
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 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.

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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)

PROPOSAL ON THE WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2020
PROPOSAL ON THE WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2020
PROPOSAL ON THE ANNUAL REPORT FOR THE YEAR 2020
PROPOSAL ON THE FINAL ACCOUNTS FOR THE YEAR 2020
PROPOSAL ON THE FINANCIAL BUDGETS FOR THE YEAR 2021
PROPOSAL ON THE PROFIT DISTRIBUTION PLAN FOR THE YEAR 2020
PROPOSAL ON THE APPOINTMENT OF ACCOUNTING FIRMS FOR THE YEAR 2021
PROPOSAL ON THE APPOINTMENT OF NON-EXECUTIVE DIRECTOR
PROPOSAL ON THE FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH ZHONGTAI SECURITIES
PROPOSAL ON THE RISK MANAGEMENT SERVICES FRAMEWORK AGREEMENT WITH SHANDONG STEEL
PROPOSAL ON AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS
AND
NOTICE OF ANNUAL GENERAL MEETING

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



A notice convening the AGM to be held at 9:30 a.m. on Thursday, 17 June 2021 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC is set out on pages 62 to 64 of this circular. A letter from the Board is set out on pages 4 to 33 of this circular.

Shareholders who intend to appoint a proxy to attend the AGM shall complete and return the accompanying 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 holding the AGM or any adjournment thereof (i.e. before 9:30 a.m. on Wednesday, 16 June 2021) 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.

28 May 2021

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DEFINITIONS

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

“AGM” or “2020 AGM”	the annual general meeting of the Company for the year 2020 to be convened at 9:30 a.m. on Thursday, 17 June 2021 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
“associates(s)”	has the meanings ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China, in this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China 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 Main Board of the Hong Kong Stock Exchange (stock code: 01461)
“Company Law”	the Company Law of the People’s Republic of China
“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 10 May 2021

DEFINITIONS

“Former Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and Zhongtai Securities on 26 April 2019
“Former Risk Management Services Framework Agreement”	The risk management services framework agreement entered into between the Company and Shandong Steel on 26 April 2019
“Framework Agreements”	collectively, the Financial Services Framework Agreement and the Risk Management Services Framework Agreement
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to engage in Type 6 (advising on corporate finance) regulated activity, and appointed as the independent financial adviser of the Company to provide advice to the Independent Board Committee and Independent Shareholders on the Financial Services Framework Agreement and the Risk Management Services Framework Agreement and their respective annual caps
“Group” or “we” or “us”	the Company and its subsidiaries (or, the Company and any of its subsidiaries 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 Main Board of Hong Kong Stock Exchange and dealt with in HK\$
“HK\$”	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
“IB Services”	Introducing Broker Services
“Independent Board Committee”	the independent committee of the Board comprised of all Independent Non-executive Directors, namely Mr. Gao Zhu, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping, to provide advice to the Independent Shareholders in respect of the Financial Services Framework Agreement and the Risk Management Services Framework Agreement and their respective proposed annual caps
“Independent Non-executive Director(s)”	independent non-executive Director(s) of the Company

DEFINITIONS

“Independent Shareholder(s)”	Shareholders who are not required to abstain from voting on the Financial Services Framework Agreement and the Risk Management Services Framework Agreement and their respective proposed annual caps
“Laiwu Steel”	Laiwu Steel Group Co., Ltd. (萊蕪鋼鐵集團有限公司), a limited company incorporated in the PRC on 6 May 1999. 80.52% of its equity interest is held by Shandong Steel, and being one of the Controlling Shareholders of the Company
“Latest Practicable Date”	24 May 2021, 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
“Risk Management Services Framework Agreement”	The risk management services framework agreement entered into between the Company and Shandong Steel on 10 May 2021
“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 company incorporated in the PRC on 17 March 2008 with limited liability. 70% of its equity interest is held by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government, and being one of the Controlling Shareholders of the Company
“Share(s)”	the ordinary share(s) in the share capital 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, listed in Shanghai Stock Exchange on 3 June 2020 (Stock code: 600918), with 41.32% of its equity interest directly held by Laiwu Steel, and being one of the Controlling Shareholders 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.

LETTER FROM THE BOARD



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:

Zhong Jinlong (Chairman)

Liang Zhongwei

Non-executive Directors:

Hu Kainan

Ming Gang

Liu Feng

Independent Non-executive Directors:

Gao Zhu

Wang Chuanshun

Li Dapeng

Zheng Jianping

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, Dah Sing Financial Centre

No. 248 Queen's Road East

Wanchai

Hong Kong

28 May 2021

To the Shareholders

Dear Sir or Madam,

PROPOSAL ON THE WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2020
PROPOSAL ON THE WORK REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2020
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PROPOSAL ON AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS 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.

LETTER FROM THE BOARD

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 2020; (2) Proposal on the work report of the Supervisory Committee for the year 2020; (3) Proposal on the annual report for the year 2020; (4) Proposal on the final accounts for the year 2020; (5) Proposal on the financial budgets for the year 2021; (6) Proposal on the profit distribution plan for the year 2020; (7) Proposal on the appointment of accounting firms for the year 2021; (8) Proposal on the appointment of non-executive Director; (9) Proposal on the Financial Services Framework Agreement with Zhongtai Securities; and (10) Proposal on the Risk Management Services Framework Agreement with Shandong Steel.

A special resolution will be proposed at the AGM to approve: (1) Proposal on amendments to the Rules of Procedure for the Board of Directors.

ORDINARY RESOLUTIONS

1. Proposal on the Work Report of the Board of Directors for the year 2020

The work report of the Board of Directors for the year 2020 has been approved by the Board and is hereby proposed at the AGM for consideration 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 2020

The work report of the Supervisory Committee for the year 2020 has been approved by the Supervisory Committee and is hereby proposed at the AGM for consideration 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 2020

The annual report for the year 2020 has been approved by the Board and the Supervisory Committee and is hereby proposed at the AGM for consideration 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 12 April 2021.

4. Proposal on the Final Accounts for the year 2020

The external agency has confirmed the Annual Financial Statements of the Company for 2020 and has issued an audit report with standard unqualified opinion. The external agency believes that the Annual Financial Statements of the Company for 2020 have been prepared in accordance with the provisions of the International Financial Reporting Standards (“IFRSs”) and give a fair picture of the financial position of the Company as at 31 December 2020 and its operating results and cash flows in 2020 in all material aspects. The report of the financial position and operating results of the Company (unless otherwise stated, the financial data in this proposal are based on the audited information under IFRSs) are presented below for your consideration.

LETTER FROM THE BOARD

I. FINANCIAL POSITION OF THE COMPANY IN 2021

(1) Assets

As at the end of 2020, the total consolidated assets of the Company amounted to RMB12,926 million, representing a year-on-year increase of RMB3,997 million or 44.76%. The consolidated current assets of the Company amounted to RMB12,620 million, representing a year-on-year increase of RMB3,870 million or 44.23%. Among them, the net increase in security deposit amounted to RMB1,124 million, while the net increase in security deposit paid to the exchanges amounted to RMB2,461 million.

(2) Liability

As at the end of 2020, the total consolidated liability of the Company amounted to RMB10,686 million, representing a year-on-year increase of RMB3,942 million or 58.45%. Among them, monetary deposits payable amounted to RMB10,171 million, representing a year-on-year increase of RMB3,782 million or 59.20%.

(3) Shareholders' Equity and Net Capital

As at the end of 2020, the consolidated Shareholders' equity of the Company amounted to RMB2,239 million, representing a year-on-year increase of RMB55 million or 2.53%. This was mainly due to the increase in net profit. Owner's equity is comprised of share capital of RMB1,002 million, capital premium of RMB651 million, other reserve of RMB282 million and retained earnings of RMB304 million.

As at the end of 2020, net capital of the Company amounted to RMB967 million, representing a year-on-year decrease of 1.84 million or 15.98%; total risk capital reserves amounted to RMB346 million, representing a year-on-year increase of 100 million or 40.65%. The Company exercised strict controls over risks. The ratio of net capital to total risk capital reserves is 279.89%. All risk regulatory indicators are in compliance with the relevant regulations of the China Securities Regulatory Commission.

II. OPERATING RESULTS IN 2020

(I) Operating revenue

In 2020, the Company realized consolidated operating revenue of RMB489 million, representing a year-on-year increase of RMB167 million or 51.87%.

(II) Operating expenses

In 2020, the consolidated operating expenses of the Company amounted to RMB376 million, representing a year-on-year increase of RMB99 million or 35.81%, mainly due to the increase in general and administrative expense.

LETTER FROM THE BOARD

(III) Profit

In 2020, the Company realized net profit attributable to shareholders of the Company of RMB57 million, representing a year-on-year increase of RMB27 million or 91.04%.

