THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in LUZHENG FUTURES Company Limited, you should at once hand this circular and the accompanying form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

鲁证期货
LUZHENG FUTURES

LUZHENG FUTURES Company Limited
魯 証 期 貨 股 份 有 限 公 司

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

(Stock Code: 01461)

PROPOSAL ON THE WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2018
PROPOSAL ON THE WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2018
PROPOSAL ON THE ANNUAL REPORT FOR THE YEAR 2018
PROPOSAL ON THE PROFIT DISTRIBUTION PLAN FOR THE YEAR 2018
PROPOSAL ON THE APPOINTMENT OF ACCOUNTING FIRMS FOR THE YEAR 2019
PROPOSAL ON THE FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH ZHONGTAI SECURITIES
PROPOSAL ON THE ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT WITH SHANDONG STEEL
PROPOSAL ON THE BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT WITH SHANDONG STEEL
PROPOSAL ON THE GENERAL MANDATE TO ISSUE DOMESTIC AND OVERSEAS BOND FINANCING INSTRUMENTS
PROPOSAL ON THE GENERAL MANDATE TO ISSUE DOMESTIC SHARES AND H SHARES
AND
NOTICE OF ANNUAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee
and
the Independent Shareholders of LUZHENG FUTURES Company Limited

Gram Capital Limited
嘉林資本有限公司

A notice convening the AGM to be held at 9:30 a.m. on Thursday, 20 June 2019 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC is set out on pages 72 to 74 of this circular. A letter from the Board is set out on pages 5 to 36 of this circular.

Shareholders who intend to appoint a proxy to attend the AGM shall complete and return the appropriate form of proxy in accordance with the instructions printed thereon. The form of proxy should be returned in person or by post not less than 24 hours before the time appointed for the AGM (i.e., before 9:30 a.m. on Wednesday,19 June 2019) or any adjournment thereof to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H Shares) and the Board's office of the Company (for holders of Domestic Shares). Completion and return of the form of proxy will not preclude any Shareholder from attending and voting at the AGM or any adjournment thereof in person if such Shareholder so wishes.

Shareholders are requested to complete and return the reply slip to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H Shares) or the Board's office of the Company (for holders of Domestic Shares) on or before Friday, 31 May 2019, if they wish to attend the AGM either in person or by proxy.

29 May 2019

CONTENTS

Unless the context otherwise requires, the following expressions shall have the following meanings in this circular:

"AGM" or "2018 AGM"	the annual general meeting of the Company for the year 2018 to be convened at 9:30 a.m. on Thursday, 20 June 2019 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC
"Articles of Association"	the articles of association of LUZHENG FUTURES Company Limited as amended from time to time
"Asset Management Service Framework Agreement"	the asset management service framework agreement entered into between the Company and Shandong Steel on 26 April 2019
"associates(s)"	has the meanings ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of directors of the Company
"Bulk Commodities Sale and Purchase Framework Agreement"	the bulk commodities sale and purchase framework agreement entered into between the Company and Shandong Steel on 26 April 2019
"China" or "PRC"	the People's Republic of China, in this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company"	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a joint stock limited company incorporated in the PRC and its H Shares are listed on the Hong Kong Stock Exchange (stock code: 01461)
"connected person(s)"	has the meanings ascribed to it under the Listing Rules
"connected transaction(s)"	has the meanings ascribed to it under the Listing Rules
"continuing connected transaction(s)"	has the meanings ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meanings ascribed to it under the Listing Rules
"CSRC"	China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company

"Domestic Share(s)"	ordinary share(s) issued in the share capital of the Company, with a nominal value of RMB1.00 per share, which is/are subscribed for and paid up in RMB
"Financial Services Framework Agreement"	the financial services framework agreement entered into between the Company and Zhongtai Securities on 26 April 2019
"Former Asset Management Service Framework Agreement"	the asset management service framework agreement entered into between the Company and Shandong Steel on 28 April 2017
"Former Bulk Commodities Sale and Purchase Framework Agreement"	the bulk commodities sale and purchase framework agreement entered into between the Company and Shandong Steel on 28 April 2017
"Former Financial Services Framework Agreement"	the financial services framework agreement entered into between the Company and Zhongtai Securities on 28 April 2017
"Framework Agreements"	collectively, the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement
"Gram Capital" or "Independent Financial Adviser"	Gram Capital Limited, a licensed corporation under the SFO to engage in category 6 (advising on corporate finance) regulated activity, appointed as the independent financial adviser of the Company to provide advice on the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps to the Independent Board Committee and Independent Shareholders
"Group" or "we" or "us"	the Company and its subsidiaries (the Company and any of its subsidiary or various subsidiaries as the context requires)
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and dealt with in HK$
"HK$" or "Hong Kong dollars"	the lawful currency of Hong Kong
"holder(s) of Domestic Share(s)"	the holder(s) of the Domestic Share(s)
"holder(s) of H Share(s)"	the holder(s) of H Share(s)

"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent committee of the Board comprised of all Independent Non-executive Directors, namely Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng. The aim of its establishment is to provide advice in respect of the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps to the Independent Shareholders
"Independent Non-executive Director(s)"	independent non-executive Directors of the Company
"Independent Shareholder(s)"	Shareholders who are not required to abstain from voting on the Financial Services Framework Agreement, the Asset Management Services Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps
"Laiwu Steel"	Laiwu Steel Group Ltd. (萊蕪鋼鐵集團有限公司), a limited company incorporated in the PRC on 6 May 1999. 80% of its equity interest is held by Shandong Steel, and it is a Controlling Shareholder of the Company
"Latest Practicable Date"	24 May 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time
"Luzheng Trading"	Luzheng Trading Co., Ltd. (魯証經貿有限公司), a company incorporated in the PRC on 24 April 2013 with limited liability, which is a wholly-owned subsidiary of the Company
"RMB"	the lawful currency of the PRC

"SFO"	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 limited company incorporated in the PRC on 17 March 2008. 70% of its equity interest is held by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government, and it is a Controlling Shareholder of the Company
"Share(s)"	the ordinary share(s) of the Company with a nominal value of RMB1.00 each, including domestic shares and H shares of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Supervisor(s)"	the 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 incorporated in the PRC on 15 May 2001 with limited liability, with 45.91% of its shares directly held by Laiwu Steel. It is a subsidiary of Laiwu Steel and is a Controlling Shareholder of the Company
"%"	percentage

In case of any discrepancy between the Chinese version and the English version of this circular, the Chinese version shall prevail.

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)

Executive Directors:
Chen Fang *(Chairman)*
Liang Zhongwei

Non-executive Directors:
Yin Ge
Li Chuanyong
Liu Feng

Independent Non-executive Directors:
Gao Zhu
Yu Xuehui
Wang Chuanshun
Li Dapeng

Registered office & Headquarters in the PRC:
15-16/F Securities Tower
No. 86 Jingqi Road
Shizhong District, Jinan
Shandong Province
the PRC

Principal Place of Business in Hong Kong:
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

29 May 2019

To the Shareholders

Dear Sir or Madam,

PROPOSAL ON THE WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2018
PROPOSAL ON THE WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2018
PROPOSAL ON THE ANNUAL REPORT FOR THE YEAR 2018
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AND
NOTICE OF ANNUAL GENERAL MEETING

INTRODUCTION

This circular contains the notice of AGM, which sets out the details of the resolutions to be proposed at the AGM, which enable you to make informed decision on whether to vote for or against the resolutions to be proposed at the AGM.

MATTERS TO BE RESOLVED AT THE AGM

Ordinary resolutions will be proposed at the AGM to approve: (1) Proposal on the work report of the Board of Directors for the year 2018; (2) Proposal on the work report of the Supervisory Committee for the year 2018; (3) Proposal on the annual report for the year 2018; (4) Proposal on the profit distribution plan for the year 2018; (5) Proposal on the appointment of accounting firms for the year 2019; (6) Proposal on the Financial Services Framework Agreement with Zhongtai Securities; (7) Proposal on the Asset Management Service Framework Agreement with Shandong Steel; and (8) Proposal on the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel.

Special resolutions will be proposed at the AGM to approve: (9) Proposal on the general mandate to issue domestic and overseas bond financing instruments; and (10) Proposal on the general mandate to issue domestic shares and H Shares.

ORDINARY RESOLUTIONS

1. Proposal on the Work Report of the Board of Directors for the year 2018

The work report of the Board of Directors for the year 2018 has been approved by the Board and is hereby proposed at the AGM for review and approval. The details of the work report of the Board of Directors are set out in the Appendix I to this circular.

2. Proposal on the Work Report of the Supervisory Committee for the year 2018

The work report of the Supervisory Committee for the year 2018 has been approved by the Supervisory Committee and is hereby proposed at the AGM for review and approval. The details of the work report of the Supervisory Committee are set out in the Appendix II to this circular.

3. Proposal on the Annual Report for the year 2018

The annual report for the year 2018 has been approved by the Board and the Supervisory Committee and is hereby proposed at the AGM for review and approval. The annual report has been published on the HKEXnews website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.luzhengqh.com) on 29 April 2019.

4. Proposal on the Profit Distribution Plan for the year 2018

According to the audit results for the year 2018, the requirements of the relevant laws, regulations and the Articles of Association as well as taking into consideration of various factors including interests of the Shareholders and future development of the Company, the proposed profit distribution plan for the year 2018 is as follows: on the basis of a total share capital of 1,001,900,000 Shares as at 31 December 2018, cash dividends of RMB0.055 for every share held (inclusive of tax) are proposed to be distributed to the Shareholders. The cash dividends to be distributed amount to RMB55,104,500.00 (inclusive of tax) in total, representing approximately 47.32% of the net profits of the parent company for 2018 (Chinese Accounting Standards for Business Enterprises).

The proposed dividend will be denominated and declared in RMB, and paid in RMB and in Hong Kong dollars to holders of Domestic Shares and holders of H Shares, respectively. The actual amount distributed in Hong Kong dollars will be calculated based on the average benchmark exchange rate of RMB against Hong Kong dollars announced by the People's Bank of China for the five working days prior to the date of the 2018 AGM.

The aforesaid profit distribution plan for the year 2018 has been approved by the Board and the Supervisory Committee and is hereby proposed at the AGM for review and approval. The H Share register of members of the Company will be closed, for the purpose of determining the entitlement of holders of H Shares to receive the 2018 final dividend, from Thursday, 27 June 2019 to Tuesday, 2 July 2019, both days inclusive, during which period no transfer of H Shares will be registered. Any Shareholder whose name appears on the register of members of the Company on Tuesday, 2 July 2019 will be entitled to receive the 2018 final dividend. In order to qualify for the 2018 final dividend, holders of H Shares should ensure that all the share transfer documents be lodged with the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 26 June 2019.

Subject to the approval of the Shareholders at the AGM, the 2018 final dividend is expected to be paid on or around Thursday, 1 August 2019 to the Shareholders whose names appear on the register of members of the Company on Tuesday, 2 July 2019.

5. Proposal on the Appointment of Accounting Firms for the year 2019

The Company intends to continue to engage PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP for auditing of the annual financial reports of the Company under International Financial Reporting Standards and Chinese Accounting Standards for Business Enterprises for the year 2019, respectively.

Currently, based on the quantity of time committed by all levels of staff of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP to audit work in 2018 and having taken into account the prevailing market rates and other factors, for the year 2019, the service fees for review of interim financial statements and audit of annual financial statements, the verification of the results announcement for H Shares and the continuing connected transaction reporting under the International Financial Reporting Standards shall be RMB1.36 million; the audit service fee for auditing of the annual financial statements prepared under Chinese Accounting Standards for Business Enterprises shall be RMB0.21 million; the aforesaid service fees shall be RMB1.57 million in total.

The aforesaid resolution has been approved by the Board and the Supervisory Committee and is hereby proposed at the AGM for review and approval.

6. Proposal on the Financial Services Framework Agreement with Zhongtai Securities

(1) Background

Reference is made to the announcement of the Company dated 28 April 2017 in relation to, inter alia, the non-exempt continuing connected transactions under the Former Financial Services Framework Agreement between the Company and Zhongtai Securities and their annual caps. As disclosed in the announcement of the Company dated 28 April 2017, pursuant to the Former Financial Services Framework Agreement, Zhongtai Securities and/or its associates regularly provide various financial services to the Group for daily operation in the Group's ordinary and usual course of business. The aforesaid services mainly include provision of IB services by Zhongtai Securities and/or its associates to the Group, purchase of asset management schemes by the Group, in which Zhongtai Securities and/or its associates act as the manager, as well as acceptance of securities brokerage and other financial services by the Group from Zhongtai Securities and/or its associates.

As the corresponding annual caps under the Former Financial Services Framework Agreement will expire on 31 December 2020 and the Group will continue to conduct certain transactions under the Former Financial Services Framework Agreement after 31 December 2020, and the Company intends to adjust the caps for securities brokerage and other financial service, and accept the Over-the-Counter ("**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 the agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, mainly including the provision of IB services, asset management schemes, securities brokerage and other financial services as well as OTC option introduction services. The term of the Financial Services Framework Agreement is three years with effect from being approved at the AGM and will expire on 31 December 2021. The Former Financial Services Framework Agreement will be terminated once the Financial Services Framework Agreement comes into effect. 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 over the next three years.

(2) Details of the agreement

Date	:	26 April 2019
Parties	:	Zhongtai Securities The Company

A. Acceptance of IB services provided by Zhongtai Securities and/or its associates

Principal terms

In the Company's ordinary and usual course of business, Zhongtai Securities and/or its associates provide IB services to the Company and introduces potential clients to the Company for the engagement of the Company's futures brokerage businesses. In addition, Zhongtai Securities and/or its associates will also provide the following services to such clients introduced to the Company: (i) assisting such clients in opening accounts; (ii) providing latest market information about futures, option and other derivative markets as well as trading facilities to such clients; (iii) assisting such clients in risk control and management; and (iv) other related financial services. Zhongtai Securities and/or its associates will charge the Company commissions for the provision of such IB services.

Reasons for and benefits of the transaction

The Company (as a futures company) could effectively share the relatively abundant customer resources of Zhongtai Securities and/or its associates through the acceptance of IB services provided by Zhongtai Securities (as a securities company). Besides, both Zhongtai Securities and the Company could effectively achieve synergies while enhancing the Company's customer service capabilities as well as increasing operating income. In addition, Zhongtai Securities and/or its associates have been providing IB services to the Company for consecutive years and have developed a deep understanding of the Company's business needs. As such, the continuous provision of such services by Zhongtai Securities and/or its associates to the Company will foster the development of the Company's futures brokerage business.

Pricing terms

(i) The commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company will be 60% of the commission revenue generated from such clients introduced by Zhongtai Securities and/or its associates (the "**Commission Split**"). Based on the enquiries on futures commission splits made to other futures companies which conduct IB services with securities companies, the Company is of the opinion that the Commission Split of 60% falls within the reasonable market range and is in line with market practice;

(ii) The commission revenue equals the revenue generated from such clients, with deduction of the trading and clearing fees paid to the futures exchanges in the PRC, including but not limited to, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Exchange; and

(iii) The Commission Split of 60% has been determined based on arm's-length negotiation between Zhongtai Securities and the Company with reference to the prevailing market commission rates for IB businesses and on normal commercial terms, and is consistent with market practice.

Historical amounts

In relation to the IB services provided by Zhongtai Securities and/or its associates to the Company, the commissions for the four years ended 31 December 2015, 2016, 2017 and 2018 and the two months ended 28 February 2019 were RMB16,832 thousand, RMB8,162 thousand, RMB7,670 thousand, RMB6,081 thousand and RMB1,049 thousand (unaudited), respectively; the Commission Split for the provision of IB services to the Company by Zhongtai Securities and/or its associates was 60%.

Annual caps

The maximum aggregate annual amounts in respect of the commissions received by Zhongtai Securities and/or its associates for the provision of IB services to the Company for the three years ending 31 December 2019, 2020 and 2021 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December *(RMB'000)*		
Year	**2019**	**2020**	**2021**
Commissions	20,600	28,900	40,500

Basis of caps

The above proposed annual caps are determined with reference to historical amounts on the basis that: (i) commissions to be received by Zhongtai Securities and/or its associates will increase gradually due to the growing synergies between both parties, as the branches of the Company and Zhongtai Securities and/or its associates become better developed; (ii) the clients introduced to the Company by Zhongtai Securities and/or its associates in the past through IB services mainly engaged in trading of financial futures such as the stock index futures, which has a greater exposure to the Chinese stock market because the principal business of Zhongtai Securities is securities dealing. In the second half of 2015, Chinese stock market experienced significant fluctuations. China Financial Futures Exchange exercised strict control over stock index futures transactions by significantly increasing margin deposits and handling fees for liquidation of positions and decreasing the daily quantity of new futures contracts, which dramatically reduced the scale of IB business provided to the Company by Zhongtai Securities and/or its associates. China Financial Futures Exchange announced to partially loosen the control on the stock index futures transactions by reducing margin deposits and handling fees of the stock index futures transaction in February 2017, September 2017 and December 2018, respectively. In July 2018, Fang Xinghai, vice chairman of the CSRC, said at the first training session of chairmen and general managers of futures companies in 2018 that trading in stock index futures is about to return to normal soon; (iii) the scale of the Company's futures brokerage services is anticipated to increase as evidenced by the introduction of commodity options, the preparation of various new varieties of commodity futures and options as well as the expected launch of new futures products such as stock index options by China Financial Futures Exchange. According to the data published by China Financial Futures Exchange, the daily average market transaction amount of stock index futures has been increasing by approximately 61% per annum since the launch in 2010 till 2015 (the transaction volume subsequent to 2015 is abnormal due to aggressive restriction on trading in stock index futures and should not be used as reference). Given that the majority of the clients introduced to the Company by Zhongtai Securities and/or its associates are engaged in stock index futures trading, meanwhile, the Chinese commodity derivatives market is becoming increasingly prosperous. For the purpose of serving the real economy and providing customers with a full range of financial services, Zhongtai Securities and/or its associates will also recommend customers engaged in commodity derivatives trading to the Company. The Company prudently estimates that the IB business provided to the Company by Zhongtai Securities and/or its associates will increase by 40% from 2019 to 2021; (iv) before the stock index futures transactions were restricted in 2015 by China Financial Futures Exchange, the commission generated from the IB business provided to the Company by Zhongtai Securities and/or its associates in 2013, 2014 and 2015 were RMB 23,000 thousand, RMB 22,800 thousand , RMB 28,000 thousand, respectively. The commission generated by provision of IB services by Zhongtai Securities and/or its associates to the Company in 2019 is expected to increase by 40% or RMB34,440 thousand based on the average of the previous three years of 2013, 2014 and 2015, namely RMB24,600 thousand after restrictive measures on the stock index futures are fully lifted, taking into account the factors such as the introduction of new varieties and the enhanced synergies. It is expected that the commission to be generated from the IB business provided to the Company by Zhongtai Securities and/or its associates will be approximately RMB34,440 thousand, RMB48,200 thousand and RMB67,480 thousand from 2019 to 2021, respectively; and (v) the Commission Split is 60%. As such, the commissions received by Zhongtai Securities and/or its associates from providing IB services to the Company are expected to be RMB20,600 thousand, RMB28,900 thousand and RMB40,500 thousand, from 2019 to 2021, respectively.

B. *Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager*

Principal terms

We purchase asset management schemes, in which Zhongtai Securities and/or its associates act as the manager in our ordinary and usual course of business. 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, we 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 and benefits of the transaction

Investment in asset management schemes could enhance the Group's investment return and, as compared with other investment products, the return on investment in asset management schemes is relatively more stable and thus in line with the Group's risk control requirements on wealth management. In addition, the Group has invested in various asset management schemes managed by Zhongtai Securities and/or its associates for certain consecutive years and thus has developed a better understanding of their investment strategy and performance, which effectively foster business cooperation between both parties and improve return on assets of the Group.

