducing broker commission		<b>(10,247)</b>	(8,905)
Depreciation and amortization	12	<b>(19,206)</b>	(18,312)
Credit impairment losses	13	<b>(619)</b>	(147)
Other operating expenses	14	<b>(147,030)</b>	(96,210)
<b>Operating expenses</b>		<b>(375,622)</b>	(276,581)
<b>Operating profit</b>		<b>113,197</b>	45,286
Share of losses of investments in associates	19	<b>(16,555)</b>	(1,224)
Other gains/(losses), net	15	<b>1,248</b>	(1,699)
<b>Profit before income tax</b>		<b>97,890</b>	42,363
Income tax expense	16	<b>(41,117)</b>	(12,862)
<b>Profit for the year</b>		<b>56,773</b>	29,501



## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

	Notes	Year ended 31 December	
		2020	2019
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(1,689)	1,118
<b>Other comprehensive income for the year, net of tax</b>		<b>(1,689)</b>	<b>1,118</b>
<b>Total comprehensive income for the year</b>		<b>55,084</b>	<b>30,619</b>
Profit attributable to:			
– Shareholders of the Company		56,834	29,750
– Non-controlling interests		(61)	(249)
		<b>56,773</b>	<b>29,501</b>
Total comprehensive income attributable to:			
– Shareholders of the Company		55,193	30,860
– Non-controlling interests		(109)	(241)
		<b>55,084</b>	<b>30,619</b>
<b>Earnings per share attributable to shareholders of the Company for the year (expressed in RMB per share)</b>			
<b>Basic/Diluted</b>	17	<b>0.06</b>	<b>0.03</b>

# Consolidated Statement of Financial Position

As at 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2020	31 December 2019
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	38,245	42,593
Intangible assets		6,768	8,479
Investments in associates	19	41,235	57,790
Other non-current assets	21	22,559	18,897
Deferred income tax assets	22	856	18,915
Refundable deposits	23	31,346	31,170
Derivative financial assets	26	—	84
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss	27	163,621	—
<b>Total non-current assets</b>		<b>306,030</b>	<b>179,328</b>
<b>Current assets</b>			
Physical commodities	24	114,533	309,256
Other current assets	25	122,423	161,728
Contract assets		6,462	12,371
Derivative financial assets	26	90,291	53,544
Financial assets at fair value through profit or loss	27	376,146	270,369
Financial assets held under resale agreements	28	305,038	30,256
Deposits with exchange-clearing organizations	29	6,196,152	3,735,024
Bank balances held for clients	30	4,723,619	3,600,073
Cash and bank balances	31	684,953	576,865
<b>Total current assets</b>		<b>12,619,617</b>	<b>8,749,486</b>
<b>Total assets</b>		<b>12,925,647</b>	<b>8,928,814</b>



## Consolidated Statement of Financial Position

As at 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2020	31 December 2019
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	32	1,001,900	1,001,900
Share premium	33	650,630	650,630
Other reserves	33	282,453	259,037
Retained earnings		304,411	272,634
<b>Total equity attributable to shareholders of the Company</b>		<b>2,239,394</b>	2,184,201
Non-controlling interests		—	461
<b>Total equity</b>		<b>2,239,394</b>	2,184,662
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	22	6,242	11
Other non-current liabilities	34	28,615	13,454
Derivative financial liabilities	26	1,913	—
<b>Total non-current liabilities</b>		<b>36,770</b>	13,465
<b>Current liabilities</b>			
Other current liabilities	35	312,592	266,682
Provisions	36	29,219	—
Contract liabilities	37	20,446	—
Current income tax liabilities		6,614	5,585
Derivative financial liabilities	26	109,160	44,600
Financial liabilities at fair value through profit or loss		—	24,562
Accounts payable to brokerage clients	38	10,171,452	6,389,258
<b>Total current liabilities</b>		<b>10,649,483</b>	6,730,687
<b>Total liabilities</b>		<b>10,686,253</b>	6,744,152
<b>Total equity and liabilities</b>		<b>12,925,647</b>	8,928,814

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 32)	Share premium (Note 33)	Other reserves (Note 33)	Retained earnings		
<b>Balance at 1 January 2020</b>	<b>1,001,900</b>	<b>650,630</b>	<b>259,037</b>	<b>272,634</b>	<b>461</b>	<b>2,184,662</b>
Profit for the year	–	–	–	56,834	(61)	56,773
Other comprehensive income for the year	–	–	(1,641)	–	(48)	(1,689)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>(1,641)</b>	<b>56,834</b>	<b>(109)</b>	<b>55,084</b>
Net appropriation to reserves	–	–	25,057	(25,057)	–	–
Acquisition of non-controlling interests	–	–	–	–	(352)	(352)
<b>Balance at 31 December 2020</b>	<b>1,001,900</b>	<b>650,630</b>	<b>282,453</b>	<b>304,411</b>	<b>–</b>	<b>2,239,394</b>

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 32)	Share premium (Note 33)	Other reserves (Note 33)	Retained earnings		
<b>Balance at 1 January 2019</b>	<b>1,001,900</b>	<b>650,630</b>	<b>241,744</b>	<b>314,168</b>	<b>24,884</b>	<b>2,233,326</b>
Profit for the year	–	–	–	29,750	(249)	29,501
Other comprehensive income for the year	–	–	1,110	–	8	1,118
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>1,110</b>	<b>29,750</b>	<b>(241)</b>	<b>30,619</b>
Net appropriation to reserves	–	–	16,183	(16,183)	–	–
Dividends relating to 2018 (Note 40)	–	–	–	(55,101)	–	(55,101)
No longer having control of a subsidiary	–	–	–	–	(24,182)	(24,182)
<b>Balance at 31 December 2019</b>	<b>1,001,900</b>	<b>650,630</b>	<b>259,037</b>	<b>272,634</b>	<b>461</b>	<b>2,184,662</b>



# Consolidated Statement of Cash Flows

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2020	2019
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>97,890</b>	42,363
Adjustments for:		
Depreciation and amortization	19,206	18,312
Credit impairment losses	619	147
Interest expense on borrowings	—	96
Interest expense on lease liabilities	1,659	2,203
Net gains on disposal of property and equipment and intangible assets	(459)	(25)
Net gains on modification of lease agreements	(26)	(162)
Foreign exchange losses	140	102
Interest income from term deposits	(11,840)	(11,590)
Share of losses of investments in associates	16,555	1,224
	<b>123,744</b>	52,670
<b>Net increase in operating assets:</b>		
Net increase in bank balances held for clients	(1,123,722)	(349,227)
Net increase in deposits with exchange-clearing organizations	(2,795,743)	(775,162)
Net (increase)/decrease in financial assets at fair value through profit and loss and derivative financial assets	(306,061)	351,425
Net (increase)/decrease in financial assets held under resale agreements	(274,782)	307,062
Net decrease in contract assets	5,909	1,524
Net decrease/(increase) in other assets	41,066	(101,787)
Net decrease/(increase) in physical commodities	194,723	(109,487)
	<b>(4,258,610)</b>	(675,652)
<b>Net increase in operating liabilities:</b>		
Net increase in accounts payable to brokerage clients	3,782,194	1,077,182
Net increase/(decrease) in financial liabilities at fair value through profit or loss and derivative financial liabilities	41,911	(32,346)
Net decrease in financial assets sold under repurchase agreements	—	(30,540)
Net increase in other liabilities	56,323	76,732
Net increase in contract liabilities	20,446	—
Net increase in provisions	29,219	—
	<b>3,930,093</b>	1,091,028
<b>Income tax paid</b>	<b>(18,677)</b>	(37,398)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(223,450)</b>	430,648

## Consolidated Statement of Cash Flows

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2020	2019
<b>Cash flows from investing activities</b>		
Payment for acquisition of equity of non-controlling interests	(352)	—
Cash outflow due to no longer having control of a subsidiary	—	(20,049)
Interest received from term deposits	11,840	11,590
Purchases of property and equipment, intangible assets and other long-term assets	(7,584)	(7,900)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	2,088	5,540
Payment for purchases of term deposits	—	(8,635)
Proceeds on maturity of term deposits	3,135	5,500
<b>Net cash inflow/(outflow) from investing activities</b>	<b>9,127</b>	<b>(13,954)</b>
<b>Cash flows from financing activities</b>		
Payment for redemption from consolidated structured entities	—	(1,914)
Repayment of lease liabilities	(9,428)	(11,287)
Repayment of borrowings	—	(10,424)
Dividends paid to shareholders	—	(55,101)
<b>Net cash outflow from financing activities</b>	<b>(9,428)</b>	<b>(78,726)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(223,751)</b>	<b>337,968</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,035,696</b>	<b>697,830</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(140)</b>	<b>(102)</b>
<b>Cash and cash equivalents at end of year (Note 39)</b>	<b>811,805</b>	<b>1,035,696</b>

The financial statements on pages 138 to 144 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf:

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

## 1 General information

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

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

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

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

The Company and its subsidiaries (the “Group”) are principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, asset management, basis trading, warehouse receipt services, cooperative hedging services, market-making services, Over-the-Counter derivatives business, information technology consulting services and other business activities as permitted by the CSRC.

The consolidated financial statements were authorised for issue by the Board of Directors on 25 March 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of physical commodities which are measured at fair value less costs to sell, and certain financial assets and financial liabilities (including derivative instruments) measured at fair value.