The proposal is subject to consideration at the 2020 AGM after being considered and approved by the board of directors.

5. Proposal on the Financial Budgets for the year 2021

In accordance with the principles of ensuring operations and satisfying regulatory requirements, on the basis of exploring the greatest potential of existing assets, and in light of the Company's actual situation, the Company's budget in 2021 is RMB16.2675 million for fixed asset investment, and RMB8.66 million for intangible asset investment. They will primarily be intended for purchase and maintenance of electronic equipments, office equipments, software purchase, and the renovation and relocation and conversion of business premises.

6. Proposal on the Profit Distribution Plan for the year 2020

According to the audit results for the year 2020, 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 2020 is as follows: on the basis of a total share capital of 1,001,900,000 Shares as at 31 December 2020, cash dividends of RMB0.236 for every 10 shares held (inclusive of tax) are proposed to be distributed to the Shareholders. The cash dividends to be distributed amount to RMB23,644,840.00 (inclusive of tax) in total.

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 2020 AGM.

The aforesaid profit distribution plan for the year 2020 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 2020 final dividend, from Thursday, 24 June 2021 to Tuesday, 29 June 2021, 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 Tuesday, 29 June 2021 will be entitled to receive the 2020 final dividend. In order to qualify for the 2020 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, 23 June 2021.

Subject to the approval of the aforesaid profit distribution plan by the Shareholders at the AGM, the 2020 final dividend is expected to be paid on 3 August 2021 to the Shareholders whose names appear on the register of members of the Company on Tuesday, 29 June 2021.

LETTER FROM THE BOARD

7. Proposal on the Appointment of Accounting Firms for the year 2021

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 2021, 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 2020 and having taken into account the prevailing market rates and other factors, for the year 2021, the service fees for review of interim financial statements and audit of annual financial statements, the verification of the preliminary results announcement for H Shares and report on the continuing connected transactions under the International Financial Reporting Standards shall be RMB1.4 million; the service fee for auditing of the annual financial statements prepared under Chinese Accounting Standards for Business Enterprises shall be RMB0.25 million. The aforesaid service fees shall be RMB1.65 million in total.

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

8. Proposal on the appointment of non-executive Director

Reference is made to the announcement of the Company dated 10 May 2021 in relation to proposed election of non-executive Director. The Company hereby approves the nomination of Mr. LIU Xinyi as a candidate for non-executive Director of the Company. The biographical details of Mr. LIU Xinyi as required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules are set out below:

Mr. LIU Xinyi (劉心義) (without former name), aged 55, currently serves as the deputy general manager and chief manager of the retail business department of Zhongtai Securities Co., Ltd. (“**Zhongtai Securities**”) (中泰證券股份有限公司). From July 1988 to January 1999, Mr. LIU Xinyi served as a teaching assistant, lecturer, and deputy secretary of the general Party branch of the School of Electrical Engineering of Shandong Industry University (山東工業大學); served as an associate professor and the deputy secretary of Communist Youth League University Committee of Shandong Industry University (山東工業大學) from January 1999 to August 2000; he successively served as the deputy secretary of Communist Youth League Committee and an employee of the human resources headquarter of Tiantong Securities Co., Ltd. (天同證券有限責任公司) from August 2000 to January 2007; served as the deputy general manager of the business department of Zibo Commodity Street of Zhongtai Securities from January 2007 to January 2008; served as a senior business manager of the brokerage business headquarter of Zhongtai Securities from January 2008 to April 2010; served as the general manager of the Heze Dongming business department of Zhongtai Securities from April 2010 to May 2011; served as the deputy general manager of the customer service headquarter of Zhongtai Securities from May 2011 to February 2013; served as the deputy general manager of the retail business headquarter of Zhongtai Securities from February 2013 to April 2014; served as the deputy general manager of the wealth management business headquarter of Zhongtai Securities from April 2014 to February 2015; served as the deputy general manager of the wealth management department of Zhongtai Securities from February 2015 to May 2017; served as the deputy general manager of the brokerage business department of Zhongtai Securities from May 2017 to March 2021 and served as the deputy general manager and chief manager of the retail business department of Zhongtai Securities since March 2021. Mr. LIU Xinyi graduated from Shandong Industry University (山東工業大學) with a bachelor’s degree in electrical technology in June 1988 and graduated from Tianjin University of Finance and Economics (天津財經大學) with a master’s degree in business administration in June 2005.

LETTER FROM THE BOARD

Save as disclosed in this circular, Mr. LIU Xinyi has confirmed that: (1) he had not held directorships in other listed companies in the past three years, nor had other major appointments and professional qualifications; (2) he had not held any positions with the Company and the Company's subsidiaries; (3) he had no relationship with any directors, supervisors, senior management, substantial shareholders or controlling shareholders of the Company or any subsidiaries of the Company; (4) as at the Latest Practicable Date, he does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); and (5) there is no other information required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters relating to his appointment that need to be brought to the attention of the Shareholders.

If Mr. LIU Xinyi is appointed as a non-executive director of the Company, the Company will enter into a service contract with Mr. LIU Xinyi and his term of office is effective on the date of approval at the AGM and ends on the expiry of the third session of the Board of the Company. He is eligible for re-election upon expiry of his term. Mr. LIU Xinyi will not receive any director allowances from the Company.

The aforesaid proposal has been approved by the Board and is hereby proposed at the AGM for consideration and approval.

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

(1) Background

Reference is made to the announcement of the Company dated 26 April 2019 in relation to, inter alia, the non-exempt continuing connected transactions under the Former Financial Services Framework Agreement entered into between the Company and Zhongtai Securities and its annual caps. As disclosed in the announcement of the Company dated 26 April 2019, pursuant to the Former Financial Services Framework Agreement, Zhongtai Securities and/or its associates regularly provide various financial services to the Group in the ordinary and usual course of business of the Group. The aforesaid services mainly include the IB services provided by Zhongtai Securities and/or its associates to the Group, the asset management schemes purchased by the Group in which Zhongtai Securities and/or its associates act as the manager, the securities brokerage and other financial services received 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 2021, and the Group will continue to conduct certain continuing connected transactions under the Former Financial Services Framework Agreement subsequent to 31 December 2021, the Company shall continue to comply with the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Therefore, the Company entered into the Financial Services Framework Agreement with Zhongtai Securities on 10 May 2021 (after trading hours) and proposed the annual caps for 2022, 2023 and 2024 under the Financial Services Framework Agreement. Pursuant to the agreement, Zhongtai Securities and/or its associates will regularly provide various financial services to the Group, mainly including the IB services, asset management schemes, securities brokerage and other financial services. The term of the Financial Services Framework Agreement is three years with effect from 1 January 2022 and will expire on 31 December 2024. 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.

The Company does not expect to exceed the existing annual caps amount for the transactions contemplated under the Former Financial Services Framework Agreement before the date of the AGM.

LETTER FROM THE BOARD

(2) *Details of the agreement*

Date: 10 May 2021

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 participation in 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) the provision of 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 commissions on the Company 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 handling fee income 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;

LETTER FROM THE BOARD

- (ii) The handling fee income equals the handling fee received 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 in line with market practice.

Historical amounts

The commissions received by Zhongtai Securities and/or its associates for the provision of IB services to the Company for the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 were RMB8,905 thousand, RMB10,247 thousand and RMB3,228 thousand (unaudited), respectively; the commission split for the IB services provided by Zhongtai Securities and/or its associates to the Company was 60%.

Annual caps

The annual caps 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 were RMB20,600 thousand, RMB28,900 thousand and RMB40,500 thousand, respectively. 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 2022, 2023 and 2024 shall not exceed the caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	2022	2023	2024
Commissions	26,000	31,250	37,500

LETTER FROM THE BOARD

Basis of caps

The above proposed annual caps are determined with reference to historical amounts on the basis that: (i) synergies between the Company and Zhongtai Securities and/or its associates will increase with optimization of their respective branches. At present, 143 of the 325 branches of Zhongtai Securities are eligible for providing IB services. In 2021, the regulatory authorities are expected to reduce restrictions on the application of Type C securities business department for IB qualification. The number of branches of Zhongtai Securities capable of providing IB services to the Company are expected to increase significantly, which will drive the growth of the size of IB business. Therefore, the commissions that Zhongtai Securities and/or its associates can receive will continue to increase; (ii) the clients introduced by Zhongtai Securities and/or its associates to the Company 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 size of IB business provided by Zhongtai Securities and/or its associates to the Group. 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, December 2018 and April 2019, respectively, so as to further restore the function of stock index futures of hedging risks, which is expected to restore normal in all aspects at any time in the future; (iii) as at the end of 2020, there were 90 futures and options products listed in China. In particular, 12 new products were launched in 2020. A number of new financial and commodity futures and options are also being prepared. In the meantime, preparation has started for setting up Guangzhou Futures Exchange. The scope of futures brokerage services that the Company can provide will continue to expand. In 2020, the amount of funds in the futures market of Mainland China exceeded RMB855.95 billion, representing a year-on-year increase of 55.2%; (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 and RMB28,000 thousand, respectively.