Pricing terms

(i) The Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management schemes are calculated by multiplying our investment amounts with the Asset Management Fees rate, which was approximately 1.5%, with reference to the Company's similar transactions with independent third parties in the past;

(ii) For collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management schemes is applicable to all investors participating in such plans equally and evenly, including the Group and any other independent third party investor participants. Such Asset Management Fees rate is also comparable to the prevailing market rate for collective asset management schemes issued by any other independent third parties with similar size 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 on the Group is comparable to, or no less favorable than, those charged by Zhongtai Securities and/or its associates on 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 by any other independent third party managers on the Group for 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 negotiation between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rates for similar targeted management schemes, on normal commercial terms, and is consistent with market practice.

Historical amounts

For the four years ended 31 December 2015, 2016, 2017 and 2018 and the two months ended 28 February 2019, the Group participated in six asset management schemes in which Zhongtai Securities and/or its associates acted as the manager. For the four years ended 31 December 2015, 2016, 2017 and 2018 and the two months ended 28 February 2019, the highest daily amount invested in such asset management schemes were approximately RMB140,000 thousand, RMB156,000 thousand, RMB60,393 thousand, RMB68,140 thousand and RMB67,250 thousand (unaudited), and the Asset Management Fees paid by the Group to Zhongtai Securities and/or its associates were approximately RMB494 thousand, RMB383 thousand, RMB412 thousand, RMB132 thousand and RMB23 thousand, respectively. The Asset Management Fees rates for such six asset management schemes were 0.2%, 0.27%, 1.2%, 0.6%, 0.7% and 1.0% respectively.

Annual caps

The maximum daily amount invested by the Group, and the annual Asset Management Fees paid by the Group to Zhongtai Securities and/or its associates for the three years ending 31 December 2019, 2020 and 2021 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December *(RMB'000)*		
Year	**2019**	**2020**	**2021**
The highest daily amount invested for purchase of asset management schemes from Zhongtai Securities and/or its associates by the Group	206,000	227,000	250,000
Asset Management Fees (based on the Asset Management Fees rate of 1.5% and the subscription fee of RMB10,000)	3,090	3,400	3,740

Basis of caps

The above proposed annual caps are determined with reference to historical amounts on the basis that: (i) pursuant to the audited net assets of the Company in 2018, as well as the warning percentage requirement of net capital and net assets of a futures company under the Administrative Measures on Risk Regulatory Indication of Futures Companies (《期貨公司風險監管指標管理辦法》) promulgated by the CSRC, after the deduction of short-term capital turnovers of RMB100,000 thousand, such as turnovers for off-budget expenses which may affect the net capital of the Company; and proposed injection into subsidiaries of RMB200,000 thousand, from the Company's total capital available for investment in 2018, the Company's capital available for financial investment in 2019 is expected to be approximately RMB1,010,000 thousand. Taking into consideration the capital available to subsidiaries of the Company for financial investment in 2019 of approximately RMB20,000 thousand, the Group's total capital available for financial investment in 2019 would be approximately RMB1,030,000 thousand. According to the investment plan of the Group and in order to enhance the capital utilization efficiency of the Group, the highest daily amount expected to be invested by the Group in the asset management schemes in which Zhongtai Securities and/or its associates act as the asset manager will not exceed 20% of the Group's total capital available for financial investment in 2019, as such, the highest daily amount to be invested in 2019 would be RMB206,000 thousand. According to the audited financial data, the average profit growth rates of the Group from 2016 to 2018 were around 10%. Therefore, the investment amount in the asset management schemes in which Zhongtai Securities or its associates act as manager is expected to increase at a rate of 10% in the next three years; and (ii) despite the different standards of Asset Management Fees rates of various asset management products, for the purpose of estimating the annual caps of the Asset Management Fees over the next three years, taking into account the rises in the market of the Asset Management Fees rates and assuming the Asset Management Fees rate of 1.5%, the expected Asset Management Fees to be paid to Zhongtai Securities and/or its associates by the Group over the next three years are expected to be RMB3,090 thousand, RMB3,400 thousand and RMB3,740 thousand, respectively.

According to the Company's audited financial information for the year ended 31 December 2018, the Group's total assets and net asset attributable to Shareholders as at 31 December 2018 were approximately RMB7.9 billion and RMB2.2 billion respectively. The highest daily amount invested for purchase of asset management schemes from Zhongtai Securities and/or its associates by the Group (i.e. the proposed annual caps) for the three years ending 31 December 2021 represented approximately (i) 3%, 3% and 3% to the Group's total assets as at 31 December 2018; and (ii) 9%, 10% and 11% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such highest daily investments are not significant to the aforesaid items.

C. *Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates*

Principal terms

As part of treasury management activities, Zhongtai Securities and/or its associates provide securities brokerage services to the Group in our ordinary and usual course of business, including but not limited to trading in securities, trading in bonds and funds, application for shares in initial public offerings and reverse repo of treasury bonds, as well as other financial services, for which Zhongtai Securities and/or its associates charged commissions on us.

Reasons for and benefits of the transaction

Since the Group needs to increase its return on capital through securities investment in its wealth management activities, the Group needs to conduct securities investment and other financial businesses through companies who have the necessary qualifications for engaging in securities brokerage business. The Group has cooperated with Zhongtai Securities and/or its associates for securities brokerage and other financial services for consecutive years. Zhongtai Securities and/or its associates have developed a good understanding of the Group's needs. The Group deems it a key factor in selecting a provider of securities brokerage and other financial services.

Pricing terms

(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 negotiation between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rate for similar business, and is consistent with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee exceeds RMB5 through calculation by transaction amount times the 0.03% of commission rate, the transaction will be charged at the commission rate of 0.03%). Different commission rates are applied to the bond brokerage business provided to us by Zhongtai Securities and/or its associates range from 0.001% to 0.03%, depending on different types of bonds (such as reverse repo of bonds with the term of one day or over 28 days). Such commission rates are also applied to independent third parties; and

(ii) The commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Group is comparable to, or no less favorable than, average commission rates on the market, and the corresponding commission rates are also within the range specified by respective stock exchanges of China, namely Shanghai Stock Exchange and Shenzhen Stock Exchange.

Historical amounts

For the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates, the historical amounts of commissions for the four years ended 31 December 2015, 2016, 2017 and 2018, and two months ended 28 February 2019, were approximately RMB205 thousand, RMB9 thousand, RMB307 thousand, RMB331 thousand and RMB138 thousand (unaudited) respectively.

Annual caps

The maximum aggregate annual amounts of commissions in respect of the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates for the three years ending 31 December 2019, 2020 and 2021 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December *(RMB'000)*		
Year	**2019**	**2020**	**2021**
Commissions	1,700	1,800	2,000

Basis for caps

The above proposed annual caps are determined with reference to historical amounts on the basis that: (i) as the Group's revenue increases, the Group's aggregate amount of financial investment is expected to increase accordingly. The Group will choose to invest its capital in the stock market or bond market based on the market conditions at discretion; (ii) the securities brokerage business provided by Zhongtai Securities and/or its associates has relatively greater exposure to the Chinese stock market. The Chinese stock market was bullish in the first half of 2015 while it had significant fluctuation in the second half of 2015, and experienced a relative overall downturn in 2016 to 2018. As such, the commissions paid by us to Zhongtai Securities and/or its associates in respect of securities brokerage businesses significantly decreased from 2015 to 2016. However, if the stock market picks up in the future, the Group expects that its investment in the stock market will continue to increase and the commissions paid to Zhongtai Securities and/or its associates will significantly increase accordingly as Zhongtai Securities and/or its associates will provide more securities brokerage and other financial services to the Group; (iii) when the stock market was on the rise in 2015, the maximum amount of the Group invested in the stock market was approximately RMB80 million. Considering that the current market maintains relatively stable and based on the prudently estimated 70% of the aforementioned investment amount, it is expected that the annual investment amount in the stock market by the Group for each of the next three years will be RMB55 million, and it is estimated to deal twice a month, annually 24 times in total, the commission to be paid to Zhongtai Securities and/or its associates by the Group is expected to be RMB396 thousand for each year of 2019, 2020 and 2021 based on the handling fees rate of 0.03%; and (iv) since 2017, Zhongtai Securities and/or its associates started to provide reverse repo of bonds services to the Group. According to the audited net asset value of the Company in 2018 as well as the warning percentage requirement of net capital and net assets of a futures company under the Administrative Measures on Risk Regulatory Indication of Futures Companies (《期貨公司風險監管指標管理辦法》) promulgated by the CSRC, after the deduction of short-term capital turnovers of RMB100,000 thousand, such as turnovers for off-budget expenses which may affect the net capital of the Company; and proposed injection into subsidiaries of RMB200,000 thousand, from the Company's total capital available for investment in 2018, the Company's capital available for financial investment in 2019 is expected to be approximately RMB1,010,000 thousand. Taking into consideration the capital available to subsidiaries of the Company for financial investment in 2019 of approximately RMB20,000 thousand, the Group's total capital available for financial investment in 2019 would be approximately RMB1,030,000 thousand, and assuming the relevant rates is 0.001% if all the capital is applied for conducting reverse repo of bonds, and the Group will conduct reverse repo of bonds on approximately half of the trading days each year (125 days), the commission paid to Zhongtai Securities and/or its associates by the Group in respect of the reverse repo of bonds will be approximately RMB1,300 thousand in 2019. Taking into consideration the average growth rate of the Group's profits over the past three years, and growth rate of 10% of the amount of the Group available for investment in reverse repo of bonds in 2020 and 2021 is based on 10%, the commission payable to Zhongtai Securities and/or its associates by the Group is expected to be RMB1,300 thousand, RMB1,400 thousand and RMB1,600 thousand for each year of 2019, 2020 and 2021, respectively. According to the securities brokerage services to be provided by Zhongtai Securities and/or its associates to the Group, the Group shall pay RMB1,700 thousand, RMB1,800 thousand and RMB2,000 thousand to Zhongtai Securities and/or its associates over the next three years, respectively.

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

Principal terms

In recent years, the Company'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 company in Shandong Province, Zhongtai Securities trades OTC derivatives with its clients. However, Zhongtai Securities' OTC derivatives business mainly 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 Company, and at the same time, based on the restricted trading ability of Zhongtai Securities itself, it also needs to introduce certain customers trading equity OTC derivatives to the Company. Zhongtai Securities and/or its associates charge an introduction fee on the Company for such services.

Reasons for and benefits of the transaction

Accepting the introduction service provided by Zhongtai Securities and/or its associates can enable the Company to share the abundant customer resources of Zhongtai Securities, enhance the synergy effect of the Group and increase its revenue.

Pricing terms

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

Historical amount

For the two years ended 31 December 2017 and 2018, and for the two months ended 28 February 2019, the Company did not pay any introduction fee to Shandong Steel and/or its associates.

Annual caps

The introduction fees to be received or paid from or to each of the Company or Zhongtai Securities and/or its associates for the three years ending 31 December 2019, 2020 and 2021 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December *(RMB'000)*		
Year	**2019**	**2020**	**2021**
Introduction fee paid by the Company to Zhongtai Securities and/or its associates	3,000	3,600	4,320

Basis of caps

In the past three years, Zhongtai Securities and/or its associates did not provide OTC option services to the Group. The above proposed annual caps are determined on the basis that:

(i) In 2018, Zhongtai Securities' OTC derivatives business has a nominal principal of approximately more than RMB90 billion. It is estimated that the nominal principal of the OTC derivatives business introduced by Zhongtai Securities and/or its associates to the Company in 2019 will be approximately RMB30 billion. Based on 1% of the premium rate, the amount of the premium is approximately RMB300 million, and the business income based on 5% will be approximately RMB15 million; (ii) the premium rate is determined according to the out-of-the-money and in-the-money value of the option. The OTC option rate of the Company usually ranges from 0.5% to 8%. The customers of Zhongtai Securities tend to trade the option with a higher out-of-the-money value. Considering that there is also the possibility of trading in-the-money options, the rate of 1% is assumed; (iii) the proportion of the income from OTC derivatives business is determined at 5% after taking into account the actual circumstances of the Company's related business; (iv) the median commission split is 20%, that is, the introduction fee paid by the Company to Zhongtai Securities and/or its associates in 2019 will be approximately RMB3 million.

Implications under the Listing Rules

As at the Latest Practicable Date, as Zhongtai Securities holds approximately 63.10% equity interest in the Company, Zhongtai Securities is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions under the Financial Services Framework Agreement between the Company and Zhongtai Securities constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Financial Services Framework Agreement between the Company and Zhongtai Securities exceeds 5% under the Listing Rules, the continuing connected transactions under the Financial Services Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

7. Proposal on the Asset Management Service Framework Agreement with Shandong Steel

(1) Background

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 would continue to 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 scopes with the collective asset management schemes. As such, Shandong Steel and/or its associates would pay asset management fees to the Company.

As the corresponding annual caps under the Former Asset Management Service Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct continuing connected transactions under the Former Asset Management Service Framework Agreement and to sell asset management schemes to Shandong Steel and/or its associates after 31 December 2019, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours), pursuant to which, the Group will invest in financial products of various scopes with the collective asset management schemes and Shandong Steel and/or its associates would pay asset management fees to the Group. The term of the Asset Management Service Framework is three years, valid from 1 January 2020 to 31 December 2022. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for such continuing connected transactions.

(2) Details of the agreement

Date	:	26 April 2019
Parties	:	Shandong Steel
		The Company

Principal terms

In the ordinary and usual course of their business, Shandong Steel and/or its associates continuously purchase collective asset management schemes in which we act as the manager. Being the asset manager, we invest in financial products of various scopes with the collective asset management schemes. In this regard, Shandong Steel and/or its associates shall pay assets management fees to us.

Reasons for and benefits of the transaction

The Group commenced its operation of asset management business in January 2013. The successful launch and operation of the asset management products of the Group have brought real gains to our clients, increased the Group's revenue of asset management business, and gained market recognition, revealing the brand effect of the asset management business. Moreover, Shandong Steel and/or its associates have actual investment demand for asset management products. As the Group is more familiar with the investment demand of Shandong Steel and/or its associates than other asset management companies, and is expected to be able to increase the return on assets of Shandong Steel and/or its associates as well as the Group's revenue from asset management business. This will also facilitate the business cooperation between both parties, and is in the interest of the Company and the Shareholders as a whole.

Pricing terms

(i) The asset management fees charged by us as the manager of the collective asset management schemes are calculated by multiplying the investment amounts of Shandong Steel and/or its associates in the collective asset management schemes with the asset management fees rate; and

(ii) For collective asset management schemes, the asset management fees rates (approximately 1.5% on average) as stipulated in the collective asset management schemes are applicable to all investors participating in such plans, including Shandong Steel and/or its associates and any other independent third party investor participants. Such asset management fees rates are also comparable to or no less favorable than the rates we charge any other independent third parties for comparable collective asset management schemes.

Historical amounts

For the two years ended 31 December 2017 and 2018, and for the two months ended 28 February 2019, Shandong Steel and/or its associates did not purchase the collective asset management schemes in which the Group acted as the manager.

Annual caps

The maximum daily amount of collective asset management schemes purchased by Shandong Steel and/or its associates from the Group, and the maximum aggregate annual asset management fees paid by Shandong Steel and/or its associates to the Group for the three years ending 31 December 2020, 2021 and 2022 shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December *(RMB'000)*		
Year	**2020**	**2021**	**2022**
The highest daily amount invested for purchase of collective asset management schemes from the Company by Shandong Steel and/or its associates	50,000	100,000	200,000
Asset management fees (based on the asset management fees rate of 1.5% and the subscription fee of RMB10,000)	750	1,500	3,000

Basis of annual Caps

The above proposed annual caps are determined with reference to historical amounts on the basis that: (i) the calculation formula of asset management fees charged by the Group on Shandong Steel and/or its associates is: the total amount of the collective asset management schemes purchased by Shandong Steel and/or its associates is multiplied by the asset management fees rate (based on annual fee rate of 1.5%); (ii) according to the preliminary business plans, the asset management business of the Company will focus on the development of active management products. It is estimated that the size of asset management products will be RMB200 million, RMB500 million and RMB1 billion, respectively, in 2020 to 2022; (iii) the collective asset management schemes of which the Group acts as the manager mainly invest in commodities and derivatives, which is in line with the nature of Shandong Steel as a bulk commodity producer, and can better meet the futures-related investment needs of Shandong Steel and/or its associates; (iv) the asset management size of Zhongtai Securities (Shanghai) Asset Management Co., Ltd. at the end of 2017 was approximately RMB220 billion, and the asset management size of Wanjia Asset Management Co., Ltd. was approximately RMB45 billion, of which a considerable portion need to be allocated to bulk commodity assets; (v) as the cooperation between the Group and Shandong Steel and its associates deepens, the investment demand of Shandong Steel and/or its associates for purchasing the collective asset management schemes in which the Group acts as the manager and the financial assets which Shandong Steel and/or its associates need to invest in are expected to increase continuously. According to the development plan of the asset management business in which the Group act as the asset manager, as well as the intention of the Company and Shandong Steel and its associates and their communication and negotiation in respect of their cooperation in asset management business, the maximum aggregate daily investment amounts of collective asset management schemes to be purchased by Shandong Steel and/or its associates from the Group for the three years ending 31 December 2020, 2021 and 2022 will not exceed 25%, 20% and 20% of the asset management size of the Company in that respective year, and the maximum aggregate daily amount invested are expected to be RMB50 million, RMB100 million and RMB200 million, respectively.

The highest daily amount invested for purchase of collective asset management schemes from the Company by Shandong Steel and/or its associates (i.e. the proposed annual caps) for the three years ending 31 December 2021 represented approximately (i) 1%, 1% and 3% to the Group's total assets as at 31 December 2018; and (ii) 2%, 5% and 9% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such highest daily investments are not significant to the aforesaid items.

Implications under the Listing Rules

As at the Latest Practicable Date, as Shandong Steel holds 80% equity interest in Laiwu Steel who in turn holds 45.91% equity interest in Zhongtai Securities (a Controlling Shareholder of the Company) and therefore is a connected person of the Company under Chapter 14A of the Listing Rules, the transaction under the Asset Management Service Framework Agreement between the Company and Shandong Steel constitutes a continuing connected transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Asset Management Service Framework Agreement between the Company and Shandong Steel exceeds 5% under the Listing Rules, the continuing connected transaction under the Asset Management Service Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

8. Proposal on the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel

(1) Background

References are made to the announcement of the Company dated 28 April 2017 in relation to (inter alia) 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 purchased and sold bulk commodities from 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 that Luzheng Trading, a wholly-owned subsidiary of the Company will purchase bulk commodities, including hot rolled wide steel plates from Shandong Steel and/or its associates, and Shandong Steel and/or its associates may purchase bulk commodities, including coke and iron ores from Luzheng Trading, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours), pursuant to which, the Company and/or its associates would purchase bulk commodities, including hot rolled wide steel plates from Shandong Steel and/or its associates, and Shandong Steel and/or its associates would purchase bulk commodities, including coke and iron ores from Luzheng Trading in their ordinary and usual courses of business. The term of the Bulk Commodities Sale and Purchase Framework Agreement is three years, valid from 1 January 2020 to 31 December 2022. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for such continuing connected transactions.

(2) Details of the agreement

Date	:	26 April 2019
Parties	:	The Company Shandong Steel

Principal terms

In our ordinary and usual course of business, the Group 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 bulk commodities including but not limited to coke and iron ores from the Group and pay the consideration.