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

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

### 2.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 1, IFRS 9, IAS 16 and IAS 41	Annual improvements to IFRS Standards 2018 – 2020 cycle
Amendments to IFRS 16	Covid-19-Related Rent Concessions
	Revised Conceptual Framework for Financial Reporting

The impact of the adoption of the amendments to IFRS 16 are disclosed in Note 3 below. Amendments other than IFRS 16 did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

### 2.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

## 3 Changes in accounting policies

The Group has adopted Amendment to IFRS 16 –Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling RMB64 thousand have been accounted for as negative variable lease payments, and recognised as reversal of administrative expenses in the statement of profit or loss for the year ended 31 December 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

## 4 Summary of significant accounting policies

### 4.1 Accounting year

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

### 4.2 Principles of consolidation and equity accounting

#### (1) Subsidiaries

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

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

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

##### (1) Subsidiaries (Continued)

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities ("SEs") in which the Group acts as an asset manager or an investor. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

##### (2) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

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

##### (3) Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

##### (4) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable IFRSs.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

#### 4.3 Separate financial statements

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

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

#### 4.4 Foreign currency translation

##### (1) Functional and presentation currency

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

##### (2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

##### (3) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

#### 4.4 Foreign currency translation (Continued)

##### (3) Group companies (Continued)

- (b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting currency translation differences are recognized in other comprehensive income.

#### 4.5 Cash and cash equivalents

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

#### 4.6 Financial assets

##### (1) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

#### 4.6 Financial assets (Continued)

##### (2) Recognition and derecognition

Regular way purchases and sales of financial instruments are recognized on trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (3) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

##### **Debt instruments**

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

#### 4.6 Financial assets (Continued)

##### (3) Measurement (Continued)

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

- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within net investment gains/(losses) in the period in which it arises.

###### ***Equity instruments***

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in net investment gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

##### (4) Impairment

The Group assesses on a forward-looking basis the expected credit losses (the "ECL") associated with its debt instruments carried at amortized cost and FVOCI.

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

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

#### 4.6 Financial assets (Continued)

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

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

- Stage 1: The Group measures the loss allowance for a financial asset at an amount equal to the next 12 months ECL if the credit risk of that financial asset has not increased significantly since initial recognition.
- Stage 2: If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial asset is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Group measures the loss allowance for a financial asset at an amount equal to the lifetime ECL.
- Stage 3: If the financial asset is credit-impaired, the financial asset is then moved to "Stage 3". The Group measures the loss allowance for a financial asset at an amount equal to the lifetime ECL.

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial asset portfolio.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The forward-looking impact on ECL is also considered in measuring ECL.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
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### 4 Summary of significant accounting policies (Continued)

#### 4.7 Financial liabilities

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

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

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

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

Financial liabilities at fair value through profit or loss are initially recognized and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

The interests of SEs that are consolidated by but not attributable to the Group and payable to clients for cooperative hedging business are designated at fair value through profit or loss, as they are managed, evaluated and reported internally on a fair value basis.

##### (2) Other financial liabilities

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

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

## Notes to the Consolidated Financial Statements

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(All amounts in RMB'000 unless otherwise stated)

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

#### 4.8 Determination of fair value

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

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

#### 4.9 Derivative financial instruments

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

Changes in the fair value of the Group's derivative instrument are recognized immediately in profit or loss and are included in net investment gains/(losses).

#### 4.10 Resale agreements

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

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

#### 4.11 Offsetting financial instruments

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

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

#### 4.12 Physical commodities

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

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

At the end of each reporting period, physical commodities are measured at fair value less costs to sell. Fair value is based on prices at local markets where physical commodities are located. Costs to sell include commission paid to brokers and dealers and estimated costs of transport but exclude finance costs and income taxes. Changes in fair value of physical commodities are recognized in gains/(losses) on physical commodities trading.

Physical commodities are classified as current assets if they are to be sold within one year.

#### 4.13 Property and equipment

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

#### 4.13 Property and equipment (Continued)

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

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

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

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

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

#### 4.14 Intangible assets

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

#### 4.15 Long-term prepaid expenses

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

#### 4.16 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### 4.17 Employee benefits

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

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

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

#### 4.18 Revenue recognition

##### (1) Commission and fee income

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

The Group provides asset management service to its customers, which contains a series of distinct services that are substantially the same and have the same pattern of transfer. Therefore, the services are identified as one performance obligation. Revenue is recognized when services are rendered according to the provisions of the underlying contracts.

Consultancy and advisory fees are recognized when the relevant transactions have been arranged or the relevant services have been rendered.

- (2) Gains/(Losses) on physical commodities trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.
- (3) Refund by the futures exchanges is recognized upon receipt.

#### 4.19 Government grants

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

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
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### 4 Summary of significant accounting policies (Continued)

#### 4.20 Current and deferred income tax

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

##### (1) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment.

The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

##### (2) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

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

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

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

#### 4.21 Leases

The Group leases various offices of which rental contracts are typically made for fixed periods of 2 to 5 years with no extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the leases. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
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### 4 Summary of significant accounting policies (Continued)

#### 4.21 Leases (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT-equipment and small items of office furniture.

As at 31 December 2020, the Group does not provide residual value guarantees in relation to property leases.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

#### 4.22 Contingent liabilities

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

#### 4.23 Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

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

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

#### 4.24 Dividend distribution

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

#### 4.25 Segment information

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

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

## Notes to the Consolidated Financial Statements

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

#### 4.26 Assets segregated for brokerage clients

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

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

Deposits with exchange-clearing organizations do not include client's non-monetary pledges to exchange-clearing organizations. Such pledges are not presented on the Group's statement of financial position.

#### 4.27 Accounts payable to brokerage clients

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



## Notes to the Consolidated Financial Statements

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### 5 Summary of critical accounting estimates and judgments

The Group continually evaluates its critical accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

#### 5.1 Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers or trustees are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

#### 5.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include discounted cash flow analysis model, Binomial Model and Black-Scholes Model etc. Observable input are used at arm's length in spite of areas such as credit risk (both own and counterparty) require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

#### 5.3 Income taxes

The Group is mainly subject to income taxes in China. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

## Notes to the Consolidated Financial Statements

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### 5 Summary of critical accounting estimates and judgments (Continued)

#### 5.4 Determination of consolidation scope

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

### 6 Taxation

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

Tax basis		Tax rate
Corporate income tax/ Profit tax	Taxable profit	25%/24.16%/16.5%
Value added tax ("VAT")	Taxable value added (VAT payable is calculated based on VAT-output less deductible VAT-input)	13%/9%/7.7%/6%
Value added tax ("VAT")	<sup>(1)</sup> Taxable value added (VAT payable is calculated based on VAT-output)	3%/1%
City construction and maintenance tax	VAT paid	7%

(1) The Company's income from the disposal of property, plant and equipment is subject to a VAT rate of 3% by applying the simplified tax calculation method.

Some branches of the Company are small-scale taxpayers and subject to a VAT rate of 3%. Pursuant to the 'Announcement on the Value-Added Tax Policy of Supporting Individual Industrial and Commercial Households Resuming Work and Business' and 'Announcement on extending the implementation period of the VAT reduction and exemption policy for small-scale taxpayers' jointly issued by the Ministry of Finance and the State Administration of Taxation, during the period from 1 March 2020 to 31 December 2020, for small-scale taxpayers in Hubei Province, taxable sales income is exempt from VAT; for small-scale value-added taxpayers in other provinces, autonomous regions, and municipalities directly under the Central Government, taxable sales income is subject to a VAT rate of 1%.

## Notes to the Consolidated Financial Statements

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### 7 Revenue

	Year ended 31 December	
	2020	2019
Net commission and fee income <sup>(1)</sup>	70,890	45,837
Net interest income <sup>(2)</sup>	145,490	158,306
Net refunds of trading fees <sup>(3)</sup>	160,105	83,266
	376,485	287,409

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

	Year ended 31 December	
	2020	2019
<b>Commission and fee income</b>		
Futures brokerage service	242,737	231,265
Options brokerage service	72,015	34,559
Settlement and clearing service income from other futures firms	30,553	15,192
Investment consultancy service	208	198
Asset management service	37	388
	345,550	281,602
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	244,107	220,573
Settlement and clearing service expense to exchange-clearing organizations	30,553	15,192
	274,660	235,765
<b>Net commission and fee income</b>	70,890	45,837



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
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### 7 Revenue (Continued)

#### (2) Net interest income

	Year ended 31 December	
	2020	2019
<b>Interest income</b>		
Interest income from deposits with banks	148,184	162,227
Interest income from deposits with exchange-clearing organizations	46,002	21,014
Interest income from financial assets held under resale agreements	2,480	14,867
	<b>196,666</b>	<b>198,108</b>
<b>Interest expense</b>		
Interest expense to brokerage clients	48,438	35,000
Interest expense on lease liabilities	1,659	2,203
Interest expense on settlement and clearing services to other futures firms	1,079	694
Interest expense on financial assets sold under repurchase agreements	—	1,809
Interest expense on borrowings	—	96
	<b>51,176</b>	<b>39,802</b>
<b>Net interest income</b>	<b>145,490</b>	<b>158,306</b>

#### (3) Net refunds of trading fees

Net refunds of trading fees reflect the refunds of trading fees from futures exchanges to the Group, partially offset by the consequential return from the Group to its customers. To improve the sustainable development of the futures markets, the futures exchanges implement a practice to partially refund trading fees to their clearing members. Policies on the timing and calculation method of refund are made and adjusted periodically at the discretion of the futures exchanges. In some cases, the Group further returns all or part of these refunds to its customers.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