China Financial Futures Exchange does not release its regulatory standards of control measures such as the level of margin deposits, the standards of handling fees, and positions restriction in connection with stock index futures to the public. From the end of 2015 up to now, China Financial Futures Exchange has been partially loosening its control over stock index futures transactions in February 2017, September 2017, December 2018, April 2019 and June 2020, respectively. Overall, China Financial Futures Exchange is gradually restoring normal control over stock index futures, and is likely to restore the margin deposits and handling fees to the levels before the restriction at any time in the future.

LETTER FROM THE BOARD

Since the amount of commissions payable by the Company for the IB services is closely related to the stock market's activity and trading volume, which, in turn, is related to such factors as economic development, domestic and foreign economic and financial environments, and China's macroeconomic policies. 2015 is a year in which the stock market was more active in recent years. But the Company is not in a position to accurately predict the rise and fall in and the activity of the stock market. In order to ensure the normal development of the Company's business when the stock market is active, the commission generated from IB services is projected on the basis of the amount of RMB28,000 thousand in 2015, taking into account factors including the launch of new varieties, the overall development of the futures market and the enhanced synergies. The commission generated from IB services provided by Zhongtai Securities and/or its associates to the Company is expected to increase by 55% or RMB43,400 thousand in 2022 from the commission income in 2015, and increase further by a conservative year-on-year rate of 20% to RMB52,080 thousand and RMB62,500 thousand in 2023 and 2024, respectively; and (v) the Commission Split is 60%. As such, the commissions to be received by Zhongtai Securities and/or its associates from the provision of IB services to the Company are expected to be approximately RMB26,000 thousand, RMB31,250 thousand and RMB37,500 thousand, respectively from 2022 to 2024.

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 collectively, 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 could effectively foster the business cooperation between both parties and improve return on assets of the Group.

LETTER FROM THE BOARD

Pricing terms

- (i) The Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager of the asset management schemes are calculated by multiplying our investment amounts with the Asset Management Fees rate. According to the similar transactions entered into by the Company with independent third parties in the past, the asset management fee rate is approximately 1.5%;
- (ii) For collective asset management schemes, the Asset Management Fees rate as stipulated in the collective asset management contracts is applicable to all investors participating in such 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 two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021, the Group participated in seven asset management schemes, in which Zhongtai Securities and/or its associates acted as the manager. For the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021, the maximum daily amount invested by the Group in such asset management schemes were approximately RMB66,250 thousand, RMB89,983 thousand and RMB101,990 thousand (unaudited), respectively, and the asset management fees paid by the Group to Zhongtai Securities and/or its associates were approximately RMB139.4 thousand, RMB137 thousand and RMB50 thousand, respectively. The asset management fees rates for such seven asset management schemes were 1.0%, 0.3%, 0.2% and 0%, respectively.

LETTER FROM THE BOARD

Annual caps

For the three years ending 31 December 2019, 2020 and 2021, the annual caps of the maximum daily amount invested by the Group for purchase of the asset management schemes from Zhongtai Securities and/or its associates were RMB206,000 thousand, RMB227,000 thousand and RMB250,000 thousand; the annual caps of asset management fees paid were RMB3,090 thousand, RMB3,400 thousand and RMB3,740 thousand, respectively. The maximum daily amount to be invested by the Group for purchase of asset management schemes from Zhongtai Securities and/or its associates, and the maximum aggregate annual amount of Asset Management Fees to be paid for the three years ending 31 December 2022, 2023 and 2024 shall not exceed the caps set out below:

Year	Proposed annual caps for the year ending 31 December <i>(RMB'000)</i>		
	2022	2023	2024
The maximum daily amount invested by the Group for purchase of asset management schemes from Zhongtai Securities and/or its associates	234,000	242,000	250,000
Asset Management Fees (based on the Asset Management Fees rate of 1.5% and the subscription fee of RMB10,000)	3,510	3,630	3,750

LETTER FROM THE BOARD

Basis of caps

The above proposed annual caps are determined with reference to historical amounts on the basis that: (i) based on the audited net assets of the Company in 2020, as well as the requirements on warning percentage of net capital and net assets and risk capital reserves of a futures company under the Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) promulgated by the CSRC, out of the total capital of the Company available for investment, after deducting RMB100,000 thousand for short-term working capital (e.g., unbudgeted expenditures that may affect the Company's net capital) and taking into account of the impact of the Company's annual net profit on its own capital available for investment, the projected capital of the Company available for financial investment from 2022 to 2024 would be approximately RMB760,000 thousand, RMB780,000 thousand and RMB800,000 thousand. According to the audited financial reports of the subsidiaries of the Company for 2020, the cash and held-for-trading financial assets of the subsidiaries of the Company amounted to RMB80,693 thousand. Taking into account of the impact of profit growth, the capital of the Company's subsidiaries available for financial investment in the next three years would be approximately RMB20,000 thousand, RMB25,000 thousand, and RMB30,000 thousand, respectively, and the total projected capital of the Group available for financial investment from 2022 to 2024 would be approximately RMB780,000 thousand, RMB805,000 thousand, and RMB830,000 thousand, respectively. According to the investment plan of the Group and in order to increase the capital utilization efficiency of the Group, the maximum 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 30% of the Group's total capital available for financial investment from 2022 to 2024. As such, the maximum daily amount to be invested from 2022 to 2024 would be RMB234,000 thousand, RMB242,000 thousand and RMB250,000 thousand, respectively; 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 of the rises of the asset management fees rates in the market, the asset management fees rate is assumed at 1.5%. Thus, the expected asset management fees to be paid by the Group to Zhongtai Securities and/or its associates for the next three years would be RMB3,510 thousand, RMB3,630 thousand and RMB3,750 thousand, respectively.

Based on the Company's audited financial information for the year ended 31 December 2020, the total assets and the net assets of the Group attributable to shareholders as at 31 December 2020 were approximately RMB12.925647 billion and RMB2.239394 billion, respectively. The maximum daily amount (i.e. the proposed annual cap) to be invested by the Group during the three years ending 31 December 2024 for purchase of asset management schemes from Zhongtai Securities and/or its associates, represent approximately (i) 1.81%, 1.87% and 1.93% of the total assets of the Group as at 31 December 2020; and (ii) 10.45%, 10.81% and 11.16% of the Group's net assets attributable to shareholders as at 31 December 2020. These daily maximum investment amounts are insignificant as compared with the above amounts.

LETTER FROM THE BOARD

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 charge 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 several 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 fee rate 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 us with reference to the prevailing market commission fee 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 fee rate of 0.03%). Different commission fee rates are applied to the bond brokerage business provided to us by Zhongtai Securities and/or its associates, ranging 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 fee rates are also applied to independent third parties; and
- (ii) The commissions fee rate charged by Zhongtai Securities and/or its associates for its provision of securities brokerage and other financial services to us is comparable to, or no less favorable than, the average commission fee rates on the market, and the corresponding commission fee rates are also within the range specified by respective stock exchanges in China, namely Shanghai Stock Exchange and Shenzhen Stock Exchange.

LETTER FROM THE BOARD

Historical amounts

In relation to the securities brokerage and other financial services provided by Zhongtai Securities and/or its associates, the historical amounts of commissions for the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 were approximately RMB183.6 thousand, RMB24 thousand and RMB11 thousand, respectively (unaudited).

Annual caps

The annual caps of the 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 were RMB1,700 thousand, RMB1,800 thousand and RMB2,000 thousand, respectively. 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 2022, 2023 and 2024 shall not exceed the caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	2022	2023	2024
Commissions	1,260	1,300	1,340

Basis of 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 available for 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 its own 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, and experienced dramatic fluctuation in the second half of 2015.