Reasons for and benefits of the transactions

For the purchase of bulk commodities including hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, when bulk commodity price fluctuates and great trading opportunities in the market arise, Luzheng Trading may purchase bulk commodities including hot rolled steel plates and rebars at the request of downstream traders or for its own benefit. The bulk commodities such as hot rolled steel plates and rebars produced by Shandong Steel and/or its associates that Luzheng Trading intends to purchase are brand commodities of Shanghai Futures Exchange, and have better liquidity. As mainstream products of the bulk commodities market in Shandong, such bulk commodities have relatively larger market shares and are well-received by the market. Shandong Steel is a large state-owned enterprise with healthy operation. Luzheng Trading is exposed to low default risk when purchasing from Shandong Steel and/or its associates. Entering into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel are expected to enable the Company to seize opportunities brought about by favorable market conditions and secure stable profits from price-spread arbitrage, which is in the interest of the Company and the Shareholders as a whole.

For the purchase of bulk commodities including coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, Luzheng Trading was established in April 2013 and principally engaged in bulk commodities trading 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 bulk commodities, such as coke and iron ores at suitable market price and sells such bulk commodities when the market price is higher than the purchase price so as 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 as coke and iron ores from Luzheng Trading from time to time depending on its future production need and the market conditions. Entering into the Bulk Commodities Sale and Purchase Agreement with Shandong Steel to sell bulk commodities including iron ores to Shandong Steel can enable the Company to have stable and reliable sales channels, seize market opportunities and secure stable profits from price-spread arbitrage, and is in the interest of the Company and the Shareholders as a whole.

Pricing terms

For the purchase of bulk commodities including hot rolled wide steel plates by the Group from Shandong Steel and/or its associates, the prices charged by Shandong Steel and/or its associates are determined with reference to comparable prices of similar products sold by independent third parties in local markets, in order to ensure that the price and terms of bulk commodities purchased by the Group from Shandong Steel and/or its associates are fair, reasonable and such price and terms are comparable to those offered by independent third parties for similar products. The Group places purchase orders via the e-commerce platform of Shandong Steel and/or its associates, and will refer to the prices offered by independent third parties before placing the orders. The e-commerce platform adopts the principle that transaction of the first order is first concluded based on the price published on the e-commerce platform.

For the purchase of bulk commodities including coke and iron ores by Shandong Steel and/or its associates from the Group, the prices charged by the Group are determined based on arm's length negotiation with Shandong Steel and/or its associates with reference to the comparable price of similar products sold by independent third parties on local markets in accordance with the market fair, in order to ensure that the price and terms for the purchase of bulk commodities by Shandong Steel and/or its associates from Luzheng Trading are fair, reasonable and such price and terms are comparable to those of similar products offered by independent third parties. The Group's sales of bulk commodities such as coke and iron ore follow the market-orientated principle. In other words, the transaction price is finally agreed after negotiation based on the prices published on the transaction date on third-party's information company (such as my steel network at https://www.mysteel.com/) with reference to the market's supply and demand profile.

Historical amounts

For the two years ended 31 December 2017 and 31 December 2018 and the two months ended 28 February 2019, the transaction amounts of bulk commodities including hot rolled wide steel plates purchased by Luzheng Trading from Shandong Steel and/or its associates were approximately RMB0, RMB41,424 thousand and RMB34,065 thousand, respectively. The transaction amounts of purchase of bulk commodities including iron ores from Luzheng Trading or the Company by Shandong Steel and/or its associates were approximately RMB0, RMB11,849 thousand and RMB0 thousand, respectively.

Annual caps

For the three years ending 31 December 2020, 2021 and 2022, the maximum aggregate annual amount of the transaction of sales and purchase of bulk commodities between the Group and Shandong Steel and/or its associates shall not exceed the caps set out below:

	Proposed annual caps for the year ending 31 December *(RMB'000)*		
Year	**2020**	**2021**	**2022**
The amount of purchase of bulk commodities by the Group from Shandong Steel and/or its associates	450,000	495,000	545,000
The amount of purchase of bulk commodities by Shandong Steel and/or its associates from the Group	240,000	264,000	290,000

Basis of annual caps

The proposed annual caps for transactions contemplated under Bulk Commodities Sale and Purchase Framework Agreement are determined with reference to historical amounts and on the basis as follows:

For the purchase of bulk commodities including hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates, (i) the associates of Shandong Steel include Jigang Group, Laiwu Steel Group, Shandong Laigang Yongfeng Iron & Steel Group Co., Ltd., Shandong Iron & Steel Group Rizhao Co., Ltd. and other large steel enterprises in Shandong Province. Shandong Steel and its associates are the major suppliers of the steel market as well as the major consumers of steel raw materials in Shandong Province; (ii) the steel products of Shandong Steel and/or its associates have high recognition in Shandong's market. The Group has already reached preliminary cooperation intentions with several customers who have long-term definite demands for steel products produced by Shandong Steel and/or its associates with further expansion of the Group's market channels, the promotion of our brand on the market and as our marketing team becomes more sophisticated. The demand of such customers is relatively large and stable. In January 2019, Luzheng Trading and Shandong Laigang Yongfeng Iron & Steel Group Co., Ltd., an associate of Shandong Steel signed the 2019 Long-term Contract Annual Procurement Plan in respect of monthly procurement of 3,000 tons of hot rolled wide steel plate, structural steel and other steel products. After half year's sales run-in and with increased market awareness, the quantity is expected to grow to 5,000 tons per month and approximately 50,000 tons a year. Meanwhile, in order to grasp the profit-making opportunities brought about by the seasonal price difference of steel products in northern China, Luzheng Trading intends to make winter reserve purchase in late winter and early spring of each year, and summer reserve purchase in the summer of each year with a quantity of 20,000 tons each time. With an upward adjustment of 10,000 tons taking into consideration of fluctuating factors of daily purchases, the above will total to 100,000 tons. Based on the comparable spot prices of bulk commodities in the current market environment (that is average price of RMB4,500 per ton), the estimated transaction amount of purchase of bulk commodities by the Group from Shandong Steel and/or its associates in 2020 will be approximately RMB450 million; and (iii) as compared with other distributors of Shandong Steel and/or its associates, the Group has the advantage of providing ancillary services such as financing and risk management to downstream customers and hence, downstream customers are more willing to purchase steel produced by Shandong Steel and/or its associates through the Group. Based on above, the Group expects that the purchase of bulk commodities including but not limited to hot rolled wide steel plates by the Group from Shandong Steel and/or its associates will increase year by year within the proposed annual caps above in the next three years.

For the purchase of bulk commodities including coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading, according to the Group's research on futures and commodities industry, the Group has a lower purchase cost as compared with other trading enterprises. Hence, the Group can sell bulk commodities such as iron ores, coking coal and coke at lower prices to Shandong Steel and its associates and to independent third parties. Being large steel production enterprises, Shandong Steel and its associates take into consideration of both parties' prices as well as the stability and continuity of supply when selecting their suppliers. Luzheng Trading has started to sell iron ore, coking coal, coke and other bulk commodities to Shandong Steel and/or its associates in 2018. It is expected that this business will continue in the future. According to both parties' business plan and the Group's communication and negotiation with Shandong Steel, Luzheng Trading will sell 5,000 tons of iron ores, 5,000 tons of coking coal and 5,000 tons of coke to Shandong Steel and/or its associates each month in 2020. Based on the comparable spot prices of bulk commodities in the current market environment of RMB600 per ton, RMB1,300 per ton and RMB2,000 per ton, the monthly total transaction amount of Shandong Steel and/or its associates for purchase of bulk commodities from the Group in 2020 were approximately RMB20 million. As such, the Group prudently estimates that the annualized transaction amount of purchase of bulk commodities by Shandong Steel and/or its associates from the Group in 2020 will be approximately RMB240 million.

For the purpose of predicting the annual caps for the next three years, and after taking into consideration the potential rise in the prices of the abovementioned bulk commodities and the scale effect of related businesses after expansion, the annual growth rate is conservatively assumed at 10%, the transaction amount in respect of the purchase of bulk commodities by the Group from Shandong Steel and/or its associates in 2020, 2021 and 2022 will be approximately RMB450 million, RMB495 million and RMB545 million, and the transaction amount of purchase of bulk commodities by Shandong Steel and/or its associates from the Group in 2020, 2021 and 2022 will be approximately RMB240 million, RMB264 million and RMB290 million.

The Group's bulk purchase of commodities (i.e. proposed annual caps) for the three years ending 31 December 2022 represented approximately (i) 6%, 6% and 7% to the Group's total assets as at 31 December 2018; (ii) 20%, 22% and 25% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such proposed annual caps are not significant to the aforesaid items.

The Group's bulk sales of commodities (i.e. proposed annual caps) for the three years ending 31 December 2022 represented approximately (i) 3%, 3% and 4% to the Group's total assets as at 31 December 2018; (ii) 11%, 12% and 13% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such proposed annual caps are not significant to the aforesaid items.

Implications under the Listing Rules

As at the Latest Practicable Date, Luzheng Trading is a wholly-owned subsidiary of the Company. As Shandong Steel is a connected person of the Company under Chapter 14A of the Listing Rules, the transactions under the Bulk Commodities Sale and Purchase Framework Agreement between the Company and Shandong Steel constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Bulk Commodities Sale and Purchase Framework Agreement between the Company and Shandong Steel exceeds 5% under the Listing Rules, the continuing connected transactions under the Bulk Commodities Sale and Purchase Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Internal Control Procedures and Corporate Governance Measures

The Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of (1) the Financial Services Framework Agreement with Zhongtai Securities; (2) the Asset Management Service Framework Agreement with Shandong Steel; and (3) the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the requirements of the Listing Rules. In order to ensure that the abovementioned continuing connected transactions under the Framework Agreements are fair and reasonable and on normal commercial terms, the Company has adopted the following internal control procedures:

- The Group has formulated a series of measures and policies, including contract policies, project management policies and administration rules of continuing connected transactions in order to ensure that the Company's continuing connected transactions are conducted under such Framework Agreements and the respective pricing policies. These Framework Agreements and the transactions thereunder, in particular the fairness and reasonableness of the pricing terms thereof, would be examined and approved by the audit committee of the Board, the Board and various internal departments of the Company (including but not limited to the finance department and audit department of the Company) to ensure that the terms of the Framework Agreements are in compliance with relevant regulations and guidelines (if applicable) and market practices and would not deviate from the terms of the Framework Agreements disclosed in this circular;

- When determining the actual prices of services provided to the Group by Zhongtai Securities and/or its associates, as well as the products supplied by Shandong Steel and/or its associates, such counterparties will provide the Company with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. In addition, the transactions under the Framework Agreements shall be conducted on a non-exclusive basis. Payments shall be calculated on the aforementioned pricing basis. However, the Group usually seeks quotations or makes enquiries on relevant prices from no less than two other independent third party suppliers providing similar products or services, and makes reference to such pricing and terms offered by independent third parties for similar products or services, to make sure that the prices and terms offered by Zhongtai Securities, Shangdong Steel and/or their respective associates to the Group are fair, reasonable and are no less favorable than those offered by independent third parties;

- When determining the actual prices of services or products provided by the Group to Shandong Steel and/or its associates, the Group will provide Shandong Steel and/or its associates with a proposed price for consideration first. As mentioned above, in order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. In addition, the transactions under the Framework Agreements shall be conducted on a non-exclusive basis. Payments shall be calculated on the aforementioned pricing basis. However, the Group usually makes enquiries on relevant prices to no less than two other independent third party suppliers providing similar services or products, and makes reference to the market rates and the pricing and terms we offered to independent third parties for similar services or products, to make sure that the pricing and terms for the services or products offered by the Group to Shandong Steel and/or its associates are fair, reasonable and are no less favorable than those offered to independent third parties; and

- The audit committee of the Board, the office of the Board and various internal departments of the Company also regularly monitor the fulfillment of the Framework Agreements and the progress of transactions thereunder. In addition, the management of the Company also regularly reviews the pricing policies of the Framework Agreements. The Independent Non-executive Directors conduct annual review of the implementation and execution of the continuing connected transactions (including related pricing mechanisms); the auditors of the Company would conduct assessment and evaluation on the internal control measures of the Company and conduct annual review of the continuing connected transactions under the Framework Agreements pursuant to the requirements of the Listing Rules, in order to confirm that, inter alia, the transactions are conducted in accordance with the pricing policies and relevant transaction agreements.

After taking into consideration of aforementioned pricing policies, the basis of, the reasons for and the benefits of determining proposed annual caps and internal control procedures, the Directors (including Independent Non-executive Directors) are in the opinion that the terms of the transactions contemplated under the Framework Agreements and the proposed annual caps therefor are entered into based on normal commercial terms in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In the meantime, the Company considers that it has adequate mechanisms, internal control procedures and external monitoring measures to ensure that the continuing connected transactions are in strict compliance with relevant regulatory guidelines and the terms of the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement.

The Opinions of the Board

As Chen Fang and Yin Ge are holding office at Zhongtai Securities and/or its associates,and are deemed to be interested in the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement and the transactions thereunder, they have abstained from voting on the resolutions of the Board for the approval of the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement and their proposed annual caps. Save as disclosed above, no other Directors have any material interests in the aforementioned Framework Agreements and none of other Directors are required to abstain from voting on the resolutions of the Board for the consideration and approval of the aforementioned Framework Agreements and their proposed annual caps.

After taking into consideration the pricing policies, the determination basis of the proposed annual caps, the reasons for and benefits of continuing connected transactions and the internal control procedures of the Company, the Directors, including Independent Non-executive Directors, are of the view that the terms of the transactions contemplated under the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement and the proposed annual caps thereof are entered into on normal commercial terms in the Group's ordinary and usual course of business, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors believe that the Group's purchase of the asset management schemes in which Zhongtai Securities and/or its associates act as the manager, Shandong Steel and/or its associates' purchase of the asset management schemes in which the Group acts as the manager, and the Group's purchase or sale of bulk commodities from or to Shandong Steel and/or its associates will not give rise to the Group's reliance on its Controlling Shareholders. Reasons are set out as follows:

For the Group's purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager, the daily maximum investment amount and asset management fee are not included in the revenue, and only the income generated by the relevant investment activities is included in the revenue of the Group. The asset management schemes purchased by the Group in which Zhongtai Securities and/or its associates act as the manager are safe products and exposed to low investment risks. They are mainly invested in low-risk short-term financial instruments and medium and long-term financial instruments such as cash, bank deposits, large-amount transferable time deposit certificates, repurchase of securities, reverse repurchase of securities, and bonds with a remaining maturity of three years or less (inclusive of three years). In addition, the asset management schemes purchased by the Group in which Zhongtai Securities and/or its associates act as the manager have a short closed period, which enables the Group to control risks. According to past facts, the annualized yield of the above asset management schemes is around 3.5%. Assuming that the Group purchases the asset management schemes in which Zhongtai Securities and/or its associates act as the manager according to the highest proposed annual cap (i.e. RMB250,000 thousand) per day, the annual revenue generated will amount to approximately RMB8,750 thousand (accounting for approximately 2.1% of the Group's revenue in 2018), and thus does not have a material impact on the Group's revenue. In addition, currently there are tens of thousands of asset management entities in Mainland China who can provide asset management schemes service, such as banks, asset management companies, private equity companies, publicly offered fund companies, trust companies, etc. The Group has sufficient choices for its treasury functions, and in practice, the Group also often invests its own funds in the asset management schemes in which an independent third party acts as the manager. Therefore, the Group's purchase of the asset management schemes in which Zhongtai Securities and/or its associates act as the manager will not give rise to the Group's reliance on its Controlling Shareholders.

For Shandong Steel and/or its associates' purchase of asset management schemes in which the Group acts as the manager, the maximum daily investment amount is not included in the revenue the Group, and only the asset management fee is included in the revenue the Group. Even if Shandong Steel and/or its associates purchase the asset management schemes in which the Group acts as the manager according to the maximum proposed annual cap, the expected asset management fee to be generated only amounts to RMB3,000 thousand (accounting for approximately 0.7% of the Group's revenue in 2018), and does not have a material impact on the Group's revenue. According to the existing business plans, it is expected that the scale of the asset management schemes of the Group issued in 2020, 2021, 2022 will be RMB200,000 thousand, RMB500,000 thousand and RMB1,000,000 thousand, respectively, and assuming that Shandong Steel and/or its associates purchase such asset management schemes according to the maximum proposed annual cap each year, such transaction will account for 25%, 20%, and 20%, respectively. In January 2013, the Group began to engage in asset management business. The asset management schemes in which the Group acts as managers have brought about solid income to its customers and have been recognized by the market. In the past, Shandong Steel and/or its associates have never purchased the asset management schemes in which the Group acted as the manager, but as of 31 December 2018, the total amount of Group's asset management schemes in issue was RMB6,394,000 thousand. The successful issuance of the above asset management schemes was mainly due to the large number of loyal independent third-party customers of the Group. Therefore, the Shandong Steel and/or its associates' purchase of the asset management schemes in which the Group acts as the manager will not give rise to the Group's reliance on its Controlling Shareholders.

For the Group's purchase and sale of bulk commodities from and to Shandong Steel and/or its associates, under the IFRSs, the Group's sales proceeds and costs of purchases of physical commodities are included in the Group's revenue on a net basis. According to the Group's 2018 Independent Auditor's Report, the Group's sales proceeds and costs of purchases of physical commodities were RMB711,853 thousand and RMB708,760 thousand in 2018, respectively, and RMB1,040,961 thousand and RMB1,033,013 thousand in 2017, respectively. In the above two years, the gains on physical commodities trading included in the Group's revenue were RMB3,093 thousand and RMB7,948 thousand, respectively, and the profit margins (gains on physical commodities trading/costs of purchases of physical commodities) were 0.44% and 0.77%, respectively. Assuming that the Group purchases bulk commodities from Shandong Steel in accordance with the highest proposed annual cap (i.e. the purchase cost is RMB545,000 thousand), and based on the foregoing average profit margin of 0.61%, the estimated gains on physical commodities are approximately RMB3,325 thousand (accounting for approximately 0.7% of the Group's revenue in 2018), and does not has a material impact on the Group's revenue. In 2018, the Group's purchase and sale of bulk commodities from and to Shandong Steel and/or its associates were RMB41,424 thousand and RMB11,849 thousand, respectively, accounting for 4.01% and 1.14% of the Group's costs of purchases and sales proceeds of physical commodities of the respective years. In 2017, the Group's purchase and sale of bulk commodities from and to Shandong Steel and/or its associates were RMB0 thousand and RMB0 thousand, respectively, accounting for 0% and 0% of the Group's costs of purchases and sales proceeds of physical commodities of the respective years. However, due to the stable and substantial independent third-party procurement and sales channels of the Group, the Group's physical commodity trading business has developed steadily in the past years and has now formed a relatively mature profit model. In the future, the Company intends to further expand the relevant scale. From January to April 2019, the Group's purchase and sale of bulk commodities amounted to approximately RMB294,000 thousand and RMB473,000 thousand (unaudited), respectively. According to the business plan, it is estimated that the Group's purchase and sale of bulk commodities will be approximately RMB1,500,000 thousand and RMB1,400,000 thousand for the whole year of 2019, and will increase at a rate of 20% each year. In 2020, the Group's purchase and sale of bulk commodities will be RMB1,800,000 thousand and RMB1,680,000 thousand and the highest proposed caps will account for approximately 25% and 14.29% respectively of such amounts; in 2021, the Group's purchase and sale of bulk commodities will be RMB2,160,000 thousand and RMB2,016,000 thousand respectively, and the highest proposed caps will account for approximately 22.91% and 13.10% respectively of such amounts; in 2022, the Group's purchase and sale of bulk commodities will be RMB2,592,000 thousand and RMB2,419,000 thousand, respectively, and and the highest proposed caps will account for approximately 21.03% and 11.99% of such amounts, respectively. Therefore, the Group's purchase and sale of bulk commodities from and to Shandong Steel and/or its associates will not give rise to the Group's reliance on its Controlling Shareholders.