### 8 (Losses)/Gains on physical commodities trading

	Year ended 31 December	
	2020	2019
Sales proceeds	787,076	1,522,070
Costs of purchases	(821,823)	(1,484,173)
	(34,747)	37,897

### 9 Net investment gains/(losses)

	Year ended 31 December	
	2020	2019
Net realized gains/(losses) of		
– Financial assets at fair value through profit or loss	(14,998)	4,520
– Financial liabilities at fair value through profit or loss	(23,360)	(34,927)
– Derivative financial instruments	69,261	4,827
Unrealized fair value changes of		
– Financial assets at fair value through profit or loss	17,581	(5,431)
– Financial liabilities at fair value through profit or loss	24,304	5,536
– Derivative financial instruments	21,761	(17,288)
– Physical commodities	5,094	1,532
Dividends from financial assets at fair value through profit or loss	12,939	11,767
	112,582	(29,464)

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For the year ended 31 December 2020  
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### 10 Other income

	Year ended 31 December	
	2020	2019
Exchange service income	32,326	21,117
Software service income	28	396
Cooperative hedging fees	—	923
Other	2,145	3,589
	<b>34,499</b>	<b>26,025</b>

### 11 Staff costs

	Year ended 31 December	
	2020	2019
Salaries and bonus	154,227	116,531
Other social securities	12,859	11,461
Pension	8,594	12,350
Labour union charge and employee education charge	6,715	4,760
Other welfares	3,189	216
	<b>185,584</b>	<b>145,318</b>



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For the year ended 31 December 2020

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### 11 Staff costs (Continued)

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

For the year ended 31 December 2020, the five highest paid individuals do not include any of the directors and supervisors (2019: same). Details of the emoluments for the five highest paid individuals for the year are as follows:

	Year ended 31 December	
	2020	2019
Salaries, allowances and other welfares	6,599	5,195
Bonus	1,015	3,073
	<b>7,614</b>	<b>8,268</b>

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

	Year ended 31 December	
	2020	2019
RMB1,000,001 to RMB1,500,000	3	2
RMB1,500,001 to RMB2,000,000	2	2
RMB2,000,001 to RMB2,500,000	—	1
	<b>5</b>	<b>5</b>

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

## Notes to the Consolidated Financial Statements

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### 12 Depreciation and amortization

	Year ended 31 December	
	2020	2019
Depreciation of right-of-use assets	8,671	8,435
Depreciation of property and equipment	7,609	7,047
Amortization of long-term prepaid expenses	1,542	1,196
Amortization of intangible assets	1,384	1,634
	<b>19,206</b>	<b>18,312</b>

### 13 Credit Impairment losses

	Year ended 31 December	
	2020	2019
Net impairment losses on other receivables	1,965	—
Net impairment losses on bank balances	(499)	—
Net impairment losses on accounts receivable	(847)	147
	<b>619</b>	<b>147</b>

## Notes to the Consolidated Financial Statements

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### 14 Other operating expenses

	Year ended 31 December	
	2020	2019
Provision (Note 36)	29,219	–
Insurance expenses	27,340	17,511
Marketing and distribution expenses	25,716	15,271
Information system maintenance fees	19,438	17,424
Office expenses	14,098	11,144
Professional service expenses	7,000	7,145
Rentals	3,903	4,672
Property maintenance fee	3,444	4,224
Consulting expenses	2,736	3,711
Taxes and surcharges	2,014	1,369
Auditors' remuneration		
– PwC	1,740	1,800
– Other auditors	519	104
Membership fees and annual fees	1,737	3,278
Bank charges	660	559
Futures Investors Protection Fund	503	312
Inventory stock damage	–	2,401
Other expenses	6,963	5,285
	147,030	96,210



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### 15 Other gains/(losses), net

	Year ended 31 December	
	2020	2019
Government grants	1,185	537
Donation	(801)	(1,111)
Foreign exchange losses	(140)	(102)
Others	1,004	(1,023)
	<b>1,248</b>	<b>(1,699)</b>

### 16 Income tax expense

	Year ended 31 December	
	2020	2019
Current tax	16,952	22,953
Deferred tax	24,165	(10,091)
	<b>41,117</b>	<b>12,862</b>

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.

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### 16 Income tax expense (Continued)

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

	Year ended 31 December	
	2020	2019
Profit before income tax	97,890	42,363
Tax calculated at applicable tax rates applicable to profits in the respective areas	24,820	12,779
Items deducted for tax purposes but not subtracted to arrive at taxable income	(2,469)	(1,886)
Tax losses for which no deferred income tax asset was recognized	2,853	318
Reversal of previously recognized deferred income tax assets	9,411	–
Income not subject to tax	(864)	(644)
Items not deductible for tax purposes	7,366	2,415
Adjustments in respect of prior years	–	(120)
	41,117	12,862

### 17 Earnings per share

#### 17.1 Basic earnings per share

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

	Year ended 31 December	
	2020	2019
Profit attributable to shareholders of the Company (in RMB thousands)	56,834	29,750
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.06	0.03

#### 17.2 Diluted earnings per share

For the year ended 31 December 2020, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (2019: same).

## Notes to the Consolidated Financial Statements

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### 18 Property, plant and equipment

	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
At 1 January 2020	40,073	8,788	46,488	95,349
Additions	–	584	3,754	4,338
Disposals	–	(4,863)	(3,308)	(8,171)
At 31 December 2020	40,073	4,509	46,934	91,516
<b>Accumulated depreciation</b>				
At 1 January 2020	(11,535)	(7,447)	(33,774)	(52,756)
Additions	(1,244)	(492)	(5,873)	(7,609)
Disposals	–	4,474	2,620	7,094
At 31 December 2020	(12,779)	(3,465)	(37,027)	(53,271)
<b>Carrying amount</b>				
At 31 December 2020	27,294	1,044	9,907	38,245
<b>Cost</b>				
At 1 January 2019	40,073	9,787	43,316	93,176
Additions	–	–	6,466	6,466
Disposals	–	(999)	(3,294)	(4,293)
At 31 December 2019	40,073	8,788	46,488	95,349
<b>Accumulated depreciation</b>				
At 1 January 2019	(10,237)	(7,823)	(30,368)	(48,428)
Additions	(1,298)	(524)	(5,225)	(7,047)
Disposals	–	900	1,819	2,719
At 31 December 2019	(11,535)	(7,447)	(33,774)	(52,756)
<b>Carrying amount</b>				
At 31 December 2019	28,538	1,341	12,714	42,593

For the year ended 31 December 2020, net gains from disposal of property and equipment amount to RMB49 thousand (2019: net gains of RMB25 thousand).



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### 19 Investment in associates

Set out below are the associates of the Group as at 31 December 2020 which have share capital consisting solely of ordinary shares held directly by the Group.

Nature of investment in associates as at 31 December 2020:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司) ("Rizhao BOT") <sup>(1)</sup>	Rizhao, the PRC	29.5%	Commodity trading	Equity
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. (上海魯証鋒通經貿有限公司) ("Luzheng Fengtong") <sup>(1)</sup>	Shanghai, the PRC	35%	Commodity trading	Equity
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司) ("Lu Clearing") <sup>(2)</sup>	Jinan, the PRC	40%	Registration, settlement and derivatives clearing	Equity

#### (1) Rizhao BOT and Luzheng Fengtong

The tables below provide summarised financial information for Rizhao BOT and Luzheng Fengtong. The information disclosed reflects the amounts presented in the financial statements of the two associates instead of the Group's share of those amounts.

	Rizhao BOT		Luzheng Fengtong	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Current assets	139,269	480,307	57,569	53,500
Non-current assets	40,962	40,413	177	–
Total assets	180,231	520,720	57,746	53,500
Current liabilities	144,652	366,223	560	303
Non-current liabilities	721	60,821	–	–
Total liabilities	145,373	427,044	560	303

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### 19 Investment in associates (Continued)

#### (1) Rizhao BOT and Luzheng Fengtong (Continued)

	Rizhao BOT		Luzheng Fengtong	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Net assets	34,858	93,676	57,186	53,197
Group's share in %	29.5%	29.5%	35.0%	35.0%
Interest in the associate and carrying value	10,283	27,634	20,015	18,619
Reconciliation to carrying amounts				
At 1 January	27,634	25,000	18,619	18,643
Share of (losses)/profits for the year	(17,351)	2,634	1,396	(24)
At 31 December	10,283	27,634	20,015	18,619
Revenue	555,066	787,107	786	—
(Losses)/Profits for the year	(58,818)	3,728	3,989	(58)
Other comprehensive income	—	—	—	—
Total comprehensive income	(58,818)	3,728	3,989	(58)

#### (2) Lu Clearing

The registered capital of Lu Clearing is RMB150 million as at 31 December 2020. The Group holds 40% of its equity and accounts for the associate using equity method.

Summarized financial information of Lu Clearing is as follows.

	Year ended 31 December	
	2020	2019
Opening net assets	30,424	40,374
Losses for the year	(1,475)	(9,950)
Closing net assets	28,949	30,424
Interest in the associate and carrying value	10,937	11,537

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### 20 Investments in subsidiaries and consolidated structured entities

#### 20.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specifically stated, the Group's interests in these subsidiaries are all ordinary shares, and the percentage of ownership held by the Group represent the voting rights of the Group.