LETTER FROM THE BOARD

From 2016 to 2020, the overall Chinese stock market was stable. As such, the commissions paid by us to Zhongtai Securities and/or its associates in respect of securities brokerage businesses decreased significantly as compared with 2015. However, if the stock market picks up in the future, the amount expected to be invested by the Group in the stock market will continue to increase, Zhongtai Securities and/or its associates will provide more securities brokerage and other financial services to the Group, and the commissions payable by the Group to Zhongtai Securities and/or its associates are expected to increase significantly; (iii) When the stock market was bullish in 2015, the Group's maximum investment in the stock market was approximately RMB80,000 thousand. Should the Group make investment in the same amount in the stock market as mentioned above in the next three years, assuming transaction occurs once a month and a total of 12 transactions each year at a commission fee rate of 0.03%, the commission payable by the Company to Zhongtai Securities and/or its associates for each of 2022, 2023 and 2024 would be approximately RMB288 thousand; and (iv) based on the audited net assets of the Company in 2020, as well as the requirements for warning percentage of net capital and net assets and risk capital reserves of a futures company under the Administrative Measures on Risk Regulatory Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) promulgated by the CSRC, out of the Company's total capital available for investment, taking into account of the incremental brokerage business in the future and deducting RMB100,000 thousand for short-term working capital (e.g., unbudgeted expenditures that may affect the Company's net capital), and also taking into account of the effect of the Company's annual net profit on its own capital available for investment, the projected capital of the Company available for financial investment from 2022 to 2024, would be approximately RMB760,000 thousand, RMB780,000 thousand and RMB800,000 thousand. According to the audited financial reports of the subsidiaries of the Company for 2020, the cash and held-for-trading financial assets of the subsidiaries of the Company amounted to RMB80,693 thousand. Taking into account of the impact of profit growth, the capital of the Company's subsidiaries available for financial investment in the next three years would be approximately RMB20,000 thousand, RMB25,000 thousand, and RMB30,000 thousand, respectively, and the total projected capital of the Group available for financial investment from 2022 to 2024 would be approximately RMB780,000 thousand, RMB805,000 thousand and RMB830,000 thousand. Assuming all the capital is applied for conducting reverse repo of bonds at a rate of 0.001%, and the Group will conduct reverse repo of bonds during approximately half of the trading days each year (125 days), the projected commission payable by the Group to Zhongtai Securities and/or its associates in respect of the reverse repo of bonds services to be provided by Zhongtai Securities to the Group from 2022 to 2024, would be approximately RMB975 thousand, RMB1,010 thousand and RMB1,038 thousand, respectively. As regards the securities brokerage services to be provided by Zhongtai Securities and/or its associates to the Group, the projected commission payable by the Group to Zhongtai Securities and/or its associates over the next three years would be RMB1,260 thousand, RMB1,300 thousand and RMB1,330 thousand, respectively.

LETTER FROM THE BOARD

Listing rules implications

As at the Latest Practicable Date, as Zhongtai Securities holds approximately 63.10% equity interest in the Company, Zhongtai Securities constitutes a connected person of the Company under Chapter 14A of the Listing Rules, and 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.

The aforesaid proposal has been approved by the Board, the Audit Committee of the Board and the Supervisory Committee and is hereby proposed at the AGM for consideration and approval.

10. Proposal on the Risk Management Services Framework Agreement with Shandong Steel

(1) Background

Reference is made to the announcement of the Company dated 26 April 2019 in relation to, inter alia, the non-exempt continuing connected transactions under the Former Risk Management Services Framework Agreement entered into between the Company and Shandong Steel and its annual caps. As disclosed in the announcement of the Company dated 26 April 2019, the Group will provide risk management service 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 2022 and the Group will continue to conduct certain continuing connected transactions under the Former Risk Management Services Framework Agreement subsequent to 31 December 2021, and the Company intends to adjust the caps on the premium to be paid between the Group and Shandong Steel and/or its associates in the OTC options transactions under the Former Risk Management Services Framework Agreement, and conduct swap transactions with Shandong Steel and/or its associates, the Company shall continue to comply with the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Therefore, the Company entered into the Risk Management Services Framework Agreement with Shandong Steel on 10 May 2021 (after trading hours) and proposed the annual caps for 2021, 2022 and 2023 under the Risk Management Services Framework Agreement. The term of the Risk Management Services Framework Agreement is three years, valid from being approved at the AGM and will expire on 31 December 2023. The Former Risk Management Services Framework Agreement will be terminated immediately once the Risk Management 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.

The Company does not expect to exceed the existing annual caps amount for the transactions contemplated under the Former Risk Management Services Framework Agreement before the date of the AGM.

LETTER FROM THE BOARD

(2) *Details of the agreement*

Date: 10 May 2021

Parties: Shandong Steel

The Company

A. *Conducting OTC options transactions with Shandong Steel and/or its associates*

Principal terms

In our ordinary and usual course of business, we provide OTC derivatives transactions to Shandong Steel and/or its associates as part of risk management services. 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 engage in physical commodity trading and 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 of options, the buyer pays premium to the seller. As the largest brokerage in Shandong Province, Zhongtai Securities conducts OTC derivatives transaction involving OTC options in respect of stock index, ETF, stock and bulk commodity, with its clients. Zhongtai Securities will conduct OTC options transaction with us for the purpose of hedging risks associated with transaction of its OTC derivatives. Zhongtai Securities and/or its associates will purchase or sell OTC options from or to us. Upon inception of the transaction of options, 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 of the PRC, Shandong Steel has a large volume of production capacity and assets. In order to guard against the risk of fluctuations in the prices of raw materials and other commodities, Shandong Steel has potential personalized risk management needs for certain raw materials required in production and processing. From 2013 up to now, the OTC option business of the Company gradually matured with great improvement in its trading capacity and risk management service capability. We intend to provide OTC options in respect of rebars, iron ore, coke and rubber (all being underlying assets of futures) to Shandong Steel and/or its associates so as to meet the risk management needs of Shandong Steel and/or its associates, to promote the development of the Company's OTC options business and increase the operating revenue of the Company. Zhongtai Securities has an advantage in equity OTC options, and the Company has an advantage in commodity OTC options. Entering into OTC derivatives transactions between Zhongtai Securities and the Company can leverage on their respective advantages in different fields, make up their respective disadvantages so as to satisfy the needs of their clients for OTC derivatives transaction. Therefore, the Company plans to strengthen cooperation with Shandong Steel and/or its associates in 2021 to expand the volume of OTC options traded between both parties.

LETTER FROM THE BOARD

Pricing terms

- (i) Taking into account of market volatility and liquidity, the premium ratio for each trade of an OTC derivative with Shandong Steel and/or its associates generally ranges from 0.1% to 8% of the value of the underlying asset, and the premium ratio for trading structured financial product ranges from approximately 0.1% to 10% of the value of the assets;
- (ii) Though the premium charged by us in respect of OTC derivatives business varies depending on the types of different futures products, the premium for the identical futures products is applicable to all our clients, including Shandong Steel and/or its associates and other independent third-party clients; and
- (iii) 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 quotation provided by third party Wind Info to market players and the basic parameters such as the volatility provided by it, and are in line with the interests of the Company and the Shareholders as a whole.

Historical amounts

During the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021, the premiums paid by Shandong Steel and/or its associates to the Group in relation with OTC options business were RMB0, RMB5,256 thousand and RMB0, respectively. The premiums paid by the Group to Shandong Steel were RMB0, RMB1,014 thousand and RMB0, respectively.

LETTER FROM THE BOARD

Annual caps

The annual caps of the premium for provision of risk management services by the Group to Shandong Steel and/or its associates for the year ended 31 December 2020 was RMB9,000 thousand. The maximum aggregate annual amount of premium for provision of risk management services by the Group to Shandong Steel and/or its associates for the three years ending 31 December 2021, 2022 and 2023 shall not exceed the caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB'000)		
	2021	2022	2023
Premium to be paid by Shandong Steel and/or its associates to the Group	40,000	40,000	40,000
Premium to be paid by the Group to Shandong Steel and/or its associates	40,000	40,000	40,000

Basis of caps

- (i) From 2015 to 2020, the risk management subsidiaries of the Company recorded an average annual growth rate of more than 25% in OTC options business. According to the “Report on the Pilot Business of Risk Management Companies” published by China Futures Association, the financial OTC options business of the risk management subsidiaries of futures companies increased by 83% in 2020 as compared with the previous year, and the financial derivatives business of risk management subsidiaries saw tremendous growth. Given the increased awareness of operating entities about their own risk management, it is expected that the business needs of Shandong Steel and/or its associates in the subsequent periods will increase along with the market, so the business size of both parties will also increase accordingly.