Independent Board Committee

The Independent Board Committee (comprised of all Independent Non-executive Directors, namely Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng) has been established to advise the Independent Shareholders in respect of the Financial Services Framework Agreement, the Asset Management Services Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps.

The Company has appointed Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in respect of the aforesaid matters.

Information about the transaction parties

(1) Information about the Company and Luzheng Trading

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

Luzheng Trading, a wholly-owned subsidiary of the Company, is principally engaged in commodity trading, import and export business, technical consulting, investment advice and other businesses.

(2) Information about Zhongtai Securities

Zhongtai Securities was incorporated in the PRC in May 2001 and holds approximately 63.10% equity interest in the entire issued share capital of the Company. It is principally engaged in securities brokerage, securities investment consultancy, financing advice related to securities trading and securities investment activities, securities underwriting and sponsoring, equity proprietary trading, margin financing, distribution of securities investment funds, distribution of financial products, providing IB services to futures companies and other businesses.

(3) Information about Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008, and is principally engaged in smelting, processing and sales of ferrous metal. Shandong Steel holds an 80% equity interest in Laiwu Steel. Shandong Steel is the Controlling Shareholder of the Company.

(4) Information about Laiwu Steel

Laiwu Steel was incorporated in the PRC on 6 May 1999, and is principally engaged in smelting, processing and sales of ferrous metal. Laiwu Steel holds approximately 45.91% equity interest in Zhongtai Securities, the Controlling Shareholder of the Company, and is the largest shareholder of Zhongtai Securities.

9. Proposal on the General Mandate to Issue Domestic and Overseas Bond Financing Instruments

In order to satisfy the operation needs of the Company and to lower its financing costs, the Board has proposed to the 2018 AGM to grant an unconditional general mandate by way of a special resolution to the Board and seek further approval for the Board's further delegation of the aforesaid mandate to the chairman of the Board and/or other authorized person of the Board to issue one or a portfolio of RMB domestic and overseas bond financing instruments in one or multiple tranches based on the prevailing market conditions and the funding needs of the Company. The aggregate principal amount the abovementioned bonds to be repaid of shall not exceed RMB1 billion. Please refer to Appendix III for further details of the issue plan and mandates.

The aforesaid resolution has been approved by the Board and is hereby proposed at the AGM for review and approval. Specific details of the issuance of domestic and overseas bond financing instrument is set out in Appendix III of this circular.

10. Proposal on the General Mandate to Issue Domestic Shares and H Shares

The Board proposed to the 2018 AGM to grant an unconditional general mandate by way of a special resolution to the Board and seek to obtain further approval for the Board's further delegation of the aforesaid mandate to the chairman of the Board and/or other authorized person of the Board to issue, allot and deal with, either separately or concurrently, Domestic Shares and H Shares of the Company not exceeding 20% of each of the number of Domestic Shares and/or the number of H Shares in issue at the date of this resolution being considered and approved at the 2018 AGM. As at the Latest Practicable Date, the Company has 724,810,000 Domestic Shares and 277,090,000 H Shares in issue. Subject to the passing of the proposed resolution granting the general mandate and on the basis that no further Shares will be issued after the Latest Practicable Date and prior to the AGM, the Company will be allowed to issue a maximum of 144,962,000 Domestic Shares and 55,418,000 H Shares under the general mandate.

The specific details of authorisation (including but not limited to the following):

(1) to formulate and implement detailed issuance plan, including but not limited to the class of new shares to be issued, pricing mechanism and/or issuance price (including price range and the final price), number of shares to be issued, allottees and use of proceeds, deciding the time of issuance, period of issuance and whether to place shares to existing Shareholders;

(2) to review and approve and execute, on behalf of the Company, agreements relating to share issuance, including but not limited to the underwriting agreement under the placing and agreements for engaging intermediaries;

(3) to review and approve and execute, on behalf of the Company, statutory documents relating to share issuance for submission to regulatory authorities, and to obtain approvals required by regulatory authorities and the place in which the Company is listed;

(4) to amend, as required by regulatory authorities within or outside the PRC, agreements and statutory documents referred to in (2) and (3) above;

(5) to decide to affix the seal of the Company on the agreements and statutory documents relating to the proposed issuance;

(6) to engage the services of intermediaries for share issuance, and to approve and execute all acts, deeds, documents and other matters necessary, appropriate, advisable for or in connection with share issuance; and

(7) to approve the manners related with the increase of the registered capital of the Company after new share issuance, and to make corresponding amendments to the Articles of Association of the Company relating to share capital and shareholdings of the Company etc., and to carry out statutory registrations and filings within and outside the PRC.

Except that the Board may enter into or grant offers, agreements, or options during the Relevant Period in relation to the issuance of Domestic Shares and/or H Shares, which might require further promotion or implementation after the end of the Relevant Period, the exercise of the mandate referred to above shall not exceed the Relevant Period. "Relevant Period" means the period from the passing of this resolution as a special resolution at the 2018 AGM until whichever is the earliest of: (a) the conclusion of the 2019 annual general meeting of the Company; (b) the expiry of the 12-month period following the passing of this resolution as a special resolution at the 2018 AGM; (c) the revocation or variation of the authority given to the Board under this resolution by the Shareholders by way of a special resolution at a general meeting.

ANNUAL GENERAL MEETING

A notice convening the AGM to be held at 9:30 a.m. on Thursday, 20 June 2019 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC is set out on pages 72 to 74 of this circular.

All the resolutions proposed at the AGM will be taken by poll. Zhongtai Securities, a Controlling Shareholder holding approximately 63.10% of the total issued share capital of the Company as at the Latest Practicable Date, had material interest in the Financial Services Framework and the transactions contemplated thereunder. Accordingly, Zhongtai Securities will abstain from voting on the resolution in relation to the Financial Services Framework Agreement and their respective proposed annual caps at the AGM. The number of shares held by Zhongtai Securities who is required to abstain from voting amounted to 632,176,078 Shares. Shandong Steel, who holds 80% shares of Laiwu Steel, the largest shareholder of Zhongtai Securities, a Controlling Shareholder of the Company as at the Latest Practicable Date, had material interest in the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and the transactions contemplated thereunder. Accordingly, Zhongtai Securities will abstain from voting on the resolutions in relation to the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps at the AGM. The number of shares held by Zhongtai Securities who is required to abstain from voting amounted to 632,176,078 Shares. Save as disclosed herein, no other Shareholder, to the knowledge and belief of the Directors having made all reasonable enquiries, will be required to abstain from voting at the AGM on relevant resolutions as at the Latest Practicable Date.

A reply slip and a form of proxy for use at the AGM are also enclosed herein and published on the HKEXnews website of Hong Kong Stock Exchange (www.hkexnews.com.hk) and the website of the Company (www.luzhengqh.com). Shareholders who intend to appoint a proxy to attend the AGM shall complete, sign and return the appropriate form of proxy in accordance with the instructions printed thereon.

For holders of H Shares, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no less than 24 hours (i.e., before 9:30 a.m. on Wednesday, 19 June 2019) before the time appointed for holding the AGM in order for such documents to be valid. For holders of Domestic Shares, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to the Board's office of the Company in the PRC at Room 1613, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC, not less than 24 hours before the time appointed for holding the AGM (i.e., before 9:30 a.m. on Wednesday, 19 June 2019) in order for such documents to be valid. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM, or any adjournment thereof should you so wish.

Pursuant to the Articles of Association, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM, the register of members of H Shares will be closed from Tuesday, 21 May 2019 to Thursday, 20 June 2019 (both days inclusive), during which period no transfer of H Shares will be registered. Shareholders whose names appear on the register of members of the Company on Thursday, 20 June 2019 are entitled to attend and vote at the AGM.

In order to be eligible to attend the AGM, all transfer documents shall be lodged to Computershare Hong Kong Investor Services Limited, the Company's H share registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by the holders of H Shares, not later than 4:30 p.m. Monday, 20 May 2019.

RECOMMENDATION

The Directors believe that the resolutions to be proposed at the AGM are all in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the AGM.

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

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)

29 May 2019

To the Independent Shareholders

Dear Sir or Madam,

FINANCIAL SERVICES FRAMEWORK AGREEMENT
ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT
BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps are fair and reasonable, details of which are set out in the "Letter from the Board" in the circular dated 29 May 2019 (the "**Circular**") to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps as set out in the "Letter From Gram Capital" in the Circular. Having taken into account the advice of Gram Capital, we are of the view that the terms of the transactions contemplated under the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps have been entered into in the Group's ordinary and usual course of business and on normal commercial terms, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps at the AGM.

Yours faithfully,
for and on behalf of the Independent Board Committee

Gao Zhu	**Yu Xuehui**	**Wang Chuanshun**	**Li Dapeng**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*	*Independent Non-executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

29 May 2019

To: The independent board committee and the independent shareholders of LUZHENG FUTURES Company Limited

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Financial Services Framework Agreement and transactions contemplated thereunder; (ii) the Asset Management Service Framework Agreement and transactions contemplated thereunder; and (iii) the Bulk Commodities Sale and Purchase Framework Agreement and transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 29 May 2019 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

A. Financial Services Framework Agreement

As the corresponding annual caps under the Former Financial Services Framework Agreement will expire on 31 December 2020 and the Group will continue to conduct certain transactions under the Former Financial Services Framework Agreement after 31 December 2020, and the Company intends to adjust the caps for securities brokerage and other financial service, and accept the 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 the agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, mainly including the provision of IB services, asset management schemes, securities brokerage and other financial services, and OTC option introduction services. The term of the Financial Services Framework Agreement is three years with effect from being approved at the AGM and will expire on 31 December 2021.

B. Asset Management Service Framework Agreement

As the corresponding annual caps under the Former Asset Management Service Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct continuing connected transactions under the Former Asset Management Service Framework Agreement and to sell asset management schemes to Shandong Steel and/or its associates after 31 December 2019, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours), pursuant to which, the Group will invest in financial products of various scopes with the collective asset management schemes and Shandong Steel and/or its associates would pay asset management fees to the Group. The term of the Asset Management Service Framework is three years, valid from 1 January 2020 to 31 December 2022.

C. 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 that Luzheng Trading, a wholly-owned subsidiary of the Company will purchase bulk commodities, including hot rolled wide steel plates from Shandong Steel and/or its associates, and Shandong Steel and/or its associates may purchase bulk commodities, including coke and iron ores from Luzheng Trading, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours), pursuant to which, the Company and/or its associates would purchase bulk commodities, including hot rolled wide steel plates from Shandong Steel and/or its associates, and Shandong Steel and/or its associates would purchase bulk commodities, including coke and iron ores from Luzheng Trading in their ordinary and usual courses of business. The term of the Bulk Commodities Sale and Purchase Framework Agreement is three years, valid from 1 January 2020 to 31 December 2022.

With reference to the Board Letter, transactions under the Framework Agreements constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng has been established to advise the Independent Shareholders on (i) whether the Framework Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated under the Framework Agreements are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Framework Agreements and transactions contemplated thereunder at the AGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and/or management(s) of the Company (the "**Management(s)**"). We have assumed that all information and representations that have been provided by the Directors and/or the Managements, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and/or the Managements in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Managements and/or the Directors, which have been provided to us. Our opinion is based on the Directors' and/or the Managements' representation and confirmation that there are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Framework Agreements. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Zhongtai Securities, Shandong Steel, Laiwu Steel and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of Framework Agreements. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Framework Agreements, we have taken into consideration the following principal factors and reasons:

Information on the Company

With reference to the Board Letter, the Company is principally engaged in commodity futures brokerage, financial futures brokerage, futures asset management and futures investment consultancy.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2018 as extracted from the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**"):

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change from 2017 to 2018
	RMB'000	*RMB'000*	*%*
Operating income	423,148	465,865	(9.17)
Profit attributable to Shareholders of the Company	117,719	158,631	(25.79)

As depicted from the table above, the Group recorded operating income of approximately RMB423.15 million for the year ended 31 December 2018 ("**FY2018**"), representing a year-on-year decrease of approximately 9.17% as compared to RMB465.87 million for the year ended 31 December 2017 ("**FY2017**"). Profit attributable to Shareholders of the Company amounted to RMB117.72 million for FY2018, representing a year-on-year decrease of approximately 25.79% as compared to RMB158.63 million for FY2017.

With reference to the 2018 Annual Report, due to the intensified competition, as well as the unobvious synergy effects of innovative business and brokerage business, income from brokerage business of the Group declined, resulting in a decrease in net profits.

With reference to the 2018 Annual Report, in 2019, the Group will still act in line with the market development trend and laws of industry development. Taking into account its characteristics, the Group has the following overall plans and development priorities: strengthening concept of compliance and risk control to firmly act within the red line of compliance and the bottom line of risks; further develop brokerage business to improve brokerage business competitiveness; adapting to the new circumstances and new requirements with respect to the asset management regulation by adhering to the essential functions of asset management business and leveraging on advantages and characteristics of the Group's futures asset management; expanding businesses of risk management subsidiary while centering on serving the real economy; intensifying information system development to improve technical security; and promoting the integration of Party building and operation while improving the Party's work style and building clean governance.

Information on Zhongtai Securities

Zhongtai Securities was incorporated in the PRC in May 2001 and holds approximately 63.10% equity interest in the entire issued share capital of the Company. It is principally engaged in securities brokerage, securities investment consultancy, financial advice related to securities trading and securities investment activities, securities underwriting and sponsoring, equity proprietary trading, margin financing, distribution of securities investment funds, distribution of financial products, providing IB services to futures companies and other businesses.

Information on Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008, and is principally engaged in smelting, processing and sales of ferrous metal. Shandong Steel holds an 80% equity interest in Laiwu Steel. Shandong Steel is the Controlling Shareholder of the Company.

Information on Laiwu Steel

Laiwu Steel was incorporated in the PRC on 6 May 1999, and is principally engaged in smelting, processing and sales of ferrous metal. Laiwu Steel holds approximately 45.91% equity interest in Zhongtai Securities, the Controlling Shareholder of the Company, and is the largest shareholder of Zhongtai Securities.

Reasons for and benefits of entering into the Framework Agreements

Detailed reasons for and benefits of entering into the Framework Agreements are set out under sub-sections headed "Reasons for and benefits of the transactions" under sections headed "Proposal on the Financial Services Framework Agreement with Zhongtai Securities", "Proposal on the Asset Management Service Framework Agreement with Shandong Steel" and "Proposal on the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel" of the Board Letter respectively.

As confirmed by the Directors, as the transactions contemplated under the Framework Agreements have been entered into in the ordinary and usual course of business of the Group and on a frequent and regular basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the transactions contemplated under the Framework Agreements will be beneficial to the Company and the Shareholders as a whole.

Having considered the above, we concur with the view of the Directors that transactions contemplated under the Framework Agreements are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

With reference to the Board Letter, the Directors believe that (i) the Group's purchase of the asset management schemes in which Zhongtai Securities and/or its associates act as the manager; (ii) Shandong Steel and/or its associates' purchase of the asset management schemes in which the Group acts as the manager; and (iii) the Group's purchase or sale of bulk commodities from or to Shandong Steel and/or its associates (together with (i) and (ii), the "**Three Transactions**") will not give rise to the Group's reliance on its Controlling Shareholders. Details of the Directors' views are set out in the Board Letter.

To assess if the Three Transactions will give rise to the Group's reliance on its Controlling Shareholders, we conducted following analyses:

(i) According to《私募基金管理人登記及私募基金產品備案月報(2019年第3期)》(Private Equity Fund Registrar Registration and Private Equity Fund Product Filing Monthly Report (No. 3, 2019)*) published by Asset Management Association of China (the "**AM Association**"), as at the end of March 2019, there were 24,361 registered private fund managers of the AM Association and 75,348 registered private funds of the AM Association. According to the AM Association, there were also 5,818 mutual funds in the PRC as at the end of March 2019. As such, the Group may choose asset management service providers at its discretion (subject to pricing terms).

According to the Company's audited financial information for the year ended 31 December 2018, the Group's total assets and net asset attributable to Shareholders as at 31 December 2018 were approximately RMB7.9 billion and RMB2.2 billion respectively. The highest daily amount invested for purchase of asset management schemes from Zhongtai Securities and/or its associates by the Group (i.e. the proposed annual caps) for the three years ending 31 December 2021 represented approximately (i) 3%, 3% and 3% to the Group's total assets as at 31 December 2018; and (ii) 9%, 10% and 11% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such highest daily investments are not significant to the aforesaid items.

(ii) Pursuant to the Asset Management Service Framework Agreement, Shandong Steel and/or its associates shall pay Assets Management Fees to the Group. The maximum assets management fees generated from the Asset Management Service Framework Agreement (i.e. proposed annual caps thereunder) for the three years ending 31 December 2022 represented approximately 0.2%, 0.4% and 0.7% to the Group's operating income for the year ended 31 December 2018. As such, the maximum assets management fees to be generated from the Asset Management Service Framework Agreement were insignificant to the Group's operating income.

The highest daily amount invested for purchase of collective asset management schemes from the Company by Shandong Steel and/or its associates (i.e. the proposed annual caps) for the three years ending 31 December 2021 represented approximately (i) 1%, 1% and 3% to the Group's total assets as at 31 December 2018; and (ii) 2%, 5% and 9% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such highest daily investments are not significant to the aforesaid items.

(iii) In respect of the bulk purchase of commodities, the Group places purchase orders via the e-commerce platform of Shandong Steel and/or its associates, and will refer to the prices offered by independent third parties before placing the orders. The e-commerce platform adopts the principle that transaction of the first order is first concluded based on the price published on the e-commerce platform. The sellers will take orders via the e-commerce platform. As such, the Group may choose products at its discretion (subject to pricing terms).

In addition, according to the 2018 Annual Report, gains on physical commodities trading (being the net of sales proceeds and costs of purchases) were approximately RMB3.1 million and RMB7.9 million for 2018 and 2017 respectively. Such item was one part of the operating income. Those represented approximately 0.7% and 1.7% to the Group's operating income for 2018 and 2017 respectively.

Based on the historical figures of gains on physical commodities trading, it represented approximately 0.44% and 0.77% respectively to costs of purchases for 2018 and 2017 respectively, with an average of approximately 0.6%.

For illustration purposes only, the implied proposed gains on physical commodities (which would be recognised as part of operating income) for the three years ending 31 December 2022 would be RMB2.7 million, RMB2.97 million and RMB3.27 million (calculated by the proposed annual caps regarding purchase of bulk commodities by the Group from Shandong Steel and/or its associates X the average of 0.6%). The aforesaid implied proposed gains on physical commodities for the three years ending 31 December 2022 represented approximately 0.6%, 0.7% and 0.8% to the Group's operating income for 2018.

Historically, the Group's purchases of physical commodities from its Controlling Shareholders, represented nil and approximately 5.8% to the costs of purchase for 2017 and 2018 respectively.

The Group's bulk purchase of commodities (i.e. proposed annual caps) for the three years ending 31 December 2022 represented approximately (i) 6%, 6% and 7% to the Group's total assets as at 31 December 2018; (ii) 20%, 22% and 25% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such proposed annual caps are not significant to the aforesaid items.

(iv) In respect of the bulk sales of commodities, based on the historical figures of gains on physical commodities trading, it represented approximately 0.43% and 0.76% respectively to sales proceeds for 2018 and 2017 respectively, with an average of approximately 0.6%.