Name of subsidiary	Country/ Place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/registered capital	Interests held	Directly/ Indirectly	Principal activities
Luzheng Capital Management Co., Ltd., originally named as "Luzheng Trading Co., Ltd." (魯証資本管理有限公司, 原名為"魯証經貿有限公司") ("Luzheng Capital")	Shenzhen, the PRC	24 April 2013	Limited company	RMB750,000,000/ RMB750,000,000	100%	Directly	Commodity trading, derivatives trading
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong, the PRC	21 November 2013	Limited company	HKD84,449,920.83/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Jinova S.A. <sup>(1)</sup>	Geneva, Switzerland	29 August 2018	Limited company	CHF3,000,000/ CHF3,000,000	100%	Indirectly	Derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Luzheng International Holding Limited (魯証國際控股有限公司) ("Luzheng International Holding")	Hong Kong, the PRC	16 April 2018	Limited company	HKD20,000,000/ HKD30,000,000	100%	Directly	Investment holding
Luzheng International Futures Limited (魯証國際期貨有限公司) ("Luzheng International Futures") <sup>(1)</sup>	Hong Kong, the PRC	17 May 2018	Limited company	HKD15,000,000/ HKD15,000,000	100%	Indirectly	Derivatives trading

- (1) Jinova S.A. and Luzheng International Futures are in the process of liquidation. They have no material operations or profit of loss during 2020 (2019: same).



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### 21 Other non-current assets

	31 December 2020	31 December 2019
Right-of-use assets <sup>(1)</sup>	20,012	17,420
Leasehold improvements <sup>(2)</sup>	1,598	1,211
Long-term prepaid expenses	949	266
	22,559	18,897

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

	Buildings	
	31 December 2020	31 December 2019
<b>Cost</b>		
At 1 January	24,682	32,866
Additions		
– New lease contracts	20,848	5,467
Disposals		
– Modifications to lease agreements	(12,521)	(8,589)
– No longer having control of a subsidiary	–	(5,062)
At 31 December	33,009	24,682
<b>Accumulated depreciation</b>		
At 1 January	(7,262)	–
Additions		
– Charges	(8,671)	(8,435)
<b>Disposals</b>		
– Modifications to lease agreements	2,936	1,038
– No longer having control of a subsidiary	–	135
At 31 December	(12,997)	(7,262)
<b>Carrying amount</b>		
At 31 December	20,012	17,420

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

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

	Year ended 31 December	
	2020	2019
At 1 January	1,211	2,441
Additions	1,582	620
Disposals	—	(812)
Amortization	(1,195)	(1,038)
At 31 December	1,598	1,211

### 22 Deferred income tax assets and liabilities

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

	Year ended 31 December	
	2020	2019
At 1 January	18,915	11,009
Income statement charge	(18,059)	7,906
At 31 December	856	18,915

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

	Year ended 31 December	
	2020	2019
At 1 January	11	2,438
Income statement charge	6,231	(2,358)
No longer having control of a subsidiary	—	(69)
At 31 December	6,242	11

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

#### (3) Gross movements in deferred income tax assets and liabilities

The gross movements in deferred income tax assets during the year are as follows:

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Interest payable	Deductible tax losses	Tax impact arising from consolidated SEs	Impairment	Accrued expenses	Depreciation and amortization	Total
<b>As at 1 January 2020</b>	11,852	1,149	9,556	–	866	–	–	23,423
Income statement charge	(4,012)	369	(9,556)	–	159	450	856	(11,734)
<b>As at 31 December 2020</b>	7,840	1,518	–	–	1,025	450	856	11,689
<b>As at 1 January 2019</b>	10,696	624	3,260	907	1,506	–	–	16,993
Income statement charge	1,156	525	6,296	(907)	(640)	–	–	6,430
<b>As at 31 December 2019</b>	11,852	1,149	9,556	–	866	–	–	23,423

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. At 31 December 2020, the Group conclude that it's overseas subsidiaries will not have sufficient taxable profits in the foreseeable future. Therefore, previously recognised deferred income tax assets have been reversed. (The tax loss balance as at 31 December 2019 was attributable to RMB35,849 thousand by Zhongtai Hui Rong, RMB10,463 thousand by Jinova S.A and RMB6,745 thousand by Luzheng International Holding).



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

#### (3) Gross movements in deferred income tax assets and liabilities (Continued)

The gross movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Changes in fair value of physical commodities	Interest receivable	Others	Total
<b>As at 1 January 2020</b>	293	–	4,215	11	4,519
Income statement charge	11,898	1,657	(999)	–	12,556
<b>As at 31 December 2020</b>	12,191	1,657	3,216	11	17,075
<b>As at 1 January 2019</b>	3,507	–	4,907	8	8,422
Income statement charge	(3,145)	–	(692)	3	(3,834)
No longer having control of a subsidiary	(69)	–	–	–	(69)
<b>As at 31 December 2019</b>	293	–	4,215	11	4,519

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

	31 December 2020	31 December 2019
Deferred income tax assets	(10,833)	(4,508)
Deferred income tax liabilities	(10,833)	(4,508)

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

	31 December 2020	31 December 2019
Deferred income tax assets	856	18,915
Deferred income tax liabilities	6,242	11

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### 23 Refundable deposits

	31 December 2020	31 December 2019
Security deposit placed with the China Financial Futures Exchange	20,116	20,114
Security deposit placed with the China Securities Depository and Clearing Co., Ltd.	11,230	11,056
	31,346	31,170

### 24 Physical commodities

	31 December 2020	31 December 2019
Carrying amount	107,906	307,724
Change in fair value	6,627	1,532
	114,533	309,256

As at 31 December 2020, trading commodities with carrying amount of RMB3,159 thousand are placed as collateral of margin deposits on futures exchanges (31 December 2019: RMB229,225 thousand).

The Group's physical commodities are major metal and agricultural products.

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its physical commodities into the three levels prescribed under IFRS 13. An explanation of each level is provided in Note 46.

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

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

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Physical commodities	–	309,256	–	309,256

There are no transfers between any levels during the year.

Physical commodities have therefore been classified as level 2 in the fair value hierarchy, since no significant adjustments need to be made to the prices obtained from the local markets.

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### 25 Other current assets

	31 December 2020	31 December 2019
Accounts receivable <sup>(1)</sup>	48,047	37,921
Deposit for derivatives trading	27,687	9,485
Prepayments	25,891	82,611
Notes receivable	—	4,000
Other receivables	20,798	27,711
	122,423	161,728

#### (1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2020		31 December 2019	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	42,126	(433)	37,484	(2,548)
3 months to 1 year	5,465	(195)	231	(21)
Over 1 year	2,519	(1,435)	3,116	(341)
	50,110	(2,063)	40,831	(2,910)

The impairment allowance for accounts receivable as at 31 December 2019 reconciles to the closing impairment allowance as at 31 December 2020 as follows:

	Year ended 31 December 2020
Closing impairment allowance as at 31 December 2019	(2,910)
Increase in impairment allowance recognized in profit or loss during the year	(173)
Decrease in impairment allowance recognised in profit or loss during the year	1,020
Closing impairment allowance as at 31 December 2020	(2,063)



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### 26 Derivative financial instruments

	31 December 2020		
	Notional amount	Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	102,000	–	1,913
<b>Current</b>			
OTC options	11,658,641	76,286	75,862
Exchange traded options	1,166,341	10,955	30,820
Futures contracts <sup>(1)</sup>	3,981,594	–	–
Forward contracts	344,110	3,050	2,478
	17,150,686	90,291	109,160
	17,252,686	90,291	111,073
	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	686,580	84	–
<b>Current</b>			
OTC options	5,727,614	23,526	27,154
Exchange traded options	1,451,291	21,840	16,680
Futures contracts <sup>(1)</sup>	4,244,032	–	–
Forward contracts	238,443	8,178	766
	11,661,380	53,544	44,600
	12,347,960	53,628	44,600

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### 26 Derivative financial instruments (Continued)

#### (1) Futures contracts

	31 December 2020		31 December 2019	
	Notional amount	Fair value	Notional amount	Fair value
Commodities futures	3,981,594	(7,874)	4,244,032	(10,974)
Financial futures	—	—	—	—
Less: Cash paid as settlement		7,874		10,974
Net position		—		—

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

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### 27 Financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Non-current		
Income certificates	101,014	—
Private securities investment funds	49,693	—
Trust scheme	12,914	—
	163,621	—
Current		
Asset management schemes	115,636	66,250
Income certificates	113,346	—
Private securities investment funds	60,434	59,809
Trust schemes	45,892	144,305
Bank wealth management products	40,831	—
Listed equity securities	7	5
	376,146	270,369
	539,767	270,369



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### 28 Financial assets held under resale agreements

	31 December 2020	31 December 2019
Analysed by asset type:		
– Debt securities	222,575	–
– Warehouse receipts <sup>(1)</sup>	82,463	30,256
	305,038	30,256

- (1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 31 December 2020, the Group has accepted collateral that can be re-pledged with a fair value of RMB135,280 thousand (31 December 2019: RMB33,518 thousand).