LETTER FROM THE BOARD

- (ii) Based on the “Announcement of Key Operating Data for the Third Quarter of 2020” released by Shandong Iron And Steel Company Ltd (stock code: SH.600022) on the website of Shanghai Stock Exchange, as at 30 September 2020, the output of its main products, namely rolled steels, reinforcing bars, coils, and etc., was approximately 11,400 thousand tones, and its operating revenue amounted to RMB45,812 million. According to the aforementioned announcement (the above data exclude Laiwu Steel and other associates of Shandong Steel), from a conservative perspective, based on the above data, assuming that Shandong Steel and its associates (excluding Zhongtai Securities and/or its associates) will apply 10% of their revenue to OTC options for hedging purpose during the years ending 31 December 2021, 2022 and 2023, their trading volume of OTC options would be at least RMB4,600 million. Based on the Company’s share of 10% in commodity OTC options market, the annual trading volume of OTC options between Shandong Steel and the Company would be RMB460 million. Taking into account of the market fluctuations and liquidity, each OTC derivative transaction with Shandong Steel lasting for a period ranging from one month to six months, and the premium ratio of approximately 0.5% to 8% of the value of the underlying asset, the estimated annual premium income and expenditure calculated at a premium rate of 2% would be approximately RMB10,000 thousand.
- (iii) As at 31 December 2020, the annual cumulative nominal principal of OTC options traded by Zhongtai Securities with its clients exceeded RMB100 billion. Having communicated and confirmed with Zhongtai Securities about the OTC options business in 2020, the expected annual cumulative size of OTC options to be traded with the Company would be RMB1 billion in nominal principal, based on the demand of Zhongtai Securities for OTC options business in respect of financial products. Calculated at a premium rate of 3% (this ratio is the prevailing fee rate for structured financial products), the estimated annual premium income and expenditure would be RMB30,000 thousand.
- (iv) Based on the above, as at 31 December 2021, 2022, and 2023, we estimate that the revised annual caps on the amount of premium income and expenditure would be approximately RMB40,000 thousand, RMB40,000 thousand and RMB40,000 thousand, respectively.

LETTER FROM THE BOARD

B. Conducting Swaps transactions with Shandong Steel and/or its associates

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 engage in spot commodities trading and deal in futures, options, swaps, forwards and other derivative financial instruments or their portfolios on the public or non-public markets. As a result, Shandong Steel and/or its associates conduct swap transactions with us. In a swap transaction, the counterparties of the swap are the buyers and sellers. Shandong Steel and/or its associates (as the seller) pay the fixed/variable income of a specific asset to the Group (as the buyer), and in return, the Group (as the buyer) pays the corresponding fixed/variable income to Shandong Steel and/or its associates (as the seller). By common types, swap businesses are classified as variable income for variable income and variable income for fixed income. Variable income swaps are mainly structured products such as stock index enhancement. Variable and fixed income swaps mainly involve swaps in respect of underlyings such as spot and futures contracts on stocks and bulk commodities.

Reasons for and benefits of the transaction

In order to manage their price risks more accurately, Shandong Steel/or its associates need to conduct spot index swaps like rebar, iron ore and others through the Company. Such business can help operating entities to address risks associated with price spread of spot commodities. At present, mainstream products in the equity OTC derivatives market, such as stock index enhancement, bulk reduction in shareholding, and inter-agency securities lending, are all traded through swaps. As at 31 December 2020, Zhongtai Securities has a large holdings of swaps, and need to transfer the risk of its holdings. In the meantime, by leveraging the strong customer base of Zhongtai Securities, the Group can expand the trading volume of the Group's equity swaps through securities transactions and increase business income, and diversify channels to transfer the Company's swap transaction risks.

Pricing terms

In a swap transaction, neither party pays any fees, except for exchange of rights to income, which usually represents an exchange between fixed income and variable income. Fixed income is mainly determined with reference to the benchmark interest rate in the market as well as the Company's cost of capital; variable income is determined with reference to the change in the value of the underlying assets within a given period of time.

LETTER FROM THE BOARD

Nominal principal refers to the amount of contract specified by both parties in the agreement, that is, the amount of funds to be transacted. In a swap transaction, the nominal principal is the value of the underlying asset based on which income swap of both parties are transacted. The size of the nominal principal is usually determined according to the needs of the counterparty to hedge the underlying assets held by it. When the Group conducts swap transactions with its counterparties, it will select the underlying asset such as stocks, stock indexes, commodity futures, bulk commodity spot, and spot indexes, etc., which can be used for hedging purpose in the stock and futures markets with reference to the market fluctuation and the Company's past experience of transacting the same type with independent third parties.

Historical amounts

For swap transactions, during the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021, there were no swap transactions between the Company and Shandong Steel and/or its associates.

Annual caps

The maximum aggregate annual amount of accumulated nominal principal for swap transactions between the Group and Shandong Steel and/or its associates for the three years ending 31 December 2021, 2022 and 2023 shall not exceed the caps set out below:

Proposed annual caps for the year ending 31 December (RMB million)			
Year	2021	2022	2023
Nominal principal of swaps traded with Shandong Steel and/or its associates	2,110	2,460	2,660

LETTER FROM THE BOARD

Basis of caps

According to the “Report on the Pilot Business of Risk Management Companies” published by China Futures Association, the financial OTC swap business of the risk management subsidiaries of futures companies in 2020 increased by 885% as compared with the previous year, and the financial derivatives business of risk management subsidiaries saw huge growth. Given the increased awareness of operating entities about their own risk management, it is expected that the business needs of Shandong Steel and/or its associates in the subsequent periods will increase along with the market, so the volume of trading with the Group will also increase accordingly.

As at 31 December 2019 and 31 December 2020, the nominal principal of the swap business carried out by the Group were RMB2,352 million and RMB5,472 million, respectively, representing a year-on-year growth rate of 133%. With the further development of the market, the Group’s swap business is expected to maintain a relatively high growth rate. Should the Group’s swap business maintain year-on-year growth rates of 100%, 50%, and 30% in 2021, 2022, and 2023, respectively, the nominal principal amount of the Group’s swap business will reach RMB11,000 million, RMB16,500 million and RMB21,500 million, respectively.

During the years ending 31 December 2021, 2022 and 2023, the Group is expected to trade 15%, 12%, and 10% of the nominal principal for the year, respectively, with Zhongtai Securities in swaps of equity index, ETF, equity index futures and other varieties. The nominal principal will amount to RMB1,650 million, RMB2,000 million and RMB2,200 million, respectively.

Based on the “Announcement of Key Operating Data for the Third Quarter of 2020” released by Shandong Iron And Steel Company Ltd (stock code: SH600022) on the website of Shanghai Stock Exchange, as at 30 September 2020, the output of its main products, namely rolled steels, reinforcing bars, coils, etc., was approximately 11,400 thousand tones, and its operating revenue amounted to RMB45,812 million. According to the aforementioned announcement (the above data exclude Laiwu Steel and other associates of Shandong Steel), from a conservative perspective, based on the above data, assuming that Shandong Steel and its associates (excluding Zhongtai Securities and/or its associates) will apply 1% of their revenue to trading swaps during the years ending 31 December 2021, 2022 and 2023, the nominal principal would be approximately RMB460 million.

Based on the above, during the years ending 31 December 2021, 2022 and 2023 we expect the cumulative annual caps of the nominal principal for swap transactions with Shandong Steel and/or its associates to be approximately RMB2,110 million, RMB2,460 million and RMB2,660 million.

LETTER FROM THE BOARD

Listing rules implications

As at the Latest Practicable Date, as Shandong Steel holds 80.52% equity interest in Laiwu Steel who in turn holds 41.32% equity interest in Zhongtai Securities (a Controlling Shareholder of the Company) and is a controlling company of Zhongtai Securities, Shandong Steel therefore is a connected person of the Company under Chapter 14A of the Listing Rules, the transactions 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 exceeds 5% pursuant to the Listing Rules, the continuing connected transactions under the Risk Management Services 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 adequate monitoring over the transaction amounts and respective annual caps of (1) the Financial Services Framework Agreement with Zhongtai Securities, and (2) the Risk Management Services 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 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. The fairness and reasonableness of the transactions contemplated under the agreements of continuing connected transactions, in particular 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 circular.

LETTER FROM THE BOARD

- When determining the actual prices of services provided by Zhongtai Securities and/or its associates, the counterparties mentioned above 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 other 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 basis of the aforementioned pricing policies. Nevertheless, the Group usually seeks quotations or makes enquiries on relevant prices from not less than two other independent third party suppliers of similar products or services, and refers to such prices and other terms offered by independent third parties to us for similar products or services, to make sure whether the prices and terms offered by Zhongtai Securities and/or its 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 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 first evaluated and approved by the finance department, audit department and other 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 basis of the aforementioned pricing policies. Nevertheless, the Group usually makes enquiries on relevant prices to not less than two other independent third party suppliers of similar products or services, and makes reference to the market rates and the pricing and terms we offered to independent third parties for similar products and certain other terms, to make sure whether the prices 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 Board office 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. The Independent Non-executive Directors of the Company 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 review of 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, among others, the transactions are entered into in accordance to the pricing policies and relevant agreements governing such transactions.
- The Board office of the Company is responsible for monitoring daily connected transactions, it monitors and analyzes the connected transactions on a real time basis each day to ensure that the Company can be updated in a timely manner and discuss with the business department in advance when the amount of connected transactions is about to reach the annual cap and report the same to the Company's management to consider the necessity to revise the annual cap.