For illustration purposes only, the implied proposed gains on physical commodities (which would be recognised as part of operating income) for the three years ending 31 December 2022 would be RMB1.44 million, RMB1.58 million and RMB1.74 million (calculated by the proposed annual caps regarding sales of bulk commodities by the Group from Shandong Steel and/or its associates X the average of 0.6%). The aforesaid implied proposed gains on physical commodities for the three years ending 31 December 2022 represented approximately 0.3%, 0.4% and 0.4% to the Group's operating income for 2018.

Historically, the Group's bulk sales of commodities to its Controlling Shareholders represented nil and approximately 1.7% to the sales proceeds for 2017 and 2018 respectively.

The Group's bulk sales of commodities (i.e. proposed annual caps) for the three years ending 31 December 2022 represented approximately (i) 3%, 3% and 4% to the Group's total assets as at 31 December 2018; (ii) 11%, 12% and 13% to the Group's net asset value attributable to Shareholders as at 31 December 2018. Such proposed annual caps are not significant to the aforesaid items.

Having considered the above analyses and following factors, including:

(i) the daily maximum investment amount under transactions regarding (a) the Group's purchase; or (b) Shandong Steel and/or its associates' purchase of asset management schemes in which (a) Zhongtai Securities and/or its associates act as; or (b) the Group act as the manager does not mean such maximum investment amount would be the same/similar amount to the Group's operating income/expenses;

(ii) under the IFRSs, the Group's sales proceeds and costs of purchases of physical commodities are included in the Group's revenue on a net basis. As such, the purchase/sale of bulk commodities by the Group from/to Shandong Steel and/or its associates does not indicate the Group's operating income/operating expenses directly,

we consider that it is unlikely that the Three Transactions would make the Group heavily rely on its Controlling Shareholders.

A. FINANCIAL SERVICES FRAMEWORK AGREEMENT

Principal terms of the Financial Services Framework Agreements

Date:	26 April 2019
Parties:	Zhongtai Securities and the Company
Principal terms:	*Acceptance of IB services provided by Zhongtai Securities and/or its associates*

In the Company's ordinary and usual course of business, Zhongtai Securities and/or its associates provide IB services to the Company and introduces potential clients to the Company for the engagement of the Company's futures brokerage businesses. In addition, Zhongtai Securities and/or its associates will also provide the following services to such clients introduced to the Company: (i) assisting such clients in opening accounts; (ii) providing latest market information about futures, option and other derivative markets as well as trading facilities to such clients; (iii) assisting such clients in risk control and management; and (iv) other related financial services. Zhongtai Securities and/or its associates will charge the Company commissions for the provision of such IB services.

Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager

The Group purchase asset management schemes, in which Zhongtai Securities and/or its associates act as the manager in the Group's ordinary and usual course of business. 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 Group will pay management fees, subscription fees and redemption fees (as the case may be) to Zhongtai Securities and/or its associates.

Acceptance of Securities brokerage and other financial services provided by Zhongtai Securities and/or its associates

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

Acceptance of OTC option introduction services provided by Zhongtai Securities and/or its associates

In recent years, the Company'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 company in Shandong Province, Zhongtai Securities trades OTC derivatives with its clients. However, Zhongtai Securities' OTC derivatives business mainly focuses on stock index, ETFs and stocks. Therefore, Zhongtai Securities will introduce customers engaged in trading of commodity OTC derivatives to the Company, and at the same time, based on the restricted trading ability of Zhongtai Securities itself, it also needs to introduce certain customers trading equity OTC derivatives to the Company. Zhongtai Securities and/or its associates charge an introduction fee on the Company for such services.

Pricing terms

Acceptance of IB services provided by Zhongtai Securities and/or its associates

With reference to the Board Letter, the Commission Split of 60% has been determined based on arm's-length negotiation between Zhongtai Securities and the Company with reference to the prevailing market commission rates for IB businesses and on normal commercial terms, and is consistent with market practice. As advised by the Management, the commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company were 40% for the period from March 2011 to June 2014, and 60% for the period from July 2014 up to the Latest Practical Date. The Group proposed to maintain the Commission Split of 60%.

We understood from the Company, before determining the Commission Split, the Company conducted research with other securities companies which provided IB services to their related futures companies. Based on the research, the commission charged by these securities companies for the provision of IB services ranged from 50% to 100% of the commission revenue generated from the clients introduced by them to respective futures companies. We obtained the results of aforesaid research.

We noted from《證券公司為期貨公司提供中間介紹業務試行辦法》(Promulgating the trial measures for the provision of intermediary introduction business to futures companies by securities companies*) issued by CSRC, a securities company can only apply for introduction business qualifications to provide IB services for futures company which is its wholly-owned subsidiary, or is a subsidiary with controlling interest being held by it, or is fellow subsidiary of the same holding company. In this regard, there is no corresponding acceptance of IB services nor IB agreement between the Group and independent third parties. As confirmed by the Management, Zhongtai and/or its associate also did not provide IB services to other independent third parties.

Having considered that the results of Company's research as mentioned above and that Zhongtai and/or its associate also did not provide IB services to other independent third parties, we consider that pricing terms of acceptance of IB services under the Financial Services Framework Agreement with Zhongtai Securities are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager

With reference to the Board Letter, Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager in the asset management schemes are calculated by multiplying the Group's investment amounts with the Asset Management Fees rate, which was approximately 1.5%, with reference to the Company's similar transactions with independent third parties in the past.

For collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management schemes is applicable to all investors participating in such plans equally and evenly, including the Group and any other independent third party investor participants. Such Asset Management Fees rate is also comparable to the prevailing market rate for collective asset management schemes issued by any other independent third parties with similar size of investment.

For targeted asset management schemes, (a) the Asset Management Fees rate charged by Zhongtai Securities and/or its associates as the manager on the Group is comparable to, or no less favorable than, those charged by Zhongtai Securities and/or its associates on 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 by any other independent third party managers on the Group for 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 negotiation between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rates for similar targeted management schemes, on normal commercial terms, and is consistent with market practice.

For our due diligence purpose, we obtained collective asset management scheme contracts comprised (i) all six collective asset management schemes entered into by the Group with Zhongtai Securities, who acted as the manager; and (ii) all two collective asset management schemes entered into by the Group and independent third parties (who acted as the managers) since 2018. We consider that the samples are sufficient and representative.

We noted from such contracts that (i) key terms (such as the scope of investment, the risk profile, the method of join and quit the scheme, the fees payable by the scheme, the performance fee (if any) including the calculation formula, and allocation principle, and asset management fees) offered to the Group are stated in those contracts; and (ii) the Asset Management Fees rate is no less favourable than the asset management fees as offered by the independent third parties. As also confirmed by the Management, to the best of their knowledge, terms offered by Zhongtai Securities and/or its associates to independent third party investor participants are applicable to all investors participating in such plans equally and evenly.

As advised by the Management, the Group did not purchase targeted asset management schemes in which Zhongtai Securities and/or its associates act as the manager. Nevertheless, as confirmed by the Management, the Asset Management Fees rate charged by Zhongtai Securities and/or its associates as the manager on the Group will be no less favorable than those charged by Zhongtai Securities and/or its associates on any other independent third parties for similar targeted asset management.

Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates

With reference to the Board Letter, 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 negotiation between Zhongtai Securities and/or its associates and the Group with reference to the prevailing market commission rate for similar business, and is consistent with the market practice. The average commission rate of the stock brokerage business is 0.03% (each transaction conducted will be charged a minimum commission fee of RMB5, and when the commission fee exceeds RMB5 through calculation by transaction amount times 0.03% of commission rate, the transaction will be charged at the commission rate of 0.03%). Different commission rates are applied to the bond brokerage business provided to the Group by Zhongtai Securities and/or its associates range from 0.001% to 0.03%, depending on different types of bonds (such as reverse repo of bonds with the term of one day or over 28 days). Such commission rates are also applied to independent third parties.

With reference to the Board Letter, the commissions charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to the Group is comparable to, or no less favorable than, average commission rates on the market, and the corresponding commission rates are also within the range specified by respective stock exchanges of China, namely Shanghai Stock Exchange and Shenzhen Stock Exchange.

For our due diligence purpose, we searched over internet to understand commissions charged by other securities broker and noted that commissions charged by Zhongtai Securities and/or its associate for provision of securities brokerage are comparable to the market practice. We also found that the maximum commission rate specified by Shanghai Stock Exchange and Shenzhen Stock Exchange was 0.3%.

Acceptance of OTC option introduction services provided by Zhongtai Securities and/or its associates

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

With reference to the Board Letter, the Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of the Financial Services Framework Agreement with Zhongtai Securities to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the requirements of the Listing Rules. In order to ensure that the abovementioned continuing connected transactions are fair and reasonable and on normal commercial terms, the Company has adopted the internal control procedures. Details of the internal control procedures are set out under the section headed "Internal Control Procedures and Corporate Governance Measures" of the Board Letter. We consider that the effectiveness of the implementation of the internal procedures would ensure the fair pricing under the Financial Services Framework Agreements.

Proposed annual caps

a. Acceptance of IB services provided by Zhongtai Securities and/or its associates

Set out below are (i) the historical transaction amounts of IB services for the three years ended 31 December 2018 with existing annual caps; and (ii) proposed annual caps of IB services for the three years ending 31 December 2021:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amounts	8,162	7,670	6,081
Existing annual caps	27,000	32,000	28,000
Utilisation rate	*30.2%*	*24.0%*	*21.7%*

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	20,600	28,900	40,500

Details of the basis of the proposed annual caps for acceptance of IB services provided by Zhongtai Securities and/or its associates under Financial Services Framework Agreement for the three years ending 31 December 2021 are set out in the Board Letter.

We noted that the historical utilisation of exiting annual caps for the three years ended 31 December 2018 were low. As advised by the Management, in the second half of 2015, Chinese stock market experienced significant fluctuations. China Financial Futures Exchange exercised strict control over stock index futures transactions by significantly increasing margin deposits and handling fees for liquidation of positions and decreasing the daily quantity of new futures contracts, which dramatically reduced the scale of IB business provided to the Company by Zhongtai Securities and/or its associates.

We noted that in determining the proposed annual caps, the Management considered, among other things, the Group's commission derived from clients introduced by Zhongtai Securities and/or its associates for the three years ended 31 December 2015. We enquired into the Company in this regard. The Management advised us that it would be inappropriate to determine the proposed annual caps for acceptance of IB services with reference to the historical transaction amounts for the three years ended 31 December 2018 as (i) stock index markets having been curbed by the Chinese government since September 2015; (ii) the stock index market in each of the three years ended 31 December 2018 were much worse than that in 2015; and (iii) it was expected that stock index futures market will gradually recovered in the future.

For our due diligence purpose, we searched over internet and noted from a news release published on The State Council of the PRC dated 3 September 2015 that in order to curb excessive speculation in the market and promote the smooth operation of the stock index futures market, China Financial Futures Exchange announced a series of control measures relating to stock index futures: (i) increasing the margin requirements of each of stock index futures; (ii) increasing the commission rate for closing stock index futures; (iii) lowering the intraday opening balance limit; (iv) strengthening the management of inactive accounts in the stock index futures market.

We also noted that according to the China Futures Association, the total trading turnover on China Financial Futures Exchange (中國金融期貨交易所) decreased from approximately RMB417,760.5 billion in 2015 to RMB18,219.1 billion in 2016, representing a decrease of 95.6% on a year-to-year basis (2017 and 2018: approximately RMB24,599.2 billion and RMB26,122.3 billion). Due to the abnormal trading turnover in stock index futures market since 2015, we consider that the utilisation rate for the three years ended 31 December 2018 would not serve as a meaningful reference for determining the proposed annual caps of IB services for the three years ending 31 December 2021.

We further noted from a news release dated 23 July 2018 by Reuters that Mr. Fang Xinghai, vice chairman of the CSRC, expressed that trading of stock index futures is about to return to normal.

Based on the above, the Management considered that the Group will be able to cater for the potential business needs by making reference to the average of the commission derived from clients introduced by Zhongtai Securities and/or its associates for the three years ended 31 December 2015, details of which are set out as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2014	For the year ended 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Commission derived from clients introduced by Zhongtai Securities and/or its associates (before commission split)	23,000	22,800	28,000
Average *(RMB'000)*		**24,600**	

We further noted that the estimated commission derived from clients introduced by Zhongtai Securities and/or its associates (before the Commission Split) for (i) the year ending 31 December 2019 represented an increase of approximately 40% as compared to that for average commission derived from clients introduced by Zhongtai Securities and/or its associates (before commission split) during 2013 to 2015; and (ii) the year ending 31 December 2020 and 31 December 2021 represented an increase of approximately 40% as compared to those for the year ended 31 December 2019 and 2020 respectively. In light of the data published by China Financial Futures Exchange, annual change on daily average market transaction amount of stock index futures represented an average growth rate of 61% for each of the five years ended 31 December 2015, we consider that the increase in estimated commission derived from clients introduced by Zhongtai Securities and/or its associates (before commission split) to be acceptable.

Having considered the above factors and that the proposed annual caps representing 60% (i.e. the Commission Split) of the estimated commission derived from clients introduced by Zhongtai Securities and/or its associates (before commission split), we are of the view that proposed annual caps for acceptance of IB services provided by Zhongtai Securities and/or its associates is fair and reasonable.

Purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager

Set out below are (i) the historical transaction amounts of purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager for the three years ended 31 December 2018 with existing annual caps; and (ii) proposed annual caps of purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager for the three years ending 31 December 2021:

Purchase of asset management schemes from Zhongtai Securities and/or its associates by the Group:

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the year ended 31 December 2018** *RMB'000*
Historical transaction amounts	156,000	60,393	68,140
Existing annual caps	210,000	260,000	492,600
Utilisation rate	*74.2%*	*23.2%*	*13.8%*

	For the year ending 31 December 2019 *RMB'000*	**For the year ending 31 December 2020** *RMB'000*	**For the year ending 31 December 2021** *RMB'000*
Proposed annual caps	206,000	227,000	250,000

Asset Management Fees

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the year ended 31 December 2018** *RMB'000*
Asset Management Fees	383	412	132
Existing annual caps	2,110	2,610	4,926
Utilisation rate	*18.2%*	*15.8%*	*2.7%*

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	3,090	3,400	3,740

Details of the basis of the proposed annual caps for purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager under Financial Services Framework Agreement are set out in the Board Letter.

We noted that the historical utilisation of exiting annual caps for the recent years were low. As advised by the Management, the Company purchased asset management products including fixed-income products and wealth management products. Pursuant to《關於規範金融機構資產管理業務的指導意見》(Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*), requirements for investment in non-standard debt assets shall be observed strictly and no fund pool is allowed. Zhongtai Asset Management commenced to cancel the category of fixed income funds pool products. As such, the Company did not purchase the fixed income products offered previously by Zhongtai Securities and/or its associates. Meanwhile, due to the thin activity of the A-share market in 2018, the Company reduced the allocation in equity products. Therefore, the historical utilisation of exiting annual caps was lower than expected.

Pursuant to《期貨公司風險監管指標管理辦法》(Administrative Measures on Risk Regulatory Indication of Futures Companies*) promulgated by the CSRC, futures companies should be in compliance with certain requirements, including but not limited to, the ratio of net capital divided by net assets shall be no less than 20% (the Company: approximately 63.51% as at 31 December 2018). According to the Company's audited financial information for the year ended 31 December 2018, the Group's net asset attributable to Shareholders as at 31 December 2018 was approximately RMB2.208 billion, with net capital of approximately RMB1,327.89 million. The Management assumed the net capital of the Group during 2019 would remain at same level as compared to that as at 31 December 2018. Set out below are the Group's net capital for recent three years as extracted from the Company's annual reports:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	RMB	*RMB*	*RMB*
Net capital	1,333,237,575.53	1,342,240,676.68	1,327,893,600.10

With reference to the Board Letter, according to the investment plan of the Group and in order to enhance the capital utilization efficiency of the Group, the highest daily amount expected to be invested by the Group in the asset management schemes in which Zhongtai Securities and/or its associates act as the asset manager will not exceed 20% of the Group's total capital available for financial investment in 2019. For our due diligence purpose, we obtained the investment plan.

Based on the Management's assumption on the Company's capital available for financial investment in 2019 of RMB1,030 million (after taking into account of short-term capital turnovers and proposed investment in subsidiaries), 20% of the Group's total capital available for financial investment in 2019 would be RMB206 million, which represented the proposed annual cap of RMB206 million for the year ending 31 December 2019. Therefore, we consider that the proposed annual cap for the year ending 31 December 2019 to be fair and reasonable.

We further noted that the proposed annual cap for the year ending 31 December 2020 represented an increase of approximately 10% as compared to that for the year ending 31 December 2019; while the proposed annual cap for the year ending 31 December 2021 represented an increase of approximately 10% as compared to that for the year ending 31 December 2020.

With reference to the Board Letter, according to the audited financial data, the average profit growth rates of the Group from 2016 to 2018 were around 10%. Therefore, the investment amount in the asset management schemes in which Zhongtai Securities or its associates act as manager is expected to increase by 10% in the next three years. As such, we are of the view that the above mentioned increase in proposed annual caps for each of the two years ending 31 December 2021 to be acceptable. As such, we consider that the proposed annual caps for the two years ending 31 December 2021 to be fair and reasonable.

We further noted that the proposed annual caps in respect of annual management fees represented approximately 1.5% to the proposed annual caps for purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager for each of the three years ending 31 December 2021. Based on the contracts in respect of existing asset management schemes, we noted that the estimated annual management fees were within the annual management fees range as shown in the asset management schemes. Accordingly, we consider that the proposed annual caps in respect of annual management fees for the three years ending 31 December 2021 to be fair and reasonable.

Acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates

Set out below are (i) the historical transaction amounts of acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates for the three years ended 31 December 2018 with existing annual caps; and (ii) proposed annual caps of acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates for the three years ending 31 December 2021:

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the year ended 31 December 2018** *RMB'000*
Historical transaction amounts	9	307	331
Existing annual caps	600	700	690
Utilisation rate (%)	*1.5%*	*43.9%*	*48.0%*

	For the year ending 31 December 2019 *RMB'000*	**For the year ending 31 December 2020** *RMB'000*	**For the year ending 31 December 2021** *RMB'000*
Proposed annual caps	1,700	1,800	2,000

Details of the basis of the proposed annual caps for acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates under Financial Services Framework Agreement are set out in the Board Letter.

We noted that the historical utilisation of exiting annual caps for the three years ended 31 December 2018 were low. As advised by the Management, in general the frequency and size of transactions relating to securities brokerage services and other financial services in capital markets depends to a large extent on market as well as government policies and initiatives. For our due diligence purpose, according to the data published by Shanghai Stock Exchange, the turnover for the year ended 31 December 2016 amounted to RMB50,170.0 billion, representing a decrease of approximately 62.3% from RMB133,099.2 billion for the year ended 31 December 2015. According to the data published by Shenzhen Stock Exchange, the turnover for the year ended 31 December 2016 amounted to RMB77,598.0 billion, representing a decrease of approximately 36.7% from RMB122,495.0 billion for the year ended 31 December 2015.

As advised by the Management, (i) the turnover for the year ended 31 December 2016 decreased substantially as compared to that for the year ended 31 December 2015; (ii) SSE Composite Index closed at 2,493.90 as at 28 December 2018, representing a decrease of approximately 29.5% from 3,539.18 as at 31 December 2015; (iii) SZSE Composite Index closed at 1,267.87 as at 28 December 2018, representing a decrease of approximately 45.1% from 2,308.91 as at 31 December 2015; and (iv) the Company expected the stock market will gradually recover in the future. Therefore, the Management estimated demand on securities brokerage based on maximum amount of the Group invested in the stock market of RMB80 million. For prudent sake, the Management applied 70% of the maximum amount of the Group's investment in stock market. Based on the average commission rate of the stock brokerage business of 0.03% as mentioned above, and it is estimated to deal twice a month, annually 24 times in total, the estimated demand on securities brokerage for each year of the three years ending 31 December 2021 amounted to approximately RMB396,000.

With reference to the Board Letter, since 2017, Zhongtai Securities started to provide reverse repo of bonds to the Group. Based on our discussion with the Management, we understood that conducting reverse repo of bonds is the main growth factor relating to acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates. Assuming the relevant rate is 0.001% if all the capital of the Group available for investment of RMB1,030 million (details of available for investment of RMB1,030 million are set out above) is applied for conducting reverse repo of bonds, and the Group will conduct reverse repo of bonds on approximately half of the trading days each year (125 days), the commission paid to Zhongtai Securities by the Group will be approximately RMB1,300,000 in 2019.

Based on the above analysis on (i) estimated demand on securities brokerage for the year ending 31 December 2019; and (ii) the estimated commission regarding reverse repo of the bonds, we consider that the proposed annual caps for the year ending 31 December 2019 to be fair and reasonable.

With reference to the Board Letter, taking into consideration of the average growth rate of the Group's profits over the past three years and growth rate of the amount of the Group available for investment in reverse repo of bonds in 2020 and 2021, the commission payable to Zhongtai Securities and/or its associates by the Group is expected to be RMB1,300,000, RMB1,400,000 and RMB1,600,000 for each year of 2019, 2020 and 2021, respectively. Therefore, we are of the view that the proposed annual caps for the three years ending 31 December 2021 are fair and reasonable.

Acceptance of OTC option introduction services provided by Zhongtai Securities and/or its associates

Set out below are proposed annual caps of referral fees to be received or paid from or to each of the Company or Zhongtai Securities and/or its associates for the three years ending 31 December 2021:

	For the year ending 31 December 2020 *RMB'000*	**For the year ending 31 December 2021** *RMB'000*	**For the year ending 31 December 2022** *RMB'000*
Introduction fee paid by the Company to Zhongtai Securities and/or its associates	3,000	3,600	4,320

Details of the basis of the proposed annual caps for the transactions contemplated under OTC Option Introduction are set out in the Board Letter.

As advised by the Management, the estimated introduction fees to be paid by the Company to Zhongtai Securities and/or its associates were calculated based on (i) estimated notional principal OTC derivatives; (ii) estimated option premium; (iii) estimated business income and (iv) estimated commission split.

Upon our request, the Management advised us the amounts of notional principal of Zhongtai Securities' OTC derivatives business for the three years ended 31 December 2018. We were given to understand that the customers of Zhongtai Securities tend to trade the out-of-the-money options and such options were with a higher premium rate than the in-the-money options.

Having considered the above factors and that the introduction fee for Zhongtai Securities to introduce the OTC business to the Company will be based on 10% to 30% of the Company's income from its OTC business (the median of commission split is 20%), we consider the proposed annual cap for the year ending 31 December 2019 to be justifiable.

We further noted that the proposed annual cap for the year ending 31 December 2020 and for the year ending 31 December 2021 represented an increase of approximately 20% as compared to that for the year ending 31 December 2019 and for the year ending 31 December 2020 respectively. We understood from the Management that the notional principal of Company's OTC derivatives business achieved a growth rate of 183% on a year-to-year basis as compared to that of FY2017, we consider that the aforesaid increases in annual caps to be acceptable.

Having considered the above factors, we are of the view that the proposed annual caps for the two years ending 31 December 2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps for the three years ending 31 December 2021 are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/cost to be incurred from the transactions contemplated under the Financial Services Framework Agreements. Consequently, we express no opinion as to how closely the actual revenue/cost to be incurred from the transactions contemplated under the Financial Services Framework Agreements will correspond with the proposed annual caps for the three years ending 31 December 2021.

B. ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT

Date:	26 April 2019
Parties:	Shandong Steel and the Company
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 Group act as the manager. Being the asset manager, the Group invest in financial products of various scopes with the collective asset management schemes. In this regard, Shandong Steel and/or its associates shall pay assets management fees to the Group.

Pricing terms:

With reference to the Board Letter, the asset management fees charged by the Group as the manager of the collective asset management schemes are calculated by multiplying the investment amounts of Shandong Steel and/or its associates in the collective asset management schemes with the asset management fees rate. For collective asset management schemes, the asset management fees rates (approximately 1.5% on average) as stipulated in the collective asset management schemes are applicable to all investors participating in such plans, including Shandong Steel and/or its associates and any other independent third party investor participants. Such asset management fees rates are also comparable to or no less favorable than the rates the Company charges any other independent third parties for comparable collective asset management schemes.

We obtained two collective asset management schemes entered into by the Group (who acted as the manager) and independent third parties. We noted that asset management fee rates were 1.5% per annum.

With reference to the Board Letter, the Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of the Asset Management Service Framework Agreement with Shandong Steel to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the requirements of the Listing Rules. In order to ensure that the abovementioned continuing connected transactions are fair and reasonable and on normal commercial terms, the Company has adopted the internal control procedures. Details of the internal control procedures are set out under the section headed "Internal Control Procedures and Corporate Governance Measures" of the Board Letter.

In light of that, in particular:

(i) when determining actual prices of the services to be supplied by the Group to Shandong Steel and/or its associates, the Group will provide Shandong Steel and/or its associates with a proposed price, which will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company;

(ii) the Group usually makes enquiries on relevant prices to no less than two other independent third party suppliers providing similar services, and makes reference to the market rates, pricing and terms the Group offered to independent third parties for similar services,

We consider that the effectiveness of the implementation of the internal procedures would ensure the fair pricing under the Asset Management Service Framework Agreement.

Proposed annual caps

Set out below are (i) the historical transaction amounts of purchase of asset management schemes by Shandong Steel and/or its associates from the Group and asset management fees for the two years ended 31 December 2018 with existing annual caps; and (ii) proposed annual caps of Purchase of asset management schemes purchased by Shandong Steel and/or its associates from the Group and asset management fees for the three years ending 31 December 2022:

	For the year ended 31 December 2017 *RMB'000*	**For the year ended 31 December 2018** *RMB'000*
Purchase of asset management schemes by Shandong Steel and/or its associates from the Group	Nil	Nil
Existing annual caps	200,000	260,000
Utilisation rate (%)	*Nil*	*Nil*

	For the year ending 31 December 2020 *RMB'000*	**For the year ending 31 December 2021** *RMB'000*	**For the year ending 31 December 2022** *RMB'000*
Purchase of asset management schemes by Shandong Steel and/or its associates from the Group	50,000	100,000	200,000

Asset Management Fees

	For the year ended 31 December 2017 *RMB'000*	For the year ended 31 December 2018 *RMB'000*
Asset Management Fees	Nil	Nil
Existing annual caps	2,000	2,600
Utilisation rate	*Nil*	*Nil*

	For the year ending 31 December 2020 *RMB'000*	For the year ending 31 December 2021 *RMB'000*	For the year ending 31 December 2022 *RMB'000*
Proposed annual caps	750	1,500	3,000

Details of the basis of the proposed annual caps for the transactions contemplated under Asset Management Service Framework Agreement are set out in the Board Letter.

According to the above table, the Group did not record any transaction under Former Asset Management Service Framework Agreement.

As there was no historical transaction amounts for the two years ended 31 December 2018, the Group lowered the proposed annual caps for each of the three years ending 31 December 2022.

With reference to the Board Letter, the Company will focus on the development of active management products in respect of the asset management business. It is estimated that the size of asset management products will be RMB200 million, RMB500 million and RMB1 billion, respectively, in 2020 to 2022. According to the development plan of the asset management business in which the Group act as the asset manager, as well as the intention of the Company and Shandong Steel and its associates and their communication and negotiation in respect of their cooperation in asset management business, the maximum aggregate daily investment amounts of asset management schemes to be purchased by Shandong Steel and/or its associates from the Group for the three years ending 31 December 2020, 2021 and 2022 will not exceed 25%, 20% and 20% of the asset management size of the Company in that respective year.

We further reviewed Shandong Steel's financial position as at 30 September 2018. We note that as at 30 September 2018, Shandong Steel recorded (i) total assets of approximately RMB292 billion; (ii) monetary fund of approximately RMB26 billion. We note that the proposed annual caps for purchase of asset management schemes by Shandong Steel account for small portion of its total assets and cash and cash equivalents.

Based on the above factors, we are of the view that proposed annual caps under Asset Management Service Framework Agreement for the three years ending 31 December 2022 to be fair and reasonable.

We further noted that the proposed annual caps in respect of annual management fees represented approximately 1.5% to the proposed annual caps for purchase of asset management schemes purchased by Shandong Steel and/or its associates from the Group for each of the three years ending 31 December 2022. Based on the contracts in respect of existing asset management schemes entered into between the Group and independent third parties regarding the purchase of collective asset management schemes in which the Group act as the manager, we noted that the estimated annual management fees were in line with the annual management fees as shown in the asset management schemes. Accordingly, we consider that the proposed annual caps in respect of annual management fees for the three years ending 31 December 2022 to be fair and reasonable.

Shareholders should note that as the proposed annual caps for the three years ending 31 December 2022 are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue/cost to be incurred from the transactions contemplated under the Asset Management Service Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/cost to be incurred from the transactions contemplated under the Asset Management Service Framework Agreement will correspond with the proposed annual caps for the three years ending 31 December 2022.

C. BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT

Date:	26 April 2019
Parties:	Shandong Steel and the Company
Principal terms:	In our ordinary and usual course of business, the Group 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 bulk commodities including but not limited to coke and iron ores from the Group and pay the consideration.

Pricing terms:

For the purchase of bulk commodities including hot rolled wide steel plates by the Group from Shandong Steel and/or its associates, the prices charged by Shandong Steel and/or its associates are determined with reference to comparable prices of similar products sold by independent third parties in local markets, in local markets, in order to ensure that the price and terms of bulk commodities purchased by the Group from Shandong Steel and/or its associates are fair, reasonable and such price and terms are comparable to those offered by independent third parties for similar products. The Group places purchase orders via the e-commerce platform of Shandong Steel and/or its associates, and will refer to the prices offered by independent third parties before placing the orders. The e-commerce platform adopts the principle that transaction of the first order is first concluded based on the price published on the e-commerce platform.

For our due diligence purpose, we obtained over five contracts for the purchase of bulk commodities by the Group from (i) Shandong Steel and/or its associates; and (ii) independent third parties in total. As advised by the Management, such contracts were selected by them on a random basis. We consider that the samples are sufficient and representative.

We noted the purchase prices for the purchase of bulk commodities offered by Shandong Steel and/or its associates to the Group are no less favourable than those offered by independent third parties.

For the purchase of bulk commodities including coke and iron ores by Shandong Steel and/or its associates from the Group, the prices charged by the Group are determined based on arm's length negotiation with Shandong Steel and/or its associates with reference to the comparable price of similar products sold by independent third parties on local markets in accordance with the market fair, in order to ensure that the price and terms for the purchase of bulk commodities by Shandong Steel and/or its associates from Luzheng Trading are fair, reasonable and such price and terms are comparable to those of similar products offered by independent third parties. The Group's sales of bulk commodities such as coke and iron ore follow the market-orientated principle. In other words, the transaction price is finally agreed after negotiation based on the prices published on the transaction date on third-party's information company (such as my steel network at https://www.mysteel.com/) with reference to the market's supply and demand profile.

For our due diligence purpose, we obtained over five contracts for the purchase of bulk commodities from the Group by (i) Shandong Steel and/or its associates; and (ii) independent third parties. As advised by the Management, such contracts were selected by them on a random basis. We consider that the samples are sufficient and representative.

We noted the purchase prices for the purchase of bulk commodities offered by the Group to Shandong Steel and/or its associates are no more favourable than those offered by the Group to independent third parties.

With reference to the Board Letter, the Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the requirements of the Listing Rules. In order to ensure that the abovementioned continuing connected transactions are fair and reasonable and on normal commercial terms, the Company has adopted the internal control procedures. Details of the internal control procedures are set out under the section headed "Internal Control Procedures and Corporate Governance Measures" of the Board Letter.

In light of that, in particular:

(i) when determining actual prices of the products to be supplied by Shandong Steel and/or its associates to the Group, such counterparties will provide the Company with a proposed price, which will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. The Group usually seeks quotations or makes enquiries on relevant prices from no less than two other independent third party suppliers providing similar products and makes reference to such pricing and terms for similar products;

(ii) when determining actual prices of the products to be supplied by the Group to Shandong Steel and/or its associates, the Group will provide Shandong Steel and/or its associates with a proposed price, which will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. The Group usually makes enquiries on relevant prices to no less than two other independent third party suppliers providing similar products, and makes reference to the market rates, pricing and terms the Group offered to independent third parties for similar products,

We consider that the effectiveness of the implementation of the internal procedures would ensure the fair pricing under the Bulk Commodities Sale and Purchase Framework Agreement.

Proposed annual caps

Set out below are (i) the historical transaction amounts of purchase of bulk commodities by the Group from Shandong Steel and/or its associates and the purchase of bulk commodities by Shandong Steel and/or its associates from the Group for the two years ended 31 December 2018 with existing annual caps; and (ii) proposed annual caps of purchase of bulk commodities by the Group from Shandong Steel and/or its associates and the purchase of bulk commodities by Shandong Steel and/or its associates from the Group for the three years ending 31 December 2022:

	For the year ended 31 December 2017 *RMB'000*	**For the year ended 31 December 2018** *RMB'000*
The purchase of bulk commodities by the Group from Shandong Steel and/or its associates	Nil	41,424
Existing annual caps	200,000	300,000
Utilisation rate	*Nil*	*13.8%*
The purchase of bulk commodities by Shandong Steel and/or its associates from the Group	Nil	11,849
Existing annual caps	100,000	150,000
Utilisation rate	*Nil*	*7.9%*

	For the year ending 31 December 2020 *RMB'000*	**For the year ending 31 December 2021** *RMB'000*	**For the year ending 31 December 2022** *RMB'000*
The purchase of bulk commodities by the Group from Shandong Steel and/or its associates	450,000	495,000	545,000
The purchase of bulk commodities by Shandong Steel and/or its associates from the Group	240,000	264,000	290,000

Purchase of bulk commodities including hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates

Details of the basis of the proposed annual caps for purchase of bulk commodities including but not limited to hot rolled wide steel plates by Luzheng Trading from Shandong Steel and/or its associates under Bulk Commodities Sales and Purchase Framework Agreement are set out in the Board Letter.

We noted that the Group did not record any transaction in respect of the purchase of bulk commodities by the Group from Shandong Steel and/or its associates for FY2017 and the historical utilisation of exiting annual cap in respect of such transactions for FY2018 was low. As advised by the Management, it was mainly due to (i) the timeliness and opportunistic nature of purchase/ sales of bulk commodities, as well as relevant restrictive provisions for connected transactions, prior to FY2018, the Group mainly purchased/sold bulk commodities from/to steel factories other than Shandong Steel and its associates, even though they considered that the steel products of Shandong Steel and/or its associates have higher market recognition in Shandong's market; and (ii) before the entering into of the 2019 Long-term Contract Annual Procurement Plan, the purchase price was relatively higher than that after the entering into of the 2019 Long-term Contract Annual Procurement Plan.

According to annual report for the year ended 31 December 2017 of Shandong Iron and Steel Co Ltd (stock code: SH600022), being one of the associates of Shandong Steel and a company listed on Shanghai Stock Exchange, its steel products have high recognition.

With reference to the Board Letter, the Group has already reached preliminary cooperation intentions with several customers who have long-term definite demands for steel products produced by Shandong Steel and/or its associates with further expansion of the Group's market channels, the promotion of its brand on the market and as its marketing team becomes more sophisticated. The demand of such customers is relatively large and stable.

For our due diligence purpose, we obtained the 2019 Long-term Contract Annual Procurement Plan signed between Luzheng Trading and Shandong Laigang Yongfeng Iron & Steel Group Co., Ltd, (being an associate of Shandong Steel), and noted a monthly procurement of 3,000 tons of hot rolled wide steel plate, structural steel and other steel products. The Management further expected the monthly procurement of hot rolled wide steel plate would increase to 5,000 tons after half year's sales run-in, due to increased market awareness.

With reference to the Board Letter, in order to grasp the profit-making opportunities due to the seasonal prices difference of steel products in northern China, which normally took place in winter and summer periods. Luzheng Trading intended to make winter reserve purchase in late winter and early spring of each year, and summer reserve purchase in the summer of each year with a quantity of 20,000 tons each time. With an upward adjustment of 10,000 tons taking into consideration of fluctuating factors of daily purchases, the above will total to 100,000 tons.

With reference to the Board Letter, the comparable spot prices of bulk commodities in the current market environment was estimated to be RMB4,500 per ton. For our due diligence purpose, we obtained from the Company hot rolled sheet/coil index (熱卷指數) during 2 January 2018 to 26 April 2019, being the date of Bulk Commodities Sale and Purchase Framework Agreement. We noted that hot rolled coil index ranged from approximately RMB3,263.27 per ton to RMB4,350.19 per ton. Therefore, we consider that the expected hot rolled steel plate selling price of RMB4,500 per ton during 2020 to be acceptable.

Based on the above factors, we are of the view that the proposed annual cap for the year ending 31 December 2020 to be acceptable.

We further noted that the proposed annual cap for the year ending 31 December 2021 and for the year ending 31 December 2022 represented an increase of approximately 10% as compared to that for the year ending 31 December 2020 and for the year ending 31 December 2021 respectively. As the highest of hot rolled coil index represented approximately 133% (or an increase of approximately 33%) to the lowest of that index, we consider that the aforesaid increases in annual caps to be acceptable.

Having considered the above factors, we are of the view that the proposed annual caps for the two years ending 31 December 2022 to be fair and reasonable.

Purchase of bulk commodities including coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading

Details of the basis of the proposed annual caps for purchase of bulk commodities including but not limited to coke and iron ores by Shandong Steel and/or its associates from Luzheng Trading under Bulk Commodities Sales and Purchase Framework Agreement are set out in the Board Letter.

We noted that the Group did not record any transaction in respect of the purchase of bulk commodities by Shandong Steel and/or its associates from the Group for FY2017 and the historical utilisation of exiting annual cap in respect of such transactions for FY2018 was low. As advised by the Management, the Company entered into physical commodities trading with Shandong Steel on arm's length basis. Since the price offered by Shandong Steel for purchase of bulk commodities was relatively low for FY2018 and did not reach the expected level of the Company, the actual transaction volume was relatively low.

According to Shandong Steel's website, Shandong Steel ranked the 126th on the list of the China's Top 500 Enterprises of 2018, and the 45th on the list of China's Top 500 Manufacturing Enterprises, with a credit rating of AAA. With reference to the Board Letter, according to both parties' business plan and the Group's communication and negotiation with Shandong Steel, Luzheng Trading will sell 5,000 tons of iron ores, 5,000 tons of coking coal and 5,000 tons of coke to Shandong Steel and/or its associates each month.

For our due diligence purpose, we obtained the aforesaid business plan and documents showing the indication sales amounts of iron ores, coking coal and coke during 2020. We noted that the expected sales amounts are in line with aforesaid documents.

Pursuant to the Board Letter, the Directors assumed iron ores, coking coal and coke of RMB600 per ton, RMB1,300 per ton and RMB2,000 per ton based on the comparable spot prices of bulk commodities in the current market environment. For our due diligence purpose, we obtained from the Company the indexes of the aforesaid items during 2 January 2018 to 26 April 2019, being the date of Bulk Commodities Sale and Purchase Framework Agreement. We noted that the indexes of aforesaid products ranged from approximately RMB435.92 per ton to RMB676.84 per ton, RMB1,128.67 per ton to RMB1,420.64 per ton and RMB1,741.74 per ton to RMB2,700.57 per ton. Therefore, we consider that the expected selling prices during 2020 to be acceptable.

Based on the above factors, we are of the view that the proposed annual cap for the year ending 31 December 2020 to be acceptable.

We further noted that the proposed annual cap for the year ending 31 December 2021 and for the year ending 31 December 2022 represented an increase of approximately 10% as compared to that for the year ending 31 December 2020 and for the year ending 31 December 2021 respectively. As the highest of indexes represented approximately 155%, 126% and 155% (or increases of approximately 55%, 26% and 55%) to the lowest of indexes of related items respectively. Therefore, we consider that the aforesaid increases in annual caps to be acceptable.

Having considered the above factors, we are of the view that the proposed annual caps for the two years ending 31 December 2022 to be fair and reasonable.

Shareholders should note that as the proposed annual caps for the three years ending 31 December 2022 are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue/cost to be incurred from the transactions contemplated under the Bulk Commodities Sale and Purchase Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/cost to be incurred from the transactions contemplated under the Bulk Commodities Sale and Purchase Framework Agreement will correspond with the proposed annual caps for the three years ending 31 December 2022.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of transactions contemplated under the Framework Agreements must be restricted by their respective proposed annual cap for the period concerned under the Framework Agreements; (ii) the terms of transactions contemplated under the Framework Agreements (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Framework Agreements must be included in the Company's subsequent published annual reports and financial accounts.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the transactions contemplated under the Framework Agreements (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps. In the event that the total amounts of the transactions contemplated under the Framework Agreements are anticipated to exceed the annual caps, or that there are any proposed material amendment to the terms of the Framework Agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Framework Agreements and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Framework Agreement are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the AGM to approve the Framework Agreement and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

* *For identification purpose only*

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)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that 2018 annual general meeting (the "**AGM**") of LUZHENG FUTURES Company Limited (the "**Company**") will be held at Conference Room 1616, 16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the People's Republic of China (the "**PRC**") at 9:30 a.m. on Thursday, 20 June 2019 for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the proposal on the work report of the board of directors (the "**Board**") for the year 2018;

2. To consider and approve the proposal on the work report of the supervisory committee for the year 2018;

3. To consider and approve the proposal on the annual report for the year 2018;

4. To consider and approve the proposal on the profit distribution plan for the year 2018;

5. To consider and approve the proposal on the appointment of the accounting firms for the year 2019;

6. To consider and approve the proposal on the Financial Services Framework Agreement with Zhongtai Securities Co., Ltd.;

7. To consider and approve the proposal on the Asset Management Service Framework Agreement with Shandong Iron & Steel Group Co., Ltd.; and

8. To consider and approve the proposal on the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Iron & Steel Group Co., Ltd..

SPECIAL RESOLUTIONS

1. To consider and approve the proposal on the general mandate to issue domestic and overseas bond financing instruments; and

2. To consider and approve the proposal on the general mandate to issue new domestic shares and H shares of the Company.

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

Jinan, the PRC, 29 April 2019

Notes:

1. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll. As such, each of the resolutions set out in the notice of AGM will be voted by poll. After the closure of the AGM, results of the poll voting will be published on the Company's website at www.luzhengqh.com and the HKEXnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

2. Any shareholder of the Company (the "**Shareholder**") entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a Shareholder.

3. In order to be valid, the form of proxy together with the notarized power of attorney or other documents of authorization, if any, must be completed and returned to the Board's office of the Company (for holders of domestic shares) or the H share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H shares), not less than 24 hours before the time appointed for holding the AGM (i.e. before 9:30 a.m. on Wednesday, 19 June 2019) or any adjournment thereof. The address of Board's office of the Company is Room 1613, 16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC. The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the AGM or any adjournment thereof should he/she so wish.

4. The H share register of members of the Company will be closed, for the purpose of determining the entitlement of holders of H shares to attend the AGM, from Tuesday, 21 May 2019 to Thursday, 20 June 2019, both days inclusive, during which period no transfer of H shares will be registered. Any Shareholder whose name appears on the H share registrar of members of the Company on Thursday, 20 June 2019 will be entitled to attend and vote at the AGM. In order to be eligible to attend the AGM, holders of H shares should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 20 May 2019.

5. In case of joint holders of any shares, the one whose name stands first in the register of members of the Company shall be entitled to attend and vote at the AGM in respect of such shares.

6. Shareholders intending to attend the AGM in person or by their proxies should return the reply slip for attending the AGM in person or by post to the Board's office of the Company at Room 1613, 16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC (for holders of domestic shares) or the Company's H share registrar, Computershare Hong Kong Investors Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) on or before Friday, 31 May 2019.

7. Below is the principal place of business of the Company in the PRC:

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

   Tel: +86-531-81678629

   Fax: +86-531-81678628

   Below is the contact of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company:

   Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

   Tel: +852-28628555

   Fax: +852-28650990

8. Subject to the approval of the Shareholders at AGM, the final dividend for 2018 is expected to be paid on or around Thursday, 1 August 2019 to the Shareholders whose names appear on the register of members of the Company on Tuesday, 2 July 2019.

WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2018

Dear Shareholders,

2018 marked the 40th anniversary of China's reform and opening up as well as a year when the internationalization of China's futures market achieved remarkable results. In this year, China-US trade friction has seen one and another surprises, which has brought about certain impact on and uncertainties to China's entire macro-economy. However, China did not slow down the pace of opening up of its futures market, as evidenced by launch of crude oil futures, introduction of overseas traders for iron ore futures and PTA futures as well as relaxing of the upper limit on the shareholding ratio for foreign investment in futures companies. Thus, China's futures market has formed a new pattern of fully opening up. In 2018, China's futures industry continued to develop steadily towards the purpose of serving the real economy. The cumulative trading volume of the Chinese futures market was 3.029 billion lots, representing a slight decrease of 1.54% as compared with the previous year; the cumulative turnover amounted to RMB210.82 trillion, representing an increase of 12.20% as compared with the previous year. After two-year decline in the trading volume, the futures market has picked up. In 2018, under the guidance of No.1 Central Document, the "Insurance+Futures" pilot project has been rapidly expanded in terms of variety, quantity, size and geographical coverage and made great achievements in serving the real economy; the innovation and optimization accelerated, resulting in more varieties of futures products. Four new varieties were launched throughout the whole year; the trading of commodity option market was active with on-going increase in the trading volume of options; the temporary trading restriction measures of stock index futures were loosened once again, which was the third adjustment following two adjustments in 2017, pushing the trading of stock index futures a step further to normal.

2018 is the third full fiscal year of the Company after the listing. The Company continued to follow the vision and mission of "becoming a leading integrated financial services provider in the Chinese derivatives market, providing pricing, hedging tools, and solutions for the entity companies, and helping Chinese entities to make up for shortcomings in risk management and increase international competitiveness", highlighted the core nature of futures of serving the real economy, focused on research and services relating to commodity futures and spot markets, and fully applied futures and derivatives tools to serve entities,provided practical and professional risk management services for entities.

After hard work for one year, the Group achieved net profit attributable to shareholders of the Company of RMB117,719 thousand in 2018, down by 25.79% as compared with the previous year; the Company realized net profit attributable to shareholders of the parent company of RMB116,454.1 thousand, down by 13.08% as compared with the previous year. The decrease was smaller than the decline of 19.96% of its peers. The Company's operating results are better than the industry average. In 2018, the Company was rated by the CSRC as a Class A (Level AA) futures firm and the "Provincial Civilized Enterprise" (省級文明單位) by Shandong Provincial Spiritual Civilization Construction Committee.

I. MAJOR WORK FOR 2018

In 2018, the Board convened a total of 7 meetings and approved 32 resolutions, mainly involving change of senior management, optimizing the layout of branches, setting up Hong Kong subsidiaries, publishing result announcements, annual report, etc.; organized 1 general meeting, at which 9 proposals were considered and approved. Five special committees under the Board convened a total of five meetings and reviewed 12 resolutions.

(i) Focused on the development strategy and urged its implementation

In early 2018, the Board deployed the implementation of the Company's strategy in accordance with the regulatory direction and with reference to environmental factors such as market demands and changes.

1. Continued to promote the transformation of brokerage business and consolidate traditional business

At the beginning of 2018, the Board pointed out that the Company has achieved remarkable results after long-term development, but the scale of customer assets is not large enough, and the slow growth of customer assets has become the pain point of the current brokerage business development, the basic customers, basic assets and basic services should be consolidated in 2018, and branches should be encouraged to leverage on regional advantages and overall advantages through the performance-appraisal so as to promote the coordinated development of the under performing branches.

In 2018, the Company actively took the following measures in line with the above requirements: firstly, it actively implemented the business synergy of its branches. The Company's operating entities realized a net income of RMB13.7686 million, which was 11 times that of last year. As at the end of 2018, a total of 27 operating entities participated in the coordinated business, representing an increase of 21 as compared with 2017; secondly, the Company actively optimized the layout of branches in Shenzhen, Dongying and Changsha, and reported to the Board for review and approval of close-down of Chengdu Sales Office after research; thirdly, the Company optimized the organization structure of branches and changed the heads of Zhengzhou, Linyi and Wuxi Sales Offices. Fourthly, the Company established a professional account manager team integrating research and development ("**R&D**") and marketing according to the industry chain to further optimize the industrial customer service system. In 2018, the Company achieved a market turnover of RMB7.35 trillion (bilateral calculation), representing an increase of 17.38% as compared with the previous year. The increase is greater than the industry's year on year increase of 12.20%, and accounted for a market share of 1.74%, up by 0.08 percentage point. Five out of the 13 branches who recorded a decline in profit and equity in 2017 achieved an increase in their profits in 2018, and 10 of them recorded increase in the daily average equity.

2. *Seized market opportunities to consolidate the market advantage of options business*

In early 2018, the Board further elaborated on and demanded for the option business. With reference to the development trend of financial markets in developed countries, the option market has become an important and globally-influential derivative market. The development of China's option market is still in its infancy, and the market has a great potential in the future. All operating entities should fully understand and attach great importance to, and deepen their knowledge about the option market so as to get familiar with the application of option tools, and serve customers in a satisfactory manner, and further consolidate the market advantages of the options business obtained previously.

In 2018, the Company increased training in terms of OTC business and stock options business to promote business implementation through business learning. After one-year development, the Company's option business continued to maintain its leading position in the market. As regards the **option brokerage business**, in 2018, the trading volume of stock options increased by 146.70% year on year, ranked first in the whole market. The trading volume of white sugar options increased by 240.77% year on year, ranked third in the whole market, representing one place ahead as compared with the same period of last year. The trading volume of soybean meal options increased by 174.04% year on year, ranked fifth in the whole market. As regards **market-making business**, Luzheng Trading obtained market maker qualifications for soybean meal, sugar, copper, cotton options and crude oil futures; as regards **OTC option business**, the transaction amount of option premium was RMB538 million, involving 39 varieties. The nominal scale of option transactions was RMB61.7 billion, an increase of 200% year on year with a market share of approximately 10%, and an operating income of RMB51,430 thousand.

3. *Deepened the futures and spot business based on the nature of serving the real economy*

In recent years, the functional service of risk management pricing has become an important carrier for the futures industry to serve the real economy. At the beginning of 2018, the Board proposed that the risk management subsidiary should focus on the credit business and spot commodity trading business on the basis of its good performance in investment business, support the development of small and medium-sized and micro-enterprises, and seek development in the process of implementing the national strategy in respect of macro-economy.

According to the deployment, in 2018, Luzheng Trading provided a total of RMB616 million for financing of small and medium-sized enterprises through the warehouse receipt service, cooperative hedging and other services on one hand in helping such enterprises to revitalize the inventory, improve the efficiency of resource utilization, and meet their need for short-term liquidity to certain extent, enhanced customer service capabilities and achieved its own development, resulting in an income of RMB12.8812 million. On the other hand, it carried out the spread-trading business, and realized revenue of RMB2.3 million through purchase and sale of nearly 230,000 tons of bulk commodities. In addition, in 2018, Luzheng Trading tried to combine the spot trading business with OTC options to enter into with-right trade with customers by providing customers with "spot + value-conservation" services, which reduced business risks of customers, brought about additional revenue to customers, and enhanced customers's viscosity. In particular, it led its peers in using "insurance + futures" to solve the constraints of traditional insurance and using their own tool advantages to serve the agricultural industry and implementing the national strategy. Huachuan-coverage of the whole county was the first pilot. In 2018, the Company provided price-insurance services for 400,000 mu of corn in Huachuan County, and realized "coverage of those willing to be insured" in the county. It is the first futures company in the country to promote "insurance + futures" in the whole grain variety. The "Huachuan Model" of "insurance + futures" played an important role in precision poverty alleviation. It was highly praised by the CSRC and highly recognized by all parties in the society. It was awarded the "Best of Poverty Alleviation Innovative Financial Product Poverty Alleviation Project Award" by the Office of Poverty Alleviation of the State Council and the CSRC.

4. *Enhanced capability through hard work gradually formed a "Luzheng Brand" in variety research and development*

For a long time, the Board has emphasized that it is necessary to constantly improve the ability to serve the real economy as a priority. In recent years, the Company has adhered to the principle of "from the industry to the industry" in research activities and has continuously expanded the depth and breadth of market research with certain achievements. In particular, in actively preparing for the launch of new varieties, it well developed the apple industry chain by making good use of regional and industrial advantages, and its research and development results have been fully affirmed by the industry, forming a good R&D-driven development landscape. In 2018, the Company's research team stood out from 294 teams and was honored with "Top Ten Futures Investment Research Team of Dalian Commodity Exchange in 2018".

5. *Continued to advance the internationalization process and make substantial progress in overseas expansion*

After the listing of the Company, the Board made a clear statement on internationalization that listing of the Company on the Main Board of the Hong Kong Stock Exchange only realized the internationalization of financing. The industry in which the Company operates, the entities who accept service from the Company, and technical means applied by the Company have obvious global and international characteristics. Therefore, the Company has to continuously promote the internationalization process and use the international market to integrate resources to continuously improve the transaction-oriented service capabilities so as to better serve the domestic entities.

After years of research and careful analysis, in 2018, the Company invested HK$30 million and established LUZHENG INTERNATIONAL HOLDING LIMITED and LUZHENG INTERNATIONAL FUTURES LIMITED ("**Luzheng International**") in Hong Kong, of which Luzheng International obtained the type 2 (futures contract trading) license from the Securities and Futures Commission of Hong Kong on 6 March 2019; and moreover, the Company established Jinova S.A. in Switzerland through its subsidiary Zhongtai Huirong Investment (HK) Company Limited with a contribution of CHF3 million. At present, a team with rich international vision and business experience has been initially established, and services have been provided for related enterprises in agriculture, non-ferrous metals and energy in Shandong Province.

With the above deployment, the Group currently has a better pattern of footprint, further extended its business chain, and offers a bigger mix of financial services to customers. Luzheng International will soon be able to enter the world's major securities and futures exchanges such as London Metal Exchange and Chicago Mercantile Exchange to provide futures, options and other derivatives trading services to customers; Jinova S.A. has already tried to provide global OTC derivatives risk management services for domestic and overseas customers.

(ii) Strictly implemented internal control and improved risk control

In recent years, with the continuous development and growing scale of the Company's new businesses, the contradiction between the professional quality and professional competence of some employees and the rapid development and complexity of the business has gradually emerged, especially due to undeveloped supporting system, weak operating capability and insufficient executive power, and preference given to business instead of compliance, and failure of the management ability to satisfy the need of the management scope, giving rise to problems during the process of expansion.

In response to the above problems and possible hidden dangers, in 2018, the Board primarily asked the management team to cause relevant personnel to carefully reflect on all the problems identified, self-inspect and rectify, and gave notification, criticism and economic punishment to relevant responsible persons, especially the middle and senior management personnel; urged the management team to comprehensively review the weakness of internal control and risk management on a central basis, revised and improved the relevant internal control system under the guidance of the regulatory policy; urged the management team to conduct extensive audit on the Company's various operating entities and business lines as well as special audit on key business lines; and arrange for the Company to start research and design of "Big Risk Control" system, and to achieve full coverage of compliance and risk control as soon as possible to meet the Company's long-term, healthy and stable development needs in the future.

(iii) Fulfilled information disclosure obligations in compliance with laws and regulations

In 2018, the Company strictly abided by the laws, regulations and regulatory requirements, and in accordance with the Listing Rules and the Management Measures for Information Disclosure of the Company, fulfilled information disclosure obligations and conveyed the conditions of corporate governance and operation management conditions in a true, accurate, complete and timely manner, earnestly safeguarded the legitimate rights and interests of Shareholders. In 2018, the Company published 31 items of information disclosures on the Hong Kong Stock Exchange and the Company's websites at the same time, which mainly involved movements in securities, results announcements, annual and interim reports, notices of general meeting and circulars, business updates, replacement of Board secretary etc.

(iv) Responded to the call for poverty alleviation, practicing social responsibility

As at the end of 2018, the Company launched 10 "insurance + futures" projects involving corn, soybean, sugar, cotton and other varieties, covering 7 counties (including 3 national poverty counties and 2 counties in Shandong province), and provided comprehensive services such as futures and options for farmers, cooperatives and related agriculture-related enterprises, and effectively served the real economy and contributed to China's general poverty alleviation strategy. The Company has signed a pairing assistance agreement with four state-level poverty-stricken counties, and helped 153 persons in 62 poverty-stricken households on record out of poverty. It made an accumulated investment of more than RMB20 million. In addition to traditional poverty alleviation such as education poverty alleviation, industrial poverty alleviation, and consumption poverty alleviation, the Company has also launched "insurance + futures" in Huachuan County for three consecutive years, and has taken the lead in proposing the innovated "insurance + futures + spot acquisition" professional poverty alleviation model, which avoids the price risks, while eliminating the risk of spreads, ensured the income of farmers to grow grain and eliminated the difficulty of selling grain.

II. DIRECTORS' PERFORMANCE OF DUTIES IN 2018

In 2018, in accordance with the requirements and responsibilities conferred by the Company Law of the PRC, the Listing Rules and the Articles of Association, all directors diligently fulfilled their duties, carefully reviewed each resolution of the Board, and provided focused and feasible comments and suggestions on various aspects such as discussion of the Company's strategies, improvement of governance structure, effectively safeguarded the rights and interests of Shareholders and promoted the healthy and sustainable development of the Company. The independent non-executive Directors faithfully performed their duties and safeguarded the overall interests of the Company, and was particularly concerned with the legitimate rights and interests of small and medium Shareholders, ensuring the Board's independence and scientificness in decision-making. The special committee of the Board fully leveraged their professional edges and provided professional justifications for the decision-making of the Board. The directors' attendance at Board meetings in 2018 was disclosed in the schedule.

III. MAJOR WORK FOR 2019

(i) Adhere to the nature of serving the real economy and maintain strategic focus

In 2019, the Board will continue to adhere to the established strategic objectives, seize business opportunities in futures and other derivatives markets, and focus on urging the management team to implement the following tasks.

1. Consolidate brokerage business and continue to do a job in basic assets

By highlighting the purpose of serving the real economy, the Company will drive and promote the transformation and development of the brokerage business with diversified innovative businesses. It will continue to give priority to basic customers, basic assets, and basic services to solve the problem of slow growth of customer assets; continue to give full delegation to leaders in charge, actively introduce the heads of organizations who have good command of business and management, and remove the responsible persons of branches with backward business ideas; the person in charge of branches should focus on urging underperformers to make progress, and give full play to the overall advantages of branches; put the Company's resources together to study and solve the basic problems of the business support of branches and the ability of branches to master new business so as to gradually deliver results by stage.

2. Continue to deepen the understanding of options and enhance the competitiveness of the option business on the market

Through various effective channels such as training and exchanges, deepen the understanding of all employees on the value of options, thoroughly understand and master their economic functions. The Company should formulate corresponding assessment indicators and urge the development of the option business. As regards the **OTC option business**, it will continue to expand the "insurance + futures" pilot program and promote the use of "insurance + futures" for corn and cotton in the province as soon as possible to benefit Shandong agriculture in line with the agricultural plan of Shandong Provincial Government; further improve the procedure level and comprehensively enhance the competitiveness of its OTC Business; strengthen the construction of the OTC business infrastructure platform, improve the user end and internal management system, support growth of the business scale by developing the infrastructure, and enhance the Company's OTC business hedging, settlement and risk control capabilities. As regards **option market-making business**, we will raise awareness of the nature of market-making business, scientifically adjust trading strategies, and quickly raise trading standards to achieve turnarounds as soon as possible.

3. Properly use capital increase to target at futures and spot business

Luzheng Trading should properly use the RMB200 million from increase of registered capital at the beginning of 2019. Subject to absolute control of risks, the **credit business** should expand the financing sources and steadily expand the scale of standard warehouse receipts services; **futures and spot business** should identify the unsatisfied needs pf customers, so as to improve the utilization of tools such as options and swaps, upgrade the futures and spot business model, and form stable market research and investment income and trading service income.

4. Improve the construction of overseas platforms and expand the international business team

On one hand, Luzheng International should apply for clearing membership from major futures exchanges in the international market according to the needs of business development, and provide customers with clearing services, access services and risk management plans as soon as possible; on the other hand, it is necessary to have a plan to build a business team of extensive international derivatives trading and management experience.

Subject to establishment of organizations, compliance structuring, and staffing of teams, Jinova S.A. will leverage on its local advantages of talents, technology, location and time zone to carry on multiple businesses including OTC business, physical commodities intermediary business and consultancy business in a planned way with a view to providing enterprises with risk management services utilizing global derivative.

(ii) Strengthen internal control

Subject to comprehensively eliminating, analyzing and summarizing the operational risks of the Company in 2018, the Board should urged the management team to study the major issues of internal control system in the process of construction and implementation in a timely manner affecting the overall development of the Company, and check for omission. When the internal control system is updated with the regulatory policies and guidance, and the change of regulation of the exchanges, the experts' opinions and suggestions of the risk control committee and the audit committee of the Board shall be carefully heard and well received. The management team should focus on the construction and implementation of internal control system as an important task of business management and do it well in 2019, complete the target of constructing the Company's "Big Risk Control" system. Enforcement, accountability and accountability shall be increased for senior executives. Compliance and risk control requires not only strict discipline and supervision, but also lead by example and strict self-discipline.

(iii) Enhance the level of information disclosure and improve investor relations management system

The Company will continue to strictly abide by the laws and regulations and regulatory requirements, fulfill the obligations of information disclosure, further enhance the standard and quality of information disclosure, ensure that investors can understand the Company's financial situation and operational results in a true, accurate, complete and timely manner, and create conditions for investors' rational judgments and decision-makings. The Company will actively receive research investigations conducted by investors and analysts, systematically build an effective investor communication platform, and enhance its transparency and market awareness.

(iv) Continue to fulfill social responsibility

On the basis of 2018, the Company must continue to fulfill its social responsibilities as a listed company, and must have a sense of responsibility and mission towards public welfare undertakings. It should further promote the corporate culture of both charity and profitability, helping people in need and danger, and actively implement the strategic deployment of the Party Central Committee and the State Council of China on poverty alleviation in response to the relevant work deployment and action initiatives of the CSRC and the China Futures Association, so as to contribute to China's drive in achieving general poverty alleviation by 2020.

Schedule: Directors attendance at board meetings in 2018

Name of Director	Meetings should be attended	Attendance in person	Attendance by proxy	Number of resolutions should be voted	Actual number of resolutions voted
Chen Fang	7	7	0	32	32
Lv Xiangyou[1]	4	4	0	25	25
Yin Ge	7	7	0	32	32
Li Chuanyong	7	6	1	32	32
Liu Feng	7	7	0	32	32
Gao Zhu	7	6	1	32	32
Yu Xuehui	7	6	1	32	32
Wang Chuanshun	7	7	0	32	32
Li Dapeng	7	6	1	32	32
Liang Zhongwei	7	6	1	32	32

Note: A total of 7 Board meetings were convened in 2018, and 32 resolutions were voted.

1 Lv Xiangyou resigned as a non-executive director of the Company on 9 August 2018 due to work change.

WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2018

Dear shareholders,

In 2018, the Supervisory Committee carefully performed its supervisory and monitoring duties and responsibilities, kept abreast of and supervised the operating activities, financial status, major decisions, and the performance of the directors and senior management's responsibilities of the Company, 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, continuously improved its own capability.

I. ROUTINE WORK DONE BY THE SUPERVISORY COMMITTEE IN 2018

During the year ended 31 December 2018 (the "**Reporting Period**"), the details of the meetings of the Supervisory Committee were as follows:

(i) On 22 March 2018, it convened the sixth meeting of the second session of the Supervisory Committee, which approved the following seven proposals by voting on site:

1. The "Proposal on the Work Report of the General Manager of LUZHENG FUTURES Company Limited for 2017" (關於魯証期貨股份有限公司2017年度總經理工作報告的議案);

2. The "Proposal on the Work Report of the Supervisory Committee of LUZHENG FUTURES Company Limited for 2017" (關於魯証期貨股份有限公司2017年度監事會工作報告的議案);

3. The "Proposal on the Annual Results Announcement of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度業績公告的議案》);

4. The "Proposal on the Annual Report (International Financial Reporting Standards) of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度報告(國際財務報告準則)的議案》);

5. The "Proposal on the Annual Report (Chinese Accounting Standards for Business Enterprises) of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度報告(中國企業會計準則)的議案》);

6. The "Proposal on Annual Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2017" (《關於魯証期貨股份有限公司2017年度利潤分配方案的議案》); and

7. The "Proposal to be submitted to the general meeting for consideration of the remuneration package of the chairman of the Supervisory Committee" (《關於提交股東大會審議監事會主席薪酬方案的議案》).

(ii) On 23 August 2018, it convened the seventh meeting of the second session of the Supervisory Committee, which approved the following three proposals by voting on site:

1. The "Proposal on the Interim Results Announcement of LUZHENG FUTURES Company Limited for the Six Months Ended 30 June 2018" (《關於魯証期貨股份有限公司截至2018年6月30日止六個月之中期業績公告的議案》);

2. The "Proposal on the Interim Report of LUZHENG FUTURES Company Limited for 2018" (《關於魯証期貨股份有限公司2018中期報告的議案》); and

3. The "Proposal on Interim Profit Distribution Plan of LUZHENG FUTURES Company Limited for 2018" (《關於魯証期貨股份有限公司2018年中期利潤分配預案的議案》).

II. MAJOR WORK OF THE SUPERVISORY COMMITTEE IN 2018

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

During the Reporting Period, in order to gain a deeper understanding of the Company's important operating activities and be better aware about the Company's operations, the Supervisory Committee strengthened daily supervision and inspection. Firstly, on-site supervision and inspection were carried out on 10 branches located in (among others) Tianjin, Dalian, Jining, Rizhao, Shanghai, Shenyang, Dongying, Linyi, Wuxi and Zhengzhou through on-site interviews and inspection of documents. Secondly, a special internal audit and inspection was carried out on the Company's asset management business and risk management subsidiary business. Problems were revealed during such supervision and inspection actions, and corresponding suggestions were put forward.

(ii) Paid close attention to the Company's financial status and major investment matters

During the Reporting Period, the Supervisory Committee reviewed the Company's financial statements on a regular basis, and kept abreast of the Company's assets and liabilities profile, cash flows and operating results as well as other financial information. It paid close attention to the monitoring of risk management indicators such as liquidity of the Company's self-owned capital and customers' margin deposits, net capital and so on, and inspected from time to time the Company's issues including the compliance of major investment decision-making procedures, which ensured that all major investments were strictly implemented in accordance with the decision-making procedures.

(iii) Strengthened supervision and inspection of the duty-performance of directors and senior management

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

(iv) Strengthened its own capability

During the Reporting Period, firstly, the Supervisory Committee was equipped with a full-time employee to ensure the implementation of various tasks. Secondly, in accordance with the standard requirements of the Hong Kong Stock Exchange for the operation of listed companies, and based on the actual situation of the Company, members of the Supervisory Committee were organized to update themselves about the developments of regulatory policies and regulations, get familiar with the relevant laws and regulations, regulatory rules, and further improved the the Supervisory Committee's ability to discharge its duties.

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

During the Reporting Period, the Supervisory Committee supervised and inspected the Company's finances, legal operation, major decisions, and major operating activities, and attended the shareholders' general meeting, the on-site meeting of the Board, and the management work meeting as required, and made the following comments on this basis.

(i) The Supervisory Committee believed that: during the Reporting Period, the Company's overall operating activities were in compliance with relevant provisions of state laws and regulations and regulatory policies. The Board practically performed all resolutions and key decisions-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 state laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any laws and regulations and the Articles of Association or injure the interest of the Company when discharging their duties in the Company.

(ii) The Supervisory Committee believed that: during the Reporting Period the financial system of the Company was sound, and the financial operation was standardized with excellent financial conditions. The financial statements prepared by the Company were true, objective and accurate. PricewaterhouseCoopers LLP issued an unqualified audit report to the Company and gave an objective reflection of the financial conditions and operation results of the Company for 2018.

(iii) The Supervisory Committee believed that: during the Reporting Period, with the continuous development and growing scale of the Company's new businesses, the internal control of the Company was not enforced properly due to underdeveloped supporting system and thus needs further improvement.

(iv) The Supervisory Committee believed that: during the Reporting Period, the transactions between the Company and its controlling shareholder, Zhongtai Securities and its connected persons, were in line with the general market transaction principles. The price was fair and the information disclosure was complete. All the relevant procedures were performed to ensure that the transactions were fair and reasonable, without injuring the interest of the Company and its small and medium-sized Shareholders.

(v) The Supervisory Committee believed that: during the Reporting Period, there were no illegal external guarantees, debt restructurings, non-monetary transactions, asset replacements, major acquisitions or disposals of assets found. There were no other situations that injured the interests of the shareholders of the Company or resulted in the loss of assets of the Company.

(vi) The Supervisory Committee believed that: during the Reporting Period, the Company's Inside Information Management System was effectively implemented, and played a supervisory,controlling, and guiding role in the daily operation and management of the Company. The Company could implement this system when dealing with periodic report preparation, profit distribution, and external investment, in accordance with the relevant regulations and strictly controlled the scope of insiders. There were no such incidents as disclosure of secrets, insider transactions, or illegal trading of the Company's shares by the Directors, Supervisors, senior management and other insiders.

IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2019

(i) To perform duties and mission in a responsible manner

The Supervisory Committee will, in strict accordance to the state laws and regulations, normative documents and the Company's regulations, focus on the Company's business development, continuously diversify supervision methods and working methods, and continuously increase supervision over major matters such as the Company's compliant operation, financial management, construction and implementation of internal control system, and connected transactions, external investment and guarantees, actively visit various levels of operation to get informed about specific situation before analyzing and solving problems. By moving the supervision forward, the Company will carry out the whole process and all-round supervision through three basic actions, namely pre-event, on-going and post-event supervision, so as to effectively exert the supervisory function of the Supervisory Committee.

(ii) To optimize the supervision system and improve the effectiveness of supervision

The Supervisory Committee will continue to improve the effective communication mechanism with the Company's disciplinary inspection, supervision, auditing and legal departments, actively promote the formation of a big supervision system, and give full play to the role of the Company's internal supervision resources. At the same time, the Supervisory Committee will give full play to the external supervision role of third-party agencies such as accounting firms to further improve the effectiveness of supervision.

(iii) To prevent and resolve risks and extend functions

The Supervisory Committee will play an important role as an immune system for the Company, coordinate and balance the relationship between business development and risk control, promote the Company's comprehensive capabilities in analysis and prevention of risks in advance and risk-included treatment, so as to play a more prominent supervisory role in risk prevention and compliance management. It will Supervise and restrict the Company's "Three Importance and One Greatness" decision-making process;

(iv) To improve self-building and strengthen supervision duties

The Supervisory Committee is now equipped with a full-time employee to effectively carry out its daily work and improve its supervisory effectiveness. In addition, the members of the Supervisory Committee must continuously strengthen study of state laws and regulations, financial knowledge so as to improve their ability and overall quality to identify, analyze and solve problems, effectively improve the pertinence and effectiveness of supervision, and continuously advance the work of the Supervisory Committee to a new level.

DETAILS OF ISSUANCE OF DOMESTIC AND OVERSEAS BOND FINANCING INSTRUMENTS

I. ISSUANCE PLAN

The Company proposed to issue bond financing instruments with an aggregate outstanding principal not exceeding RMB1 billion.

II. PRINCIPAL TERMS OF ISSUANCE

(i) Issuer: LUZHENG FUTURES Company Limited.

(ii) Size of issuance: the specific size of issuance will be determined in line with the capital requirements and market conditions with the total outstanding amount of the bonds not exceeding an aggregate amount equivalent to RMB1 billion, provided that requirements of relevant laws and regulations and regulatory documents are complied with.

(iii) Term(s) and category(ies): the instruments shall have a term not exceeding 10 years and can take the form of single term instrument or a combination of multiple categories with different terms. The specific composition of such terms and the issuance size of each category with a specific term will be determined in accordance with relevant requirements and the market conditions, and the issuance size of each category of bonds shall not exceed the limit applicable to the issuance of such category of bonds by the Company in accordance with relevant requirements of the PRC.

(iv) Use of proceeds: the proceeds to be raised from such issuance will be used for satisfying the operation needs of the Company, supplement to the net capital, undertake financial investment, and enhance the economies of scale of the Company's assets.

(v) Validity term of the mandate: the relevant period is from the date of this proposal being approved by special resolution at the 2018 AGM to the earliest of the following dates: (a) the conclusion of the Company's 2019 annual general meeting; (b) the expiration of the 12 months after the proposal is approved by special resolution at the 2018 AGM; (c) the date when the authorization given to the Board is revoked or amended by the Company's shareholders by special resolution at a general meeting in accordance with this resolution.

In the event that the Company has resolved to carry out such issuance within the validity period of the resolution and the Company has obtained the approval, permit or registration in relation to the issuance from the regulatory authorities of the above resolution, the Company may complete such issuance so far as such approval, permit or registration remains valid.

III. AUTHORIZATIONS

It is proposed to the 2018 AGM to grant to the Board a general mandate to deal with, within the scope of the principal terms of the issuance as set out in paragraph II above in compliance with the relevant laws and regulations and the opinions and recommendations of the regulatory authorities, the operation needs of the Company and the prevailing market conditions at the time of issuance:

(i) To determine the type(s), specific category(ies), specific terms and conditions as well as other matters of the bonds, including but not limited to all the matters in relation to the issuance such as the size of issuance, actual total amount, issuance price, interest rate or the determination method thereof, place of issuance, timing of issuance, term(s), whether to issue in tranches and the number of tranches, whether to adopt any terms for repurchase and redemption, rating arrangements, guarantee matters, term of repayment of the principal and interests, use of proceeds, as well as listing and underwriting arrangements;

(ii) to carry out all necessary and incidental actions and procedures for the issuance of bonds, including but not limited to, engaging intermediary agencies to handle, on behalf of the Company, the approval, registration and filing procedures with relevant regulatory authorities relating to the application for the issuance, executing all necessary legal documents relating to the issuance and dealing with other matters relating to the issuance and trading of the bonds;

(iii) to approve, confirm and ratify any of the aforesaid actions or procedures relating to the issuance of the bonds already taken by the Company;

(iv) to execute and publish/dispatch relevant announcement(s) and circular(s) in relation to the issuance of the bonds and to comply with, any relevant information disclosure and/or approval procedures, pursuant to the requirements of domestic and overseas regulatory authorities and the Listing Rules;

(v) to make relevant adjustments to the relevant matters of the issuance of the bonds and to determine whether to proceed with the issuance with reference to the opinions from relevant domestic and overseas regulatory authorities and the changes in policies and market conditions, provided that such adjustments and decision shall be within the scope of the authorisation of the general meeting and shall be subject to re-voting at a general meeting of the Company if otherwise required by the relevant laws and regulations and the Articles of Association;

(vi) to determine and deal with all relevant matters in relation to the listing of the issued bonds upon the completion of the issuance;

(vii) to deal with other specific matters in relation to the issuance of the bonds and to execute all the required documents; and

(viii) to approve the Board's further delegation of the aforesaid authorisation to the chairman of the Board and/or other authorized person of the Board.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS

a. As at the Latest Practicable Date, none of the Directors, Supervisors or chief executives 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 were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors or chief executives or their respective associates were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 the Listing Rules.

b. As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2018 (being the date on which the latest published audited consolidated accounts of the Company were made up) been acquired or disposed of by or leased to by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to by the Company or any of its subsidiaries.

c. As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

d. As at the Latest Practicable Date, none of Directors are directors or employees of a company having an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors and their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as was known to Directors, as at the Latest Practicable Date, the following persons (not being a Director, a Supervisor or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Type 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. (formerly known as Qilu Securities Co., Ltd.) (1)	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. (1), (2)	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. (2)	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CM International Capital Limited (3)	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) (3)	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) (3)	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%

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

Notes:

(1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.91% of the equity interest in Zhongtai Securities Co., Ltd. (formerly known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai 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. (formerly known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.

(2) 80% of the equity interest of Laiwu Steel Group Co., Ltd. is held by Shandong Steel Group Co., Ltd.. Therefore, Shandong 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, (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), CHIG Asia Asset Management Co., Ltd. (中民投亞洲資管理有限公司), CHI 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 the Latest Practicable Date, to the best knowledge of the Directors, there were no other persons (except for a Director, a Supervisor and the chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with the Company or any of its subsidiaries, excluding contracts expiring or terminable within one year without payment of compensation other than statutory compensation.

6. EXPERT'S DISCLOSURE OF INTEREST AND CONSENTS

(1) As at the Latest Practicable Date, Gram Capital, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(2) As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interests in any assets which have been acquired or disposed of or leased to or which were proposed to be acquired or disposed of by or leased to by any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Company were made up.

(3) Gram Capital has issued a letter dated 31 December 2018 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the Independent Shareholders.

(4) Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of recommendation and reference to its name in the form and context in which they appear.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any working day (other than public holidays) at the Company's principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong from the Latest Practicable Date up to and including the date of the AGM:

(1) the Financial Services Framework Agreement;

(2) the Asset Management Service Framework Agreement;

(3) the Bulk Commodities Sale and Purchase Framework Agreement;

(4) the letter from the Independent Board Committee to the Independent Shareholders as set out on pages 37 to 38 of this circular;

(5) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 39 to 71 of this circular;

(6) the written consent of Gram Capital referred to in paragraph 6 of this appendix; and

(7) this circular.

8. GENERAL

(1) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group's financial or trading position since 31 December 2018, being the date on which the latest published audited consolidated accounts of the Company were made up.

(2) The registered office of the Company is 15-16/F Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC and the postal code is 250001.

(3) The H share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(4) The joint company secretaries of the Company are Mr. Liu Yunzhi and Ms. Ng Wing Shan. Ms. Ng Wing Shan is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(5) If there is any discrepancy between the English version and Chinese version of this circular, the Chinese version shall prevail.