### 29 Deposits with exchange-clearing organizations

	31 December 2020	31 December 2019
Clients' deposits		
– Clients' margin deposits	4,440,011	2,512,348
– Clients' unrestricted deposits	1,335,027	466,947
Proprietary clearing settlement funds	421,114	755,729
	6,196,152	3,735,024
<b>Represented by</b>		
Deposits with Shanghai Futures Exchange	1,295,054	1,023,219
Deposits with Dalian Commodity Exchange	1,852,382	944,782
Deposits with China Financial Futures Exchange	1,630,254	683,361
Deposits with Zhengzhou Commodity Exchange	705,514	633,759
Deposits with China Securities Depository and Clearing Co., Ltd.	497,085	411,326
Deposits with Shanghai International Energy Exchange	215,863	38,577
	6,196,152	3,735,024

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### 30 Bank balances held for clients

The Company maintains separate accounts with banks for clients' funds arising from the normal course of business. The funds mainly consist of individuals, asset management customers and other non-fully licenced futures firms. The Company records these funds as bank balances held for clients or deposits with exchange-clearing organizations under current assets, and recognizes them as due to clients given that the Company is held liable for any loss or misappropriation of these funds. Bank balances held for clients for transaction and settlement purposes are subject to regulatory oversight by large state-owned commercial banks and joint-stock commercial banks in the PRC, pursuant to CSRC regulations.

### 31 Cash and bank balances

	31 December 2020	31 December 2019
Cash	25	58
Term deposit with banks	280,362	288,296
Demand deposit with banks	394,770	278,312
Deposit with securities and futures brokers	9,896	10,798
Less:		
Credit impairment allowance	(100)	(599)
	<b>684,953</b>	576,865

The Group's term deposits and demand deposits are mainly deposited with nationwide commercial banks and major city commercial banks in China.

As at 31 December 2020, there is no term deposits with banks with restricted use (31 December 2019: the Group's term deposits with banks with carrying amount of RMB6,000 thousand are with restricted use).

## Notes to the Consolidated Financial Statements

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### 32 Share capital

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2020	31 December 2019
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	<b>1,001,900</b>
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	<b>1,001,900</b>

On 7 July 2015, the Company issued 250,000,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with its global offering.

On 24 July 2015, the Company issued 1,900,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with the over-allotment.

The excess of RMB360,338 thousand over the par value of RMB251,900 thousand for the 251,900 thousand ordinary shares issued, net of the relevant incremental costs of RMB47,425 thousand directly contributed to the newly-issued shares, was credited to "share premium".

In accordance with relevant requirements, certain shareholders of the state-owned shares of the Company have transferred an aggregate of 25,190 thousand ordinary shares of the Company to the National Social Security Fund of the PRC.



## Notes to the Consolidated Financial Statements

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### 33 Share premium and reserves

	Share premium	Other reserves			Total
		Surplus reserve <sup>(1)</sup>	Other risk reserves <sup>(2)</sup>	Currency translation differences	
<b>As at 1 January 2020</b>	<b>650,630</b>	<b>62,749</b>	<b>193,219</b>	<b>3,069</b>	<b>909,667</b>
Appropriation to surplus reserve	—	6,824	—	—	6,824
Appropriation to general risk reserve	—	—	6,824	—	6,824
Appropriation to futures risk reserve	—	—	11,409	—	11,409
Utilization of futures risk reserve	—	—	—	—	—
Currency translation differences	—	—	—	(1,641)	(1,641)
<b>As at 31 December 2020</b>	<b>650,630</b>	<b>69,573</b>	<b>211,452</b>	<b>1,428</b>	<b>933,083</b>
As at 1 January 2019	650,630	57,662	182,123	1,959	892,374
Appropriation to surplus reserve	—	5,087	—	—	5,087
Appropriation to general risk reserve	—	—	5,087	—	5,087
Appropriation to futures risk reserve	—	—	6,020	—	6,020
Utilization of futures risk reserve	—	—	(11)	—	(11)
Currency translation differences	—	—	—	1,110	1,110
As at 31 December 2019	650,630	62,749	193,219	3,069	909,667

#### (1) Surplus reserve

Pursuant to the Company Law of the PRC, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately after capitalization.

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(All amounts in RMB'000 unless otherwise stated)

### 33 Share premium and reserves (Continued)

#### (2) Other risk reserves

In accordance with the requirements of the Notice of the MOF on Issuing the Financial Rules for Financial Enterprises – Implementation Guide (Caijin [2007] No. 23) issued on 30 March 2007, the Company appropriates 10% of its profit net of the previous years' losses to the general risk reserve.

In accordance with the requirements of the Notice of the MOF on Issuing the Tentative Provisions for the Financial Management of Commodities Futures Trading (Caishang [1997] No. 44) issued on 3 March 1997, the futures risk reserve is appropriated based on 5% of the commission and fee income from futures brokerage and clearing service net of relevant expenses payable to futures exchanges, for the purpose of covering potential losses in the future. When actual losses occur, the loss amount is charged to the current profit or loss, with the same amount being transferred from futures risk reserve to retained earnings simultaneously. Appropriation for futures risk reserve is recorded as profit distribution, whilst the utilization of futures risk reserve is recorded as the reversal of the reserve.

### 34 Other non-current liabilities

	31 December 2020	31 December 2019
Lease liabilities	19,824	8,433
Other non-current liabilities	8,791	5,021
	<b>28,615</b>	<b>13,454</b>

### 35 Other current liabilities

	31 December 2020	31 December 2019
Payable to counterparties of OTC options	189,503	175,013
Salaries, bonus, allowance and benefits payables <sup>(1)</sup>	83,444	44,017
Payable to Futures Investors Protection Fund	539	335
Lease liabilities	253	8,176
Other payables	38,853	39,141
	<b>312,592</b>	<b>266,682</b>

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### 35 Other current liabilities (Continued)

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

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

	1 January 2019	Current year charge	Current year payment	31 December 2019
Salaries and bonus	47,967	116,531	(130,991)	33,507
Other welfare	5	216	(221)	—
Other social securities	191	23,811	(23,798)	204
Labour union funds and employee education funds	8,554	4,760	(3,008)	10,306
	56,717	145,318	(158,018)	44,017

### 36 Provisions

The Group acted as the asset manager of five asset management schemes which were established between November 2017 and May 2018 and all distributed by a joint stock commercial bank. These schemes incurred certain losses and subsequently commenced their liquidation process in December 2018. Since 2019, the Group received a number of complaints from investors of the schemes, alleging the Group's non-compliance and misconducts as asset manager. Based on the information and evidence available and present, the Group disclaims any significant misconduct of its duties as asset manager.

To properly cope with above issue, starting from February 2021, the Group is working with the distributor bank to negotiate with those investors holding the schemes at the liquidation commencement date and successfully reached an agreement with certain investors. After serious consideration of current development, the Group makes a provision of RMB29,219 thousand as at 31 December 2020 which comprises both the Group's obligation to investors who have reached the agreement and the best estimate of its exposure to the investors who have not reached the agreement. The Group also believes the possibility of outflow of resources to other parties involved is very low.

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



## Notes to the Consolidated Financial Statements

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### 37 Contract liabilities

	31 December 2020	31 December 2019
Advance for physical commodity trading	20,446	–

### 38 Accounts payable to brokerage clients

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at exchange-clearing organizations by the Company. Most of these balances are non-interest bearing.

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

### 39 Cash and cash equivalents

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

	31 December 2020	31 December 2019
Cash and bank balances (Note 31)	684,953	576,865
Proprietary deposit with exchange-clearing organizations (Note 29)	421,114	755,729
Less:		
Term deposits with original maturity over three months	(280,362)	(283,497)
Minimum clearing settlement funds required by exchange-clearing organizations	(14,000)	(14,000)
Add:		
Credit impairment allowance	100	599
	811,805	1,035,696

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### 40 Dividends

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

- (I) Making up cumulative losses from prior years, if any;
- (II) 10% of the Company's profit is appropriated to the non-distributable statutory surplus reserve;
- (III) 10% of the Company's profit is appropriated to the non-distributable general risk reserve;
- (IV) Appropriations to the non-distributable futures risk reserve according to the relevant regulation;
- (V) Appropriations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC accounting standards and (ii) the retained profit determined in accordance with IFRS.

There is no dividend paid in 2020 (The dividend paid in 2019 was RMB55,101 thousand).

### 41 Cash flow information

#### (1) Net debt reconciliation

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

Net debt	31 December 2020	31 December 2019
Cash and cash equivalents	811,805	1,035,696
Liquid investments <sup>(i)</sup>	7	5
Borrowings – repayable within one year	–	–
Net debt	811,812	1,035,701
Cash and liquid investments	811,812	1,035,701
Gross debt – fixed interest rates	–	–
Net debt	811,812	1,035,701

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### 41 Cash flow information (Continued)

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

	Other assets		Liabilities from financing activities	
	Cash	Liquid investments <sup>(i)</sup>	Borrowings due within 1 year	Total
<b>Net debt as at 1 January 2020</b>	1,035,696	5	–	1,035,701
Cash flows	(223,751)	2	–	(223,749)
Foreign exchange adjustments	(140)	–	–	(140)
<b>Net debt as at 31 December 2020</b>	<b>811,805</b>	<b>7</b>	<b>–</b>	<b>811,812</b>

- (i) Liquid investments comprise certain investments that are traded in an active market, which are classified as financial assets at fair value through profit or loss.

### 42 Commitments and contingent liabilities

#### (1) Capital commitments

As at 31 December 2020, the Group has made a capital commitment to Luzheng Fengtong, an associate to the Group, of RMB17.5 million (31 December 2019: same).

#### (2) Contingencies

Several investors of five asset management schemes described in Note 36 submitted demands for arbitrations to Jinan Arbitration Commission claiming RMB9 million against the Group. In addition, by the date of issuance of these financial statements, the remaining investors still under negotiation with the Group suffered a total loss of RMB419 million. There are no other material contingencies involved by the Group.