LETTER FROM THE BOARD

The opinions of the Board

As Mr. Zhong Jinlong and Mr. Hu Kainan are holding office at Zhongtai Securities and/or its associates, it is deemed that they are connected to the Financial Services Framework Agreement, the Risk Management Services Framework Agreement 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 above, none of other Directors have any material interests in the 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 Framework Agreements and their proposed annual caps.

Having considered the pricing policies, the basis of determining 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 and the Risk Management Services Framework Agreement and the proposed annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee

The Independent Board Committee (comprised of all Independent Non-executive Directors, namely Mr. Gao Zhu, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping) has been established to provide advice to the Independent Shareholders on the Financial Services Framework Agreement and the Risk Management Services 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 above matters.

LETTER FROM THE BOARD

Information about the transaction parties

(1) Information about the Company

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

(2) Information about 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. The A shares of Zhongtai Securities are listed on the Shanghai Stock Exchange (stock code: 600918).

(3) Information about Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008, and is principally engaged in investment with its own funds and investment management, smelting, processing and sales businesses of ferrous metal, its ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province.

The aforesaid proposal has been approved by the Board, the Audit Committee of the Board and the Supervisory Committee and is hereby proposed at the AGM for consideration and approval.

LETTER FROM THE BOARD

SPECIAL RESOLUTION

1. Proposal on Amendments to the Rules of Procedure for the Board of Directors

In order to further regulate the procedures of Board meetings, ensure the normal order of the Board and quality of the Board meetings, improve the work efficiency and scientific decision-making capabilities of the Board, and protect the legitimate rights and interests of shareholders, the Company has improved the list of matters to be considered by the Board and plans to amend the “Rules of Procedure for the Board of Directors of LUZHENG FUTURES Company Limited” (the “**Rules of Procedure for the Board of Directors**”), in accordance with the Company Law, the Articles of Association, and the relevant provisions of the “Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited”. See Appendix III of this circular for such amendments.

The aforesaid proposal has been approved by the Board, and is hereby proposed at the AGM for consideration and approval.

ANNUAL GENERAL MEETING

A notice convening the AGM to be held at 9:30 a.m. on Thursday, 17 June 2021 at Conference Room 1616, 16/F, Securities Tower, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province, the PRC is set out on pages 62 to 64 of this circular.

All the resolutions proposed at the AGM will be taken by poll. Zhongtai Securities will abstain from voting in respect of the resolutions on the Financial Services Framework Agreement, the Risk Management Services Framework Agreement and their respective proposed annual caps at the AGM. Zhongtai Securities is required to abstain from voting in respect of 632,176,078 shares held by it, representing 63.10% of the total number of voting shares of the Company. As at the Latest Practicable Date, 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 on relevant resolutions.

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, 16 June 2021) 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, 16 June 2021) 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.

LETTER FROM THE BOARD

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, 18 May 2021 to Thursday, 17 June 2021 (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, 17 June 2021 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. on Monday, 17 May 2021.

To protect the health and safety of Shareholders and attendees at the meeting and to prevent the spread of COVID-19, the Company will implement the following precautionary measures at the AGM:

1. Compulsory body temperature checks;
2. Compulsory wearing of surgical face masks; and
3. No beverage or refreshments.

Any person who does not comply with the precautionary measures may be denied entry into the AGM venue. The Company hereby encourages Shareholders to exercise their voting rights by appointing the chairman of the AGM as their proxy to vote on relevant resolutions at the AGM as an alternative to attending the AGM in person.

RECOMMENDATION

The Directors believe that the resolutions to be proposed at the AGM are all in the best 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
ZHONG Jinlong
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)

28 May 2021

To the Independent Shareholders

Dear Sir or Madam,

**FINANCIAL SERVICES FRAMEWORK AGREEMENT AND
RISK MANAGEMENT SERVICES 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 and the Risk Management Services 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 28 May 2021 (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 and the Risk Management Services 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 and the Risk Management Services 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

for and on behalf of the Independent Board Committee

Gao Zhu	Wang Chuanshun	Li Dapeng	Zheng Jianping
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>

LETTER FROM GRAM CAPITAL

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 transactions contemplated under the Framework Agreements for the purpose of inclusion in this circular.



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

28 May 2021

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Framework Agreements, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 28 May 2021 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 disclosed in the announcement of the Company dated 26 April 2019, the Company and Zhongtai Securities entered into the Former Financial Services Framework Agreement and set the respective annual caps on related non-exempt continuing connected transactions for 2019, 2020 and 2021. As the corresponding annual caps under the Former Financial Services Framework Agreement will expire on 31 December 2021, and the Group will continue to conduct certain continuing connected transactions under the Former Financial Services Framework Agreement subsequent to 31 December 2021, the Company shall continue to comply with the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Therefore, the Company entered into the Financial Services Framework Agreement with Zhongtai Securities on 10 May 2021 (after trading hours) and proposed the annual caps for 2022, 2023 and 2024 under the Financial Services Framework Agreement.

LETTER FROM GRAM CAPITAL

B. Risk Management Services Framework Agreement

As disclosed in the announcement of the Company dated 26 April 2019, the Company and Shandong Steel entered into the Former Risk Management Services Framework Agreement and set the respective annual caps on related non-exempt continuing connected transactions for 2020, 2021 and 2022. The corresponding annual caps under the Former Risk Management Services Framework Agreement will expire on 31 December 2022. As the Company intends to adjust the caps of the premium to be paid between the Group and Shandong Steel and/or its associates under the Former Risk Management Services Framework Agreement, and conduct swap transactions with Shandong Steel and/or its associates, the Company shall continue to comply with the requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions. Therefore, the Company entered into the Risk Management Services Framework Agreement with Shandong Steel on 10 May 2021 (after trading hours) and proposed the annual caps for 2021, 2022 and 2023 under the Risk Management Services Framework Agreement. The Former Risk Management Services Framework Agreement will be terminated immediately once the Risk Management Services Framework Agreement comes into effect.

With reference to the Board Letter, transactions under the Framework Agreements constitute 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. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping has been established to advise the Independent Shareholders on (i) whether the Framework Agreements are on normal commercial terms and are fair and reasonable; (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.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the continuing connected transactions (details of which are set out in the Company's circular dated 29 May 2019).

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

LETTER FROM GRAM CAPITAL

Besides, apart from the advisory fee and expenses payable to us in connection with our aforesaid engagement and this engagement (as the Independent Financial Adviser), there was no arrangement whereby we shall receive any other fees or benefits from the Company.

Having considered the above, in particular (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagement, we are of the view that we are independent to act as the Independent Financial Adviser.

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 the Company's management (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors and/or the Management, 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 Management 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 Directors and/or the Management, which have been provided to us. Our opinion is based on the Directors' and/or the Management's 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 as contained in the Circular 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 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.

LETTER FROM GRAM CAPITAL

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.

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, 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. The A shares of Zhongtai Securities are listed on the Shanghai Stock Exchange (stock code: 600918).

Information on Shandong Steel

Shandong Steel was incorporated in the PRC in March 2008, and is principally engaged in investment with its own funds and investment management, smelting, processing and sales businesses of ferrous metal. Shandong Steel's ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province.

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 transaction" under sections headed "Proposal on the Financial Services Framework Agreement with Zhongtai Securities" and "Proposal on the Risk Management Services 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.

LETTER FROM GRAM CAPITAL

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.

A. FINANCIAL SERVICES FRAMEWORK AGREEMENT

Principal terms of the Financial Services Framework Agreement

Set out below are the key terms of the Financial Services Framework Agreement, details of which are set out under the section headed “Proposal on the Financial Services Framework Agreement with Zhongtai Securities” of the Board Letter.

Date: 10 May 2021

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 introduce 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) the provision of 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 purchases asset management schemes, in which Zhongtai Securities and/or its associates act as the manager in its 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.

LETTER FROM GRAM CAPITAL

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 its 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.

Pricing terms

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

With reference to the Board Letter, the commission charged by Zhongtai Securities and/or its associates for the provision of IB services to the Company will be 60% of the handling fee income generated from such clients introduced by Zhongtai Securities and/or its associates (i.e. 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.

The handling fee income equals the handling fee received 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.

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 Practicable 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 60% to 70% of the commission revenue generated from the clients introduced by them to respective futures companies. We obtained the results of aforesaid research.

LETTER FROM GRAM CAPITAL

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 Securities 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 Securities 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.

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

With reference to the Board Letter, the Asset Management Fees charged by Zhongtai Securities and/or its associates as the manager of the asset management schemes are calculated by multiplying the investment amounts with the Asset Management Fees rate. According to the similar transactions entered into by the Company with independent third parties in the past, the asset management fee rate is approximately 1.5%.

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.

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.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we obtained collective asset management scheme contracts comprised (i) three collective asset management schemes purchased by the Company, in which Zhongtai Securities and/or its associates acted as the managers; and (ii) nine collective asset management schemes purchased by the Company, in which independent third parties acted as the managers, during 2019 and 2020.

We noted from such contracts that key terms (such as the scope of investment, the risk profile, the method of joining and quitting 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 Company were stated in those contracts. As advised by the Company, as the investment strategies, risk exposures, investment underlyings etc. are different under collective asset management schemes, it would be inappropriate to compare asset management fees under different collective asset management schemes. However, asset management fee for each collective asset management scheme applied to all participants. As asset management fee for each collective asset management scheme applied to all participants, we consider the pricing terms under the collective asset management scheme to be fair and reasonable.

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 any targeted asset management schemes in which Zhongtai Securities and/or its associates as the manager. Nevertheless, as confirmed by the Management, for targeted asset management schemes, 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 schemes. Therefore, we consider the pricing terms under targeted asset management schemes to be fair and reasonable.

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

With reference to the Board Letter, the commissions fee rate 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, ranging 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.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the commissions fee rate 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 of securities transactions specified by China Securities Regulatory Commission was 0.3%. Having considered that (i) commission rates applied to the Group are also applied to independent third parties; and (ii) commissions charged by Zhongtai Securities and/or its associate for provision of securities brokerage are comparable to the market practice, we consider commissions fee rate charged by Zhongtai Securities and/or its associates for provision of securities brokerage and other financial services to be fair and reasonable.

With reference to the Board Letter, the Company would strive to exercise stringent monitoring over the transaction amounts and 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 effective implementation of the internal control procedures would ensure the fair pricing under the Financial Services Framework Agreement.

Proposed annual caps

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

Set out below are (i) the historical commissions received by Zhongtai Securities and/or its associates for the provision of IB services to the Company for the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 with existing annual caps; and (ii) proposed annual caps for acceptance of IB services for the three years ending 31 December 2024:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
Historical amounts	8,905	10,247	3,228 (Note)
Existing annual caps	20,600	28,900	40,500
Utilisation rate	43.2%	35.5%	N/A

LETTER FROM GRAM CAPITAL

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Proposed annual caps	26,000	31,250	37,500

Note: Based on the historical amounts for the three months ended 31 March 2021.

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 2024 are set out in the Board Letter.

We noted that the historical utilisation of exiting annual caps for the two years ended 31 December 2020 were at low levels. As advised by the Management, in the second half of 2015, Chinese stock market experienced significant fluctuations. China Financial Futures Exchange (中國金融期貨交易所) 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 commissions generated from the IB business provided to the Company by Zhongtai Securities and/or its associates (the "**Commissions**") 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 two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 as (i) the stock index futures transactions were restricted in 2015 by China Financial Futures Exchange (中國金融期貨交易所); (ii) the stock index market in each of the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 were much worse than that in 2015; and (iii) China Financial Futures Exchange (中國金融期貨交易所) 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, December 2018 and April 2019, respectively, so as to further restore the function of stock index futures of hedging risks, which is expected to restore normal in all aspects at any time 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 (中國金融期貨交易所) 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.

LETTER FROM GRAM CAPITAL

We also noted that according to the China Futures Association (中國期貨業協會), (i) the total 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 RMB24,529.2 billion and RMB26,122.3 billion); and (ii) the total turnover on China Financial Futures Exchange (中國金融期貨交易所) for each of the two years ended 31 December 2020 represented approximately 16.67% and 27.63% of the total turnover on China Financial Futures Exchange (中國金融期貨交易所) for the year ended 31 December 2015 respectively. Due to fact that the stock index futures transactions were restricted in 2015 by China Financial Futures Exchange (中國金融期貨交易所), we consider that the utilisation rates for the two years ended 31 December 2020 would not serve as a meaningful reference for determining the proposed annual caps for acceptance of IB services for the three years ending 31 December 2024.

We further noted news published by China Financial Futures Exchange (中國金融期貨交易所) in 2017, 2018, 2019 and 2020 in relation to reduction of margin deposits, handling fees and adjusting trading limits of the stock index futures transaction to loosen its control over stock index futures transactions.

Based on the above, the Management expected the function of stock index futures of hedging risks to restore normal in all aspects at any time in the future as China Financial Futures Exchange (中國金融期貨交易所) announced to partially loosen the control on the stock index futures transactions. The Management determined proposed annual caps with reference to the Commissions for the year ended 31 December 2015 (the “Cap Basis”).

We further noted that (i) the estimated Commissions for the year ending 31 December 2022 represented an increase of approximately 55% as compared to the Commissions for the year ended 31 December 2015; and (ii) the estimated Commissions for each of the two years ending 31 December 2024 represented an increase of approximately 20% as compared to the estimated Commissions in respective previous year. In light of the data published by China Financial Futures Exchange (中國金融期貨交易所), indicating that daily average market transaction amount of stock index futures’ compounded annual growth rate amounted to approximately 76% from 2016 to 2020, we consider that the increase in the estimated Commissions to be acceptable.

Having considered the above statistics and in particular that

- (i) the utilisation rates for the two years ended 31 December 2020 would not serve as a meaningful reference for determining the proposed annual caps for acceptance of IB services for the three years ending 31 December 2024 due to fact that the stock index futures transactions were restricted in 2015 by China Financial Futures Exchange (中國金融期貨交易所); and
- (ii) China Financial Futures Exchange (中國金融期貨交易所) has been partially loosening its control over stock index futures transactions,

we concur with the Management that the determination of proposed annual caps based on the Cap Basis would be more appropriate.

LETTER FROM GRAM CAPITAL

Having considered the above factors and that the proposed annual caps representing 60% (i.e. the Commission Split) of the estimated Commissions, 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.

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

Set out below are (i) the historical maximum daily amounts of purchase of asset management schemes, in which Zhongtai Securities and/or its associates act as the manager for the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 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 2024:

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

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
Historical amounts	66,250	89,983	101,990 (Note)
Existing annual caps	206,000	227,000	250,000
Utilisation rate	32.2%	39.6%	N/A
	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Proposed annual caps	234,000	242,000	250,000

Note: Based on the historical amounts for the three months ended 31 March 2021.

LETTER FROM GRAM CAPITAL

Asset Management Fees

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
Historical amounts	139.4	137	50 (Note)
Existing annual caps	3,090	3,400	3,740
Utilisation rate	4.5%	4.0%	N/A
	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Proposed annual caps	3,510	3,630	3,750

Note: Based on the historical amounts for the three months ended 31 March 2021.

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 two years ended 31 December 2020 were at low levels. As advised by the Management, the low utilisation was mainly because of the change in investment style. The group's needs are less matched with the investment strategy of Zhongtai Securities and/or its associates. The group's newly purchased asset management plans are mainly low-risk income vouchers and higher-return private equity funds.

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 (the “**Ratio**”) shall be no less than 20%. According to the Company's audited financial information for the year ended 31 December 2020, the Group's net asset attributable to Shareholders as at 31 December 2020 was approximately RMB2.24 billion, with net capital of approximately RMB967.02 million. The Company's Ratio was approximately 44.88% as at 31 December 2020.

LETTER FROM GRAM CAPITAL

We understood that the Management assumed the Group's net capital for the three years ending 31 December 2024 to be approximately RMB1.0 billion, approximately RMB1.1 billion and approximately RMB1.2 billion, respectively. To assess the fairness of the estimated Group's net capital for the three years ending 31 December 2024, we summarised below the Group's net capital as at 31 December 2018, 2019 and 2020 as extracted from the Company's annual reports:

	As at	As at	As at
	31 December	31 December	31 December
	2018	2019	2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net capital	1,327,893,600.10	1,150,992,769.04	967,024,667.25

As the expected Group's net capital for the three years ending 31 December 2024 would not materially deviate from the actual Group's net capital as at 31 December 2018, 2019 and 2020, we consider the estimated Group's net capital for the three years ending 31 December 2024 to be reasonable.

With reference to the Board Letter, according to the investment plan of the Group and in order to increase the capital utilization efficiency of the Group, the maximum 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 30% of the Group's total capital available for financial investment from 2022 to 2024.

Based on the Management's assumption on the Group's total projected capital available for financial investment in 2022 of RMB780 million (after deducting short-term working capital, taking into account of the impact of the Company's annual net profit and the financial investment capital of the Company's subsidiaries), 30% of the Group's total capital available for financial investment in 2022 would be RMB234 million, which represented the proposed annual cap of RMB234 million for the year ending 31 December 2022. Therefore, we consider that the proposed annual cap for the year ending 31 December 2022 to be fair and reasonable.

We further noted that the proposed annual cap for the year ending 31 December 2023 represented an increase of approximately 3.4% as compared to that for the year ending 31 December 2022; while the proposed annual cap for the year ending 31 December 2024 represented an increase of approximately 3.3% as compared to that for the year ending 31 December 2023. Having considered that the historical amounts of purchase of asset management schemes in which Zhongtai Securities and/or its associates act as the manager increased by approximately 35.8% from 2019 to 2020, we are of the view that the increase in proposed annual caps for each of the two years ending 31 December 2024 (which was determined in a prudence sake basis as advised by the Directors) to be acceptable. As such, we consider the proposed annual caps for the two years ending 31 December 2024 to be fair and reasonable.

LETTER FROM GRAM CAPITAL

We further noted that the proposed annual caps in respect of annual management fees represented approximately 1.5% of 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 2024. For our due diligence purpose, we obtained the Group's contracts in respect of asset management schemes and noted that the estimated annual management fees were within the annual management fees range as shown in the asset management schemes contracts. Accordingly, we consider the proposed annual caps in respect of Annual Management Fees for the three years ending 31 December 2024 to be fair and reasonable.

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

Set out below are (i) the historical amounts of commissions for the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021 with existing annual caps; and (ii) proposed annual caps (in terms of commission) of acceptance of securities brokerage and other financial services provided by Zhongtai Securities and/or its associates for the three years ending 31 December 2024:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
Historical amounts	183.6	24	11 (Note)
Existing annual caps	1,700	1,800	2,000
Utilisation rate (%)	10.8%	1.3%	N/A
	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Proposed annual caps	1,260	1,300	1,340

Note: Based on the historical amounts for the three months ended 31 March 2021.

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 two years ended 31 December 2020 were at low levels. As advised by the Management, the frequency and size of transactions relating to securities brokerage services and other financial services in capital markets usually depend on market sentiment and government policies and initiatives.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, according to the data published by Shanghai Stock Exchange, (i) the turnover for the year ended 31 December 2019 amounted to approximately RMB54,384.4 billion (excluding share buyback), representing a decrease of approximately 59.0% as compared to that of approximately RMB132,558.8 billion for the year ended 31 December 2015; and (ii) the turnover for the year ended 31 December 2020 amounted to approximately RMB83,986.1 billion (excluding share buyback), representing a decrease of approximately 36.6% as compared to that of approximately RMB132,558.8 billion for the year ended 31 December 2015. According to the data published by Shenzhen Stock Exchange, (i) the turnover for the year ended 31 December 2019 amounted to approximately RMB73,031.5 billion, representing a decrease of approximately 40.4% as compared to the turnover of approximately RMB122,495.0 billion for the year ended 31 December 2015; and (ii) the turnover for the year ended 31 December 2020 amounted to approximately RMB122,839.2 billion, representing a slight increase of approximately 0.3% as compared to the turnover of approximately RMB122,495.0 billion for the year ended 31 December 2015.

As (i) the total turnover (including Shanghai Stock Exchange and Shenzhen Stock Exchange) for each of the four years ended 31 December 2020 decreased substantially as compared to that for the year ended 31 December 2015; (ii) SSE Composite Index closed at 3,473.07 as at 31 December 2020, representing a decrease of approximately 1.9% from 3,539.18 as at 31 December 2015; (iii) SZSE Composite Index closed at 2329.37 as at 31 December 2020, representing a slight increase of approximately 0.9% from 2,308.91 as at 31 December 2015; and (iv) the Company expected the stock market will continue to recover in the future, the Management estimated demand on securities brokerage based on the one-time maximum amount of the Group invested in the stock market of RMB80 million in 2015. Assuming that securities transaction being conducted once a month and a total of 12 transactions each year at the average commission rate of the stock brokerage business of 0.03% as mentioned above, the commission payable by the Company to Zhongtai Securities and/or its associates for each of the three years ending 31 December 2024 will be amounted to approximately RMB288,000.

As advised by the Management, 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 that (i) the Group's total projected capital available for financial investment for each of three years ended 31 December 2024 (after deducting short-term working capital, taking into account of the impact of the Company's annual net profit and the expected financial investment capital of the Company's subsidiaries) is applied for conducting reverse repo of bonds at a rate of 0.001%; and (ii) the Group will conduct reverse repo of bonds on approximately half of the trading days each year (i.e.125 days), the commission payable by the Group to Zhongtai Securities and/or its associates will be approximately RMB975,000, RMB1,010,000 and RMB1,038,000 for each of the three years ending 31 December 2024.

Based on the above analysis on (i) the estimated commission regarding stock brokerage business for the three years ending 31 December 2024; and (ii) the estimated commission regarding reverse repo of the bonds for the three years ending 31 December 2024, we consider that the proposed annual caps for the three years ending 31 December 2024 to be fair and reasonable.

LETTER FROM GRAM CAPITAL

Shareholders should note that as the proposed annual caps for the three years ending 31 December 2024 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 2024, and they do not represent forecasts of cost to be incurred from the transactions contemplated under the Financial Services Framework Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred from the transactions contemplated under the Financial Services Framework Agreement will correspond with the proposed annual caps for the three years ending 31 December 2024.

B. RISK MANAGEMENT SERVICES FRAMEWORK AGREEMENT

Set out below are the key terms of the Risk Management Services Framework Agreement, details of which are set out under the section headed “Proposal on the Risk Management Services Framework Agreement with Shandong Steel” of the Board Letter.

Date:	10 May 2021
Parties:	Shandong Steel and the Company
Principal terms:	<i>Conducting OTC options transactions with Shandong Steel and/or its associates</i>

In the Group’s ordinary and usual course of business, the Group provides OTC derivatives transactions to Shandong Steel and/or its associates as part of risk management services. For example, the Group provides personalized and comprehensive risk management service in respect of the price risks confronted by Shandong Steel and/or its associates when they deal in physical commodity trading and 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 of options, the buyer pays premium to the seller. As the largest brokerage in Shandong Province, Zhongtai Securities conducts OTC derivatives transaction involving OTC options in respect of stock index, ETF, stock and bulk commodity, with its clients. Zhongtai Securities will conduct OTC options transaction with the Group for the purpose of hedging risks associated with transaction of its OTC derivatives. Zhongtai Securities and/or its associates will purchase or sell OTC options from or to the Group. Upon inception of the transaction of options, the buyer pays premium to the seller.

LETTER FROM GRAM CAPITAL

Conducting Swaps transactions with Shandong Steel and/or its associates

In the Group's ordinary and usual course of business, the Group provides risk management services to Shandong Steel and/or its associates. For example, the Group provides personalized and comprehensive risk management service in respect of the price risks confronted by Shandong Steel and/or its associates when they deal in spot commodities and futures, options, swaps, forwards and other derivative financial instruments or their portfolios on the public or non-public markets. As a result, Shandong Steel and/or its associates conduct swap transactions with the Group. In a swap transaction, the counterparties of the swap are the buyers and sellers. Shandong Steel and/or its associates (as the seller) pay the fixed/variable income of a specific asset to the Group (as the buyer), and in return, the Group (as the buyer) pays the corresponding fixed/variable income to Shandong Steel and/or its associates (as the seller). A mutually agreed margin will be paid in the swap transaction (as the seller). By common types, swap businesses are classified as variable income for variable income and variable income for fixed income. Variable income swaps are mainly structured products such as stock index enhancement. Variable and fixed income swaps are mainly swaps of underlyings such as spot and futures contracts on stocks and bulk commodities.

Pricing terms:

Conducting OTC options transactions with Shandong Steel and/or its associates

With reference to the Board Letter, taking into account of market volatility and liquidity, generally the premium ratio for each trade of an OTC derivative with Shandong Steel and/or its associates ranges from 0.1% to 8% of the value of the underlying asset, among which, the premium ratio for trading structured financial product ranges from approximately 0.1% to 10% of the value of the assets.

As advised by the Management, Black Scholes Model is used to evaluate OTC derivatives, which is one of the commonly used models to estimate the fair value of OTC derivatives. We discussed with the deputy general manager of over-the-counter department of the Company's subsidiary, who will be mainly responsible for the Group's the OTC derivatives business, and understood Black Scholes Model applied to pricing of OTC derivatives transactions between Zhongtai Securities/independent third parties and the Company.

For our due diligence purpose, we obtained three sets of contracts of OTC options transactions (the "**Sampled Transactions**") between Zhongