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

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

(Stock Code: 01461)

ANNOUNCEMENT

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**FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH
ZHONGTAI SECURITIES**

Reference is made to the announcement of the Company dated 28 April 2017 in relation to, inter alia, the Former Financial Services Framework Agreement entered into between the Company and Zhongtai Securities and its annual caps.

As disclosed in the announcement dated 28 April 2017, the Company and Zhongtai Securities entered into the Former Financial Services Framework Agreement and set the respective annual caps for related non-exempt continuing connected transactions for 2018, 2019 and 2020. As the corresponding annual caps under Former Financial Services Framework Agreement will expire on 31 December 2020, and the Group will continue to conduct certain continuing connected transactions under the Former Financial Services Framework Agreement, and the Company intends to adjust the upper limit of securities brokerage and other financial services, and accept the Over-the-Counter (“OTC”) option introduction business provided by Zhongtai Securities and/or its associates, the Company is subject to the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Accordingly, the Company entered into the Financial Services Framework Agreement with Zhongtai Securities on 26 April 2019 (after trading hours) and proposed the annual caps for 2019, 2020 and 2021 under the Financial Services Framework Agreement. The Former Financial Services Framework Agreement will be terminated once the Financial Services Framework Agreement comes into effect.

ASSET MANAGEMENT SERVICE FRAMEWORK AGREEMENT WITH SHANDONG STEEL

Reference is made to the announcement of the Company dated 28 April 2017 in relation to, inter alia, the Former Asset Management Service Framework Agreement entered into between the Company and Shandong Steel and its annual caps.

As disclosed in the aforesaid announcement, the Company and Shandong Steel entered into the Former Asset Management Service Framework Agreement and set the respective annual caps for related non-exempt continuing connected transactions for 2017, 2018 and 2019. As the corresponding annual caps under such 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 after 31 December 2019; the Company is subject to the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Accordingly, the Company entered into the Asset Management Service Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours) and proposed the annual caps for 2020, 2021 and 2022 under the Asset Management Service Framework Agreement.

BULK COMMODITIES SALE AND PURCHASE FRAMEWORK AGREEMENT WITH SHANDONG STEEL

Reference is 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 and its annual caps.

As disclosed in the announcement dated 28 April 2017, pursuant to the Former Bulk Commodities Sale and Purchase Framework Agreement, Luzheng Trading, a wholly-owned subsidiary of the Company, has purchased and sold bulk commodities with Shandong Steel and/or its associates. As Luzheng Trading will continue to purchase bulk commodities such as hot-rolled wide steel plates from Shandong Steel and/or its associates, Shandong Steel and its associates also plan to purchase raw materials such as coke and iron ore from Luzheng Trading, the Company is subject to the requirements under Chapter 14A of the Listing Rules in respect of continuing connected transactions. Accordingly, the Company entered into the Bulk Commodities Sale and Purchase Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours) and proposed the annual caps for 2020, 2021 and 2022 under Bulk Commodities Sale and Purchase Framework Agreement.

RISK MANAGEMENT SERVICES FRAMEWORK AGREEMENT WITH SHANDONG STEEL

References are made to the announcements of the Company dated 28 April 2017 and 22 May 2017 in relation to, inter alia, the Former Risk Management Services Framework Agreement entered into between the Company and Shandong Steel and its annual caps.

As disclosed in the announcements of the Company dated 28 April 2017 and 22 May 2017, the Group provided risk management services to Shandong Steel and/or its associates in accordance with the Former Risk Management Services Framework Agreement. As the corresponding annual caps under the Former Risk Management Services Framework Agreement will expire on 31 December 2019, and the Group will continue to conduct the continuing connected transactions under the Former Risk Management Services Framework Agreement after 31 December 2019, providing risk management and other financial services to Shandong Steel and/or its associates, the Company is required to continue to comply with the requirements under Chapter 14A of the Listing Rules in respect of continuing connected transactions. Accordingly, the Company entered into the Risk Management Services Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours) and proposed the annual caps for 2020, 2021 and 2022 under the Risk Management Services Framework Agreement.

I. 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 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 as well as 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. 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 enquires 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:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	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 67% 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 RMB23,000 thousand, RMB22,800 thousand, RMB28,000 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;
- (ii) For collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such 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 aggregate 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:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	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.

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:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	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 services on approximately half of the trading days each year (125 days), the commission paid to Zhongtai Securities by the Group in respect of the reverse repo of bonds services 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, 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 split ratio is determined based on the risk level of different types of OTC options. The higher the risk, the lower the split ratio to be given to Zhongtai Securities. The Company will negotiate with Zhongtai Securities within the above-mentioned range to determine the split ratio of each specific business.

Historical amount

For the two years ended 31 December 2017 and 2018 and the two months ended 28 February 2019, the Company did not pay introduction fee to Zhongtai Securities and/or its associates in respect of the OTC option introduction service.

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:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	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

The above proposed annual caps are determined with reference to historical amounts 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 imaginary value of the option and the degree of real value. 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 imaginary value. Considering that there is also the possibility of trading real-value 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 split ratio 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 date of this announcement, 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.

II. 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 (1.5% on average) as stipulated in the collective asset management contracts 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 aggregate 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:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	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 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 plan, 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.

Implications under the Listing Rules

As at the date of this announcement, 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.

3. 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 raw materials, 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 raw materials, 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 raw materials 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 raw materials 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 raw materials, 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 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.

For the purchase of raw materials 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.

Historical amounts

For the two years ended 31 December 2017 and 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 raw materials including iron ores from Luzheng Trading or the Company by Shandong Steel and/or its associates were 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 and raw materials between the Group and Shandong Steel and/or its associates shall not exceed the caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	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 raw materials 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 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 raw materials 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 raw materials 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 raw materials 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. 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 will be approximately RMB240 million, RMB264 million and RMB290 million.

Implications under the Listing Rules

As at the date of this announcement, 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. As such, 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.

4. RISK MANAGEMENT SERVICES FRAMEWORK AGREEMENT WITH SHANDONG STEEL

(1) Background

Reference is made to the announcements of the Company dated 28 April 2017 and 22 May 2017 in relation to, inter alia, the Former Risk Management Services Framework Agreement between the Company and Shandong Steel and the annual caps.

As disclosed in the announcements of the Company dated 28 April 2017 and 22 May 2017, pursuant to the Former Risk Management Services Framework Agreement, the Group provides various risk management services to Shandong Steel and/or its associates. As the corresponding annual caps under the Former Risk Management Services Framework Agreement will expire on 31 December 2019 and the Group will continue to conduct certain continuing connected transactions under the Former Risk Management Services Framework Agreement after 31 December 2019, and will provides various risk management services and other financial services to Shandong Steel and/or its associates, the Company entered into the Risk Management Services Framework Agreement with Shandong Steel on 26 April 2019 (after trading hours). The term of the Risk Management Services Framework Agreement is three years, valid from 1 January 2020 till 31 December 2022. 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.

(2) Details of the agreement

Date : 26 April 2019
Parties : Shandong Steel
The Company

Principal terms

In our ordinary and usual course of business, we provide risk management services to Shandong Steel and/or its associates. For example, we provide personalized and comprehensive risk management service in respect of the price risks confronted by Shandong Steel and/or its associates when they deal in futures, options, swaps, forwards and other derivative financial instruments or their portfolios on the non-public markets, whereby Shandong Steel and/or its associates buy or sell OTC options. Upon inception of the transaction, the buyer pays premium to the seller. As the largest brokerage in Shandong Province, Zhongtai Securities conducts OTC derivatives transaction involving swaps and OTC options in respect of stock index, ETF, stock and bulk commodity with its clients. Zhongtai Securities will conduct OTC options transaction with the Company for the purpose of hedging and transfer of risks associated with its OTC derivatives transaction. As a result, Zhongtai Securities and/or its affiliates will purchase or sell OTC options from or to the Company's subsidiaries. Upon inception of the transaction, the buyer pays premium to the seller.

Reasons for and benefits of the transaction

As the largest steel production and trading enterprise in Shandong Province, Shandong Steel has a large production capacity and scale of assets. In order to guard against the risk of fluctuations in the prices of raw materials and other commodities, Shandong Steel need personalized risk management for certain raw materials required in production processing. Since 2013 up to now, the Company's OTC derivatives business has become gradually matured and both its transaction ability and risk management service capabilities are greatly improved. We intend to provide OTC options in respect of futures such as rebar, iron ore, coke and rubber to Shandong Steel and/or its associates so as to meet the risk management needs of Shandong Steel and/or its associates and to promote the development of the Company's OTC derivatives business, and increase the operating revenue of the Company. Zhongtai Securities has an advantage in equity OTC derivatives, and the Company has an advantage in commodity OTC derivatives. Entering into OTC derivatives transaction between Zhongtai Securities and the Company can leverage on their respective advantages in different fields, make up for their respective weakness so as to satisfy the needs of their clients for OTC derivatives transaction.

Pricing terms

- (i) Considering market volatility and liquidity, the period for transaction of an OTC derivative with Shandong Steel ranges from one month to six months. The premium ratio is approximately 0.5% to 8% of the value of the underlying asset;
- (ii) The premium ratio of Zhongtai Securities' structured financial products transaction with its clients is approximately 0.1% to 0.5% of the value of the underlying asset.
- (iii) Although the premiums we charge for the OTC derivatives business vary depending on the type of futures product, the premium for the same futures product applies to all of our clients, including Shandong Steel and/or its associates, and other independent third party clients; and
- (iv) The premiums we charge/pay for the provision of risk management services are based on the reasonable pricing determined in accordance with market practice under fair conditions using internationally recognized pricing models and risk control systems, with reference to the basic parameters such as quotation from third party Wind Info to market players and the volatility provided by them, and are in line with the interests of the Company and the Shareholders as a whole.

Historical amounts

For the two years ended 31 December 2017 and 2018 and the two months ended 28 February 2019, Shandong Steel and/or its associates did not pay premium to the Group and the Group did not pay premium to Shandong Steel.

Annual caps

For the three years ending 31 December 2020, 2021 and 2022, the maximum aggregate annual amount of premium for provision of risk management services by the Group to Shandong Steel and/or its associates shall not exceed the caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	2020	2021	2022
Premium to be paid by Shandong Steel and/or its associates to the Group	9,000	9,000	9,000
Premium to be paid by the Group to Shandong Steel and/or its associates	9,000	9,000	9,000

Basis of annual caps

- (i) The Group's OTC derivatives transaction with Shandong Steel and Zhongtai Securities and other associates are mainly related to contracts such as ferrous metals, precious metals and stock index futures;
- (ii) Prior to this, Shandong Steel Group did not engage in OTC derivatives business due to resource integration and restructuring of production capacity within the organization. Meanwhile, Zhongtai Securities started its OTC derivatives business in 2014, mainly providing fund companies, private equity companies, investment companies and other clients with swaps and OTC options transaction in respect of stock index, ETF, stock and precious metal. In addition, it enters into transactions in respect of structured financial products (including structured wealth management and structured deposits) linked with stock indexes and precious metals and other underlying assets with commercial banks. Given the rapid growth of the OTC derivatives business in Mainland China, the sustained improvement of the Company's service capabilities, the transaction capabilities and risk control capabilities of Shandong Steel and/or its affiliates are gradually maturing;

- (iii) In 2018, the OTC derivatives transaction between Zhongtai Securities and its clients registered a total principle of more than RMB50 billion with a total premium of more than RMB20 million. After communication and confirmation with Zhongtai Securities about the OTC option business in 2018, according to the demand of Zhongtai Securities' OTC derivatives business lines for financial products, the estimated RMB5 billion nominal principal of the OTC derivatives transaction with the Company, and based on the premium rate of 0.1% (which is a common rate for structured financial products), we expect the revised annual caps for premium to be approximately RMB5,000 thousand, RMB5,000 thousand, RMB5,000 thousand for the years ending 31 December 2019, 2020 and 2021, respectively; and
- (iv) According to Shandong Steel's risk management demand for 30,000-ton steel, the nominal size of approximately RMB150 million, and based on the premium rate of 3% (which is common rate for vanilla options), we expect the revised annual caps for premium to be approximately RMB4,000 thousand, RMB4,000 thousand, RMB4,000 thousand for the years ending 31 December 2019, 2020 and 2021, respectively.

Implications under the Listing Rules

As at the date of this announcement, as Shandong Steel is the Controlling Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules, the transaction under the Risk Management Services Framework Agreement between the Company and Shandong Steel constitutes a continuing connected transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Risk Management Services Framework Agreement between the Company and Shandong Steel is more than 0.1% but less than 5% pursuant to the Listing Rules, the continuing connected transaction under the Risk Management Services Framework Agreement is subject to the reporting and announcement requirement but exempt from the 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, (3) the Risk Management Services Framework Agreement with Shandong Steel and (4) 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. The Company has adopted the following internal management procedures to ensure that the above continuing connected transactions under the Framework Agreements are fair and reasonable and on normal commercial terms:

- The Group has formulated a series of measures and policies on, among others, contract policies, project management policies and administration rules of connected transactions in order to ensure that the 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 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 announcement;
- When determining the actual prices of services provided by Zhongtai Securities and/or its associates, as well as the products supplied by Shandong Steel and/or its associates, Zhongtai Securities, Shandong Steel and/or their respective associates 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 policies basis. In addition to that, the Group usually seeks quotations or makes enquiries on relevant prices from not less than two other independent third party suppliers providing similar products or services, and refers to such pricing and terms for similar products or services, to make sure that the prices and terms offered by Zhongtai Securities, Shandong 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 policies basis. However, the Group usually makes enquiries on relevant prices to not 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 products, to make sure that the pricing and terms offered by the Group to Shandong Steel and/or its associates are fair, reasonable and are no less favorable than those offered to independent third 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 status and the transaction updates under the Framework Agreements. 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 for the implementation and execution of 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 engage annual review of the continuing connected transactions under the Framework Agreements pursuant to the requirements of the Listing Rules, in order to confirm that, among others, the transactions are conducted in accordance to the pricing policies and relevant transaction agreements.

After taking into consideration of aforementioned pricing policies, the basis of, the reasons for and the benefits of determining proposed annual caps and internal control procedures, the Directors (including Independent Non-executive Directors) are in the opinion that the terms of the contemplated transactions under the Framework Agreements and the proposed annual caps thereunder are entered into based on normal commercial terms in the ordinary and usual course of business of the Company that are fair and reasonable and in the interest of the Company and 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 regulations and guidelines and the terms of the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Risk Management Services Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement.

V. LISTING RULES IMPLICATIONS

(1) Financial Services Framework Agreement

As at the date of this announcement, as Zhongtai Securities holds approximately 63.10% of the equity interest of 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% pursuant to 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.

(2) Asset Management Service Framework Agreement

As at the date of this announcement, 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% pursuant to the Listing Rules, the continuing connected transaction under the Asset Management Service Framework Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) Risk Management Services Framework Agreement

As at the date of this announcement, as Shandong Steel is the Controlling Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules, the transaction under the Risk Management Services Framework Agreement between the Company and Shandong Steel constitutes a continuing connected transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio for the proposed annual caps of the Risk Management Services Framework Agreement between the Company and Shandong Steel is more than 0.1% but less than 5% pursuant to the Listing Rules, the continuing connected transaction under the Risk Management Services Framework Agreement is subject to the reporting and announcement requirement but exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(4) Bulk Commodities Sale and Purchase Framework Agreement

As at the date of this announcement, 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. As such, 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% pursuant to 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.

VI. THE OPINIONS OF THE BOARD

As Mr. Chen Fang and Mr. Yin Ge are holding office at Zhongtai Securities and/or its associates, it is deemed that they are connected to the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Risk Management Services Framework Agreement and the Bulk Commodities Sale and Purchase Framework and transactions thereunder. Therefore, they have abstained from voting on the resolutions of the Board for the approval of the Framework Agreements and their proposed annual caps. Save as disclosed, there are no other Directors involved in any material interests of 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.

In consideration of the pricing policies, the determination basis of the proposed annual caps, the reasons for and benefits of the continuing connected transactions and the Company's internal control procedures, 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, the Risk Management Services Framework Agreement and the Bulk Commodities Sale and Purchase Framework and the proposed annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VII. 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 advice, 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 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, securities dealer, margin financing, securities investment fund underwriting, financial products underwriting, futures IB 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 businesses of ferrous metal.

(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 businesses of ferrous metal. Laiwu Steel is a subsidiary of Shandong Iron & Steel Co., Ltd. which holds 80% of its shares.

VIII. AGM

The Company intends to propose relevant resolutions at the forthcoming AGM for Independent Shareholders' approval 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. Zhongtai Securities will abstain from voting in respect of the resolutions in relation 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 at the AGM. The number of Shares held by Zhongtai Securities and required to be abstained from voting amounted to 632,176,078. The resolutions to be proposed will be passed by way of ordinary resolutions and resolved by voting in accordance with the Listing Rules. Save as disclosed herein, no other Shareholders, to the knowledge and belief of the Directors having made all reasonable enquiries, will be required to abstain from voting at the AGM in respect of relevant resolutions as at the date of this announcement.

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 and will provide advice on the Financial Services Framework Agreement, the Asset Management Service Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement and their respective proposed annual caps to the Independent Shareholders.

The Company has appointed Gram Capital as the independent financial advisor to advise the Independent Board Committee and Independent Shareholders in respect of the above matter. The Independent Board Committee will provide its recommendation in the AGM circular upon having received the opinions of Gram Capital.

A circular containing, inter alia, details of (1) the Financial Services Framework Agreement and its proposed annual caps; (2) the Asset Management Service Framework Agreement and its proposed annual caps; (3) the Bulk Commodities Sale and Purchase Framework Agreement and its proposed annual caps; (4) the Independent Board Committee's recommendation to the Independent Shareholders; (5) Gram Capital's advice to the Independent Board Committee and 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; and (6) together with the notice of convening the AGM, will be dispatched to the Shareholders no later than within 15 working days after the date of this announcement.

IX. DEFINITIONS

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

“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
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“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 announcement, 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 Limited (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

“Framework Agreements”	collectively, the Financial Services Framework Agreement, the Asset Management Service Framework Agreement, the Risk Management Services Framework Agreement and the Bulk Commodities Sale and Purchase Framework Agreement
“Gram Capital” or “independent financial advisor”	Gram Capital Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong to engage in category 1 (securities trading) and category 6 (advising on corporate finance) regulated activities, appointed as the independent financial advisor 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 annual caps to the Independent Board Committee and Independent Shareholders
“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 new financial services framework agreement entered into between the Company and Zhongtai Securities on 28 April 2017

“Former Risk Management Services Framework Agreement”	The risk management services framework agreement entered into between the Company and Shandong Steel on 28 April 2017
“Group” or “we” or “us”	the Company and its subsidiaries (the Company and any of its subsidiary or various subsidiaries as the context requires)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“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 Service 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
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“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
“Risk Management Services Framework Agreement”	the risk management services framework agreement entered into between the Company and Shandong Steel on 26 April 2019
“RMB”	the lawful currency of the PRC
“Shandong Steel”	Shandong Iron & Steel Group Co., Ltd. (山東鋼鐵集團有限公司), a limited company incorporated in the PRC on 17 March 2008. 70% of its 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 holders of the Share(s)
“Zhongtai Securities”	Zhongtai Securities Co., Ltd. (中泰證券股份有限公司, previously known as Qilu Securities 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

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

Jinan, the PRC
26 April 2019

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