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### 43 Related party transactions

#### 43.1 Related parties

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

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 31 December 2020:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. ("Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Securities (Shanghai) Asset Management Co., Ltd. ("Zhongtai Asset Management")	Controlled by the controlling shareholder of the Company
Qilu Zhongtai Property Co., Ltd. ("Qilu Zhongtai Property")	Controlled by the controlling shareholder of the Company
Shandong Yongtong Industrial Co., Ltd. ("Shandong Yongtong")	Controlled by the controlling shareholder of the Company
Zhongtai International Securities Co., Ltd. (Zhongtai International Securities")	Controlled by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Associate invested by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The ultimate controlling shareholder of Zhongtai Securities
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laiwu Iron and Steel Group Lunan Mining Co., Ltd. ("Lunan Mining")	Controlled by Laiwu Steel
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Laiwu Iron and Steel Group Xintai Copper Co., Ltd. ("Xintai Copper")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. ("Shandong Steel")	Controlled by Shandong Steel Group
Shandong Steel Group Rizhao Co., Ltd. ("Shandong Steel Rizhao")	Controlled by Shandong Steel Group
Lu Clearing	Associate invested by the Group
Rizhao BOT	Associate invested by the Group
Luzheng Fengtong	Associate invested by the Group

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For the year ended 31 December 2020

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### 43 Related party transactions (Continued)

#### 43.2 Related party transactions and balances

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

###### Transactions during the year

	Year ended 31 December	
	2020	2019
Introducing broker commission expense <sup>(1)</sup>	10,247	8,905
Income from providing futures brokerage service	5,203	6,529
Investment income	13,635	–
Rental expense	100	220
Interest expense	–	1,500
Commission expense for stocks trading	24	184

- (1) Introducing broker commission expense relates to commission paid to Zhongtai Securities for introducing futures brokerage clients. It is calculated at a fixed percentage of the commission income from transactions executed by those clients.

###### Balances at the end of year

	31 December 2020	31 December 2019
Derivative financial assets	3,554	–
Deposit with securities brokers	106	167
Other current liabilities		
– Introducing broker commission payable	10,922	9,511
– Interest payable	–	–
– Other payables	43	43
Derivative financial liabilities	685	–
Accounts payable to brokerage clients	498,852	343,790

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### 43 Related party transactions (Continued)

#### 43.2 Related party transactions and balances (Continued)

##### 43.2.2 Related parties other than the Company's direct controlling shareholder

###### Transactions during the year

	Year ended 31 December	
	2020	2019
Income from providing futures brokerage service	908	1,599
Interest income from bank deposit		
– Laishang Bank	12,481	11,576
Purchase of asset management schemes managed by Zhongtai Asset Management		
– No.6012 FOF	20,000	–
– Jinqian 1/7 Days	1,000	1,000
– Wengu 21/63 Days	500	4,000
Purchase of open-ended fund managed by Zhongtai International Securities		
– Lingqianle	1,683	–
– Dingfeng	1,347	–
Proceeds from disposal of asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	797	3,000
– Jinqian 7 Days	–	2,500
Sales proceeds of physical commodities		
– Yongfeng Trade	–	738
Cost of purchase of physical commodities		
– Laigang Yongfeng	32,179	42,117
– Shandong Steel Rizhao	–	173
Sales proceeds of equipment and services		
– Lu Clearing	254	802
Rental expense		
– Qilu Zhongtai Property	408	387
Rental income		
– Lu Clearing	132	356
Investment income from OTC derivatives		
– Yongfeng Trade	120	–



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### 43 Related party transactions (Continued)

#### 43.2 Related party transactions and balances (Continued)

##### 43.2.2 Related parties other than the Company's direct controlling shareholder (Continued)

###### *Balance at the end of year*

	31 December 2020	31 December 2019
Accounts payable to brokerage clients	15,036	16,542
Cash and bank balances – Laishang Bank	282,997	280,007
Asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	64,453	64,750
– Jinquan 7 Days	2,500	1,500
Other current assets		
Prepayments		
– Laigang Yongfeng	949	–
– Qilu Zhongtai Property	88	65
Other receivables		
– Lu Clearing	254	265
Other current liabilities		
Consulting fee payable		
– Zhaongtai Asset Management	45	45

##### 43.2.3 Key management personnel

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, board of supervisors and other members of the senior management.

	Year ended 31 December	
	2020	2019
Key management compensation	8,716	9,043

There is no loan or advance to key management during the years ended 31 December 2020 and 2019.

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### 44 Segment analysis

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- (a) Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- (b) Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- (c) Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- (d) Treasury and others: including treasury operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the year.

Expenses for each segment mainly contains depreciation cost allocated based on the area of the office, actual expense of salaries, bonus, and other relevant staff cost which is directly related.

The Group mainly operates in Shandong Province, the PRC.

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### 44 Segment analysis (Continued)

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



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### 44 Segment analysis (Continued)

	Year ended 31 December 2019					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	
Revenue						
– external	257,678	12,221	388	17,122	–	287,409
– internal	(10,838)	2,751	–	–	8,087	–
Gains on physical commodities trading						
– external	–	37,897	–	–	–	37,897
Net investment gains						
– external	–	(10,258)	(24,873)	5,667	–	(29,464)
– internal	–	8,137	–	28,450	(36,587)	–
Other income						
– external	–	2,041	–	23,984	–	26,025
– internal	–	–	–	2,794	(2,794)	–
<b>Total operating income</b>	<b>246,840</b>	<b>52,789</b>	<b>(24,485)</b>	<b>78,017</b>	<b>(31,294)</b>	<b>321,867</b>
<b>Total operating expenses</b>						
– external	(133,676)	(43,993)	(5,433)	(93,479)	–	(276,581)
– internal	–	–	–	(2,044)	2,044	–
Share of losses of investment in associates	–	2,610	–	(3,834)	–	(1,224)
Other losses, net	–	(56)	–	(1,643)	–	(1,699)
<b>Profit before income tax</b>	<b>113,164</b>	<b>11,350</b>	<b>(29,918)</b>	<b>(22,983)</b>	<b>(29,250)</b>	<b>42,363</b>
<b>Total assets</b>	<b>7,648,299</b>	<b>1,007,814</b>	<b>852</b>	<b>1,501,920</b>	<b>(1,230,071)</b>	<b>8,928,814</b>
<b>Total liabilities</b>	<b>6,951,122</b>	<b>253,506</b>	<b>13</b>	<b>77,718</b>	<b>(538,207)</b>	<b>6,744,152</b>
<b>Supplemental information</b>						
Depreciation and amortization	14,872	1,704	335	1,646	(245)	18,312
Credit impairment losses	–	79	–	68	–	147
Capital expenditure	9,493	2,375	–	906	(203)	12,571

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### 45 Financial risk management

#### 45.1 Risk management policies and structure

##### (1) Summary

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

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

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

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee; (ii) Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; (iii) Compliance and Internal Audit departments; and (iv) Frontline operation teams at business departments and branches.

##### ***Level 1: Board, Supervisory Committee***

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for the Company's overall risk strategy, risk preference, risk management policies and business progress. The Board is responsible for the Company's overall risk control efficiency. The Supervisory Committee focuses on monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons. The Risk Control Committee is responsible for accessing, suggesting and supervising the Company's risk management progress.

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### 45 Financial risk management (Continued)

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

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

###### ***Level 2: Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee***

The Risk Control Committee is responsible for ensuring that the decision making procedures and risk control system are in compliance with applicable laws and regulations. The Audit Committee is principally responsible for the overall audit related matters. The Asset Management Investment Decision Committee is principally responsible for reviewing the investment scale, major issues in product design, operations, liquidation and other major issues raised by the Asset Management Department. The Treasury Operations Investment Decision Committee principally responsible for reviewing the scale of the treasury operations, prospective investment portfolio, stop-loss measures and other major issues raised by the Treasury Department.

###### ***Level 3: Compliance and Internal Audit departments***

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

###### ***Level 4: Frontline operation teams at business departments and branches***

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.



## Notes to the Consolidated Financial Statements

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### 45 Financial risk management (Continued)

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

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

Luzheng Capital's risk management structure constitutes Board, Supervisory Committee, Risk Management Department and relevant business department.

- Level 1:** The Board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.
- Level 2:** Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.
- Level 3:** Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

#### 45.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, financial assets held under resale agreements, bank balances held for clients, deposits with exchange-clearing organizations, financial assets at fair value through profit or loss, derivative financial assets, contract assets, refundable deposits and other current assets.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
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### 45 Financial risk management (Continued)

#### 45.2 Credit risk (Continued)

In terms of the Group's investment in trust schemes with underlying investments mainly in loans and receivables, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances and bank balances held for clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of each trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation. To mitigate the credit risk from futures brokerage service, the Group usually requires the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's credit exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.2 Credit risk (Continued)

The Group maintains an ECL model to recognize a loss allowance for assets carried at amortized cost. The Group assesses whether or not the credit risk of relevant instrument has increased significantly since the initial recognition and measures their impairment allowance, ECL and future variance in ECL under the “three stage” impairment model (Note 4.6 (4)).

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

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

In 2020, the key economic variables used by the Group was the growth rate of GDP. Under the 2021 baseline scenario, the average forecast value is about 7.90%, the optimistic scenario forecast is 0.50 percentage points higher than the baseline, and the pessimistic scenario forecast is 0.50 percentage points lower than the baseline,

The weightings assigned to each economic scenario at 31 December 2020 are as follows:

	Base	Optimistic	Pessimistic
All portfolios	60%	20%	20%

##### (2) Impairment of financial assets and contract assets

The Group's bank balances, bank balances held for clients, deposits with exchange-clearing organizations, refundable deposits and contract assets are all deposited in banks and exchange-clearing organizations which have decent credit rating and no history of default. There is no unfavourable current conditions and forecast of future economic conditions for these assets at 31 December 2020. Therefore, their credit risk is considered low and the expected credit loss is limited.

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

All of these assets are classified under stage 1.



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For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.2 Credit risk (Continued)

##### (3) Maximum exposure to credit risk

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	31 December 2020	31 December 2019
Refundable deposits	31,346	31,170
Other current assets	81,058	79,117
Contract assets	6,462	12,371
Derivative financial assets	90,291	53,628
Financial assets at fair value through profit or loss	536,379	270,364
Financial assets held under resale agreements	305,038	30,256
Deposits with exchange-clearing organizations	6,196,152	3,735,024
Bank balances held for clients	4,723,619	3,600,073
Bank balances	684,928	576,807
	<b>12,655,273</b>	<b>8,388,810</b>

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

	31 December 2020		31 December 2019	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Client Risk Ratio				
Below 80%	3,163,717	8,745,719	2,232,964	5,836,032
80%-100%	1,196,124	1,351,273	272,467	547,298
Above 100%	80,170	74,460	6,917	5,928
	<b>4,440,011</b>	<b>10,171,452</b>	<b>2,512,348</b>	<b>6,389,258</b>
Coverage ratio		<b>229%</b>		<b>254%</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk

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

##### 45.3.1 Price risk

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

The Group's price risk exposure mainly relates to physical commodities, investments in equity securities, derivatives, asset management schemes, private securities investment funds and trust schemes with the underlying investments in equity instruments. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is facing with high market risk due to the volatility of those investments.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

Price risk in connection with futures contracts arising from the Group's cooperative hedging business is mostly offset by the financial liabilities payable to clients for that business, as the investment gain or loss on those derivatives are largely borne by clients.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

##### 45.3.1 Price risk (Continued)

###### *Sensitivity analysis*

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity instruments and derivatives by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2020	2019
Profit before income tax		
Increase by 5%	6,011	14,732
Decrease by 5%	(7,801)	(6,427)
	Year ended 31 December	
	2020	2019
Other comprehensive income before income tax		
Increase by 5%	—	—
Decrease by 5%	—	—

##### 45.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for clients, deposits with exchange-clearing organizations, financial assets held under resale agreements and investment in trust schemes with the underlying investments mainly in loans and receivables. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

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

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

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
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### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

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

	Within 1 month	1-3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Non-interest bearing	Total
<b>As at 31 December 2019</b>							
Refundable deposits	31,170	-	-	-	-	-	31,170
Other current assets	-	-	-	-	-	52,149	52,149
Contract assets	-	-	-	-	-	12,371	12,371
Derivative financial assets	-	-	-	-	-	53,628	53,628
Financial assets at fair value through other comprehensive income	-	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	-	-	76,669	-	-	193,700	270,369
Financial assets held under resale agreements	-	30,256	-	-	-	-	30,256
Deposits with exchange-clearing organizations	1,222,676	-	-	-	-	2,512,348	3,735,024
Bank balances held for clients	3,600,073	-	-	-	-	-	3,600,073
Cash and bank balances	288,931	4,799	3,135	280,000	-	-	576,865
<b>Sub-total</b>	<b>5,142,850</b>	<b>35,055</b>	<b>79,804</b>	<b>280,000</b>	<b>-</b>	<b>2,825,596</b>	<b>8,363,305</b>
Other non-current liabilities	-	-	-	(7,833)	(600)	(5,021)	(13,454)
Other current liabilities	(113)	(84)	(7,980)	-	-	(201,918)	(210,095)
Accounts payable to brokerage clients	(3,103,102)	-	-	-	-	(3,286,156)	(6,389,258)
Derivative financial liabilities	-	-	-	-	-	(44,600)	(44,600)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(24,562)	(24,562)
<b>Sub-total</b>	<b>(3,103,215)</b>	<b>(84)</b>	<b>(7,980)</b>	<b>(7,833)</b>	<b>(600)</b>	<b>(3,562,257)</b>	<b>(6,681,969)</b>
<b>Interest rate sensitivity gap</b>	<b>2,039,635</b>	<b>34,971</b>	<b>71,824</b>	<b>272,167</b>	<b>(600)</b>	<b>(736,661)</b>	<b>1,681,336</b>

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For the year ended 31 December 2020

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### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

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

###### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 25 basis points increase or decreases in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2020	2019
Net interest income		
Increases by 25bps	5,374	5,027
Decreases by 25bps	(5,374)	(5,027)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.



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For the year ended 31 December 2020  
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### 45 Financial risk management (Continued)

#### 45.3 Market risk (Continued)

##### 45.3.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, with only insignificant revenue from foreign currency transactions. The Group considers that its currency risk is immaterial.

#### 45.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading position, or an excessive high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be faced with penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause bad effects on the Group's operations and reputation.

The Group manages and controls its funds in a centralized manner. The Group's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity could be met timely with an appropriate cost.

The Group's finance department organizes the cash budget annually and sets up the fund plan based on it. Under the approval of the Company, the funds will be scheduled and arranged uniformly in order to ensure the consistence of funds demand and cost of the capital control.

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### 45 Financial risk management (Continued)

#### 45.4 Liquidity risk (Continued)

After approved by the Board of Directors, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at 31 December 2020, the Group held cash and cash equivalents of approximately RMB812 million that are expected to readily generate cash inflows for managing liquidity risk (2019: RMB1,036 million).

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

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

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 31 December 2020</b>						
<b>Non-derivative cash flow</b>						
Other non-current liabilities	–	–	–	–	(24,861)	(24,861)
Other current liabilities	(213,051)	(12,826)	(2,144)	(6,290)	–	(234,311)
Accounts payable to brokerage clients	(10,171,452)	–	–	–	–	(10,171,452)
	(10,384,503)	(12,826)	(2,144)	(6,290)	(24,861)	(10,430,624)
<b>Derivative cash flow</b>						
(a) total inflow	–	104,830	9,628	176,585	2,164	293,207
(b) total outflow	–	(55,687)	(21,560)	(147,639)	(272)	(225,158)

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### 45 Financial risk management (Continued)

#### 45.4 Liquidity risk (Continued)

	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 31 December 2019</b>						
<b>Non-derivative cash flow</b>						
Other non-current liabilities	–	–	–	–	16,326	16,326
Other current liabilities	191,573	10,479	123	8,428	–	210,603
Financial liabilities at fair value through profit or loss	257	–	–	24,305	–	24,562
Accounts payable to brokerage clients	6,389,258	–	–	–	–	6,389,258
	6,581,088	10,479	123	32,733	16,326	6,640,749
<b>Derivative cash flow</b>						
(a) total inflow	–	22,102	10,017	31,030	–	63,149
(b) total outflow	–	(165,251)	(29,968)	(17,569)	(29)	(212,817)

#### 45.5 Capital management

The Group's objectives of capital management are:

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



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### 45 Financial risk management (Continued)

#### 45.5 Capital management (Continued)

According to the “Administrative Measures Concerning Risk Control Indicators for Future Companies” (《期貨公司風險監管指標管理辦法》) issued by the CSRC on 18 April 2017, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB30,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 20%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB14,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

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### 46 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### 46.1 Financial instruments not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, bank balances held for clients, financial assets held under resale agreements, deposits with exchange-clearing organizations, refundable deposits, contract assets, accounts payable to brokerage clients, financial assets sold under repurchase agreements their fair values approximate their carrying amounts.

#### 46.2 Financial instrument measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

- |                  |  |
|------------------|--|
| <b>Level I</b>   | – Quoted prices (unadjusted) in active markets for identical assets or liabilities.  |
| <b>Level II</b>  | – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). |
| <b>Level III</b> | – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).   |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

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

The following table presents the financial assets and liabilities that are measured at fair value at 31 December 2020 and 2019.

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



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

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

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Asset management schemes	–	66,250	–	66,250
– Trust schemes	–	67,636	76,669	144,305
– Private securities investment funds	–	59,809	–	59,809
– Listed equity securities	5	–	–	5
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	23,610	–	23,610
– Exchange traded options	21,840	–	–	21,840
– Forward contracts	–	8,178	–	8,178
	21,845	225,483	78,069	325,397
Financial liabilities at fair value through profit or loss				
– Payable to a holder of a consolidated SE	–	–	(24,305)	(24,305)
– Others	–	(257)	–	(257)
Derivative financial liabilities				
– OTC options	–	(27,154)	–	(27,154)
– Exchange traded options	(16,680)	–	–	(16,680)
– Forward contracts	–	(766)	–	(766)
	(16,680)	(28,177)	(24,305)	(69,162)

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

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

##### (1) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in level 1.

##### (2) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

As at 31 December 2020, asset management schemes, trust schemes and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by Zhongtai Asset Management, non-related financial institutions, as well as unregulated private fund managers. Underlying investments of these SEs are mainly in exchange traded securities and derivatives in the PRC. Their fair value are determined based on their net asset value as at the reporting date, which are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 45.3.1.

For OTC options, fair value is determined based on the Black-Scholes (BS) Model, Binomial Model, Kirk model and Monte Carlo Simulation. The key parameters are obtained through the observable market data.

For forward contracts, the fair value is measured by discounting the differences between the contract prices and market prices of the underlying financial instruments.

For the year ended 31 December 2020, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2019: same).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

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

##### (3) Financial instruments in level 3

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

As at 31 December 2020, trust schemes, bank wealth management schemes and income certificates that are classified as level 3 in fair value hierarchy are issued by non-related financial institutions. Such schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within the schemes where principal and return of senior tranche is guaranteed by junior tranche investors. The discounted cash flow model is used to determine the fair value of those schemes, where the expected future cash flows are discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and market risk as disclosed in Note 45.

The following table presents the changes in level 3 instruments for the years ended 31 December 2020 and 2019.

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

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

##### (3) Financial instruments in level 3 (Continued)

	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
Balance at 1 January 2019	1,400	362,310	(29,841)
Acquisition	–	–	–
Disposal	–	(279,419)	–
Unrealized (losses)/gains recognized in net investment gains	–	(6,222)	5,536
Balance at 31 December 2019	1,400	76,669	(24,305)
Including: unrealized losses recognized in profit or loss attributable to balances held at end of year	–	(6,222)	(24,305)

Financial instruments	Fair value at 31 December 2020	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – trust schemes, bank wealth management products, income certificates	268,105	Expected rate of return	3.35% – 7.50%	The higher the expected rate of return, the higher the fair value
		Expected recovery date	23 February 2021 to 31 December 2030	The earlier the recovery date, the higher the fair value
		Discount rates that correspond to the expected risk level	3.14% – 6.22%	The lower the discount rate, the higher the fair value

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

### 47 Offsetting financial assets and financial liabilities

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

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

As at 31 December 2019					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	–	(10,974)	(10,974)	10,974	–

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

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

### 48 Unconsolidated structured entities

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

As at 31 December 2020, the interests in unconsolidated structured entities held by the Group included investment recognized as financial assets at fair value through profit or loss (31 December 2019: same). The related carrying amount and the maximum exposure were as follows:

	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss	325,400	270,364

For the years ended 31 December 2020 and 2019, the income from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December 2020	2019
Net investment gains	32,291	7,230

As at 31 December 2020, the Group provided no financial support to these unconsolidated SEs, and there was no plan of providing financial support by the Group to these unconsolidated SEs (31 December 2019: same).

### 49 Events occurring after the reporting period

A dividend in respect of the year ended 31 December 2020 of RMB0.0236 per share (tax included), amounting to a total dividend of RMB23,645 thousand, is proposed by the Board of Directors on 25 March 2021 and is to be approved at the annual general meeting on 17 June 2021. These financial statements do not reflect this dividend payable.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

	Notes	31 December 2020	31 December 2019
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		37,234	42,171
Intangible assets		5,952	6,013
Investment in subsidiaries		786,578	797,635
Other non-current assets		10,282	12,658
Deferred income tax assets		—	8,106
Refundable deposits		31,346	31,170
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss		163,621	—
<b>Total non-current assets</b>		<b>1,036,413</b>	899,153
<b>Current assets</b>			
Other current assets		20,781	20,245
Contract assets		6,462	12,371
Financial assets at fair value through profit or loss		366,156	264,119
Financial assets held under resale agreements		220,175	—
Deposits with exchange-clearing organizations		6,196,152	3,735,024
Bank balances held for clients		4,723,619	3,600,073
Cash and bank balances		344,493	324,528
<b>Total current assets</b>		<b>11,877,838</b>	7,956,360
<b>Total assets</b>		<b>12,914,251</b>	8,855,513

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

	Notes	31 December 2020	31 December 2019
<b>Equity and liabilities</b>			
Share capital		1,001,900	1,001,900
Share premium		650,630	650,630
Other reserves	Note (a)	281,025	255,968
Retained earnings	Note (a)	338,179	283,586
<b>Total equity</b>		<b>2,271,734</b>	2,192,084
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		12	–
Other non-current liabilities		20,146	10,416
<b>Total non-current liabilities</b>		<b>20,158</b>	10,416
<b>Current liabilities</b>			
Other current liabilities		97,889	64,082
Provisions		29,219	–
Current income tax liabilities		6,587	2,320
Derivative financial liabilities		–	24,304
Accounts payable to brokerage clients		10,488,664	6,562,307
<b>Total current liabilities</b>		<b>10,622,359</b>	6,653,013
<b>Total liabilities</b>		<b>10,642,517</b>	6,663,429
<b>Total equity and liabilities</b>		<b>12,914,251</b>	8,855,513

The statement of financial position of the Company was approved by the Board of Directors on 25 March 2021 and was signed on its behalf:

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

#### Note (a) Reserve movement of the Company

	Retained earnings	Other reserves
<b>Balance at 31 December 2018</b>	297,996	239,785
Profit for the year	56,874	–
Other comprehensive income for the year	–	–
<b>Total comprehensive income</b>	56,874	–
Net appropriation to reserves	(16,183)	16,183
Dividends recognized as distribution	(55,101)	–
<b>Balance at 31 December 2019</b>	283,586	255,968
Profit for the year	79,650	–
Other comprehensive income for the year	–	–
<b>Total comprehensive income</b>	79,650	–
Net appropriation to reserves	(25,057)	25,057
Dividends recognized as distribution	–	–
<b>Balance at 31 December 2020</b>	338,179	281,025



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

### 51 Benefits and interests of directors, supervisors and chief executive

The emoluments of the directors, supervisors and chief executive of the Company paid by the Group for the years ended 31 December 2020 and 2019 are set out below:

Year ended 31 December 2020					
Name	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	Total
<b>Executive Directors</b>					
Zhong Jinlong <sup>(1)</sup>	—	—	—	—	—
Liang Zhongwei	437	42	70	—	549
<b>Chief Executive</b>					
Liu Qingbin	831	68	89	—	988
<b>Non-executive Directors</b>					
Liu Hongsong <sup>(2)</sup>	—	—	—	—	—
Liu Feng	50	—	—	—	50
Hu Kainan <sup>(2)</sup>	—	—	—	—	—
Ming Gang	48	—	—	—	48
Wang Chuanshun	119	—	—	—	119
Gao Zhu	119	—	—	—	119
Li Dapeng	119	—	—	—	119
Zheng Jianping <sup>(3)</sup>	121	—	—	—	121
<b>Supervisors</b>					
Li Xuekui <sup>(9)</sup>	847	42	84	—	973
An Tie <sup>(1)</sup>	—	—	—	—	—
Hu Yuyue	71	—	—	—	71
Mou Yong	71	—	—	—	71
Wang Hairan <sup>(7)(10)</sup>	273	40	44	74	431
Tan Saojie <sup>(2)</sup>	—	—	—	—	—
Yu Xuehui <sup>(6)</sup>	71	—	—	—	71
Lin Zongheng	281	34	26	54	395
Liu Pu	260	38	43	60	401
	3,718	264	356	188	4,526

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020  
(All amounts in RMB'000 unless otherwise stated)

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

Name	Year ended 31 December 2019				
	Remuneration	Salaries allowance and other welfares	Pension	Annual bonus	Total
<b>Executive Directors</b>					
Zhong Jinlong <sup>(1)</sup>	-	-	-	-	-
Chen Fang <sup>(1)(4)</sup>	-	-	-	-	-
Liang Zhongwei	532	49	59	133	773
<b>Chief Executive</b>					
Liu Qingbin	1,100	73	51	-	1,224
<b>Non-executive Directors</b>					
Liu Hongsong <sup>(2)</sup>	-	-	-	-	-
Yin Ge <sup>(2)(5)</sup>	-	-	-	-	-
Li Chuanyong <sup>(2)(5)</sup>	-	-	-	-	-
Liu Feng	3	-	-	-	3
Hu Kainan <sup>(2)</sup>	-	-	-	-	-
Ming Gang	3	-	-	-	3
Wang Chuanshun	119	-	-	-	119
Gao Zhu	119	-	-	-	119
Li Dapeng	119	-	-	-	119
Zheng Jianping <sup>(3)</sup>	-	-	-	-	-
<b>Supervisors</b>					
Li Xuekui <sup>(9)</sup>	1,111	69	288	-	1,468
Ding Mei <sup>(2)(8)</sup>	-	-	-	-	-
Hu Yuyue	71	-	-	-	71
Mou Yong	71	-	-	-	71
Wang Hairan <sup>(7)(10)</sup>	35	11	9	-	55
Yu Zhanyong <sup>(7)</sup>	32	10	9	-	51
Tan Saojie <sup>(2)</sup>	-	-	-	-	-
Yu Xuehui <sup>(6)</sup>	116	-	-	-	116
Lin Zongheng	227	30	24	89	370
Liu Pu	221	29	26	56	332
	3,879	271	466	278	4,894

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

- (1) Chen Fang, Zhong Jinlong and An Tie were appointed by Zhongtai Securities and their emoluments were paid by Zhongtai Securities. No allocation of the emoluments between the shareholder and the Group has been made during the year.
- (2) These non-executive directors and supervisors were appointed by shareholders and their emoluments for the years ended 31 December 2020 and 2019 were paid by shareholders.
- (3) Zheng Jianping has no emoluments due to his short term in 2019.
- (4) Chen Fang retired from executive director effective from December 2019.
- (5) Yin Ge and Li Chuanyong ceased to be non-executive director effective from December 2019.
- (6) Yu Xuehui ceased to be non-executive director and was elected as a supervisor effective from December 2019.
- (7) Wang Hairan and Yu Zhanyong ceased to be supervisor effective from April 2019.
- (8) Ding Mei ceased to be supervisor from December 2019.
- (9) Li Xuekui ceased to be Chairman of the Supervisory effective from November 2020.
- (10) Wang Hairan was reelected as supervisor effective from November 2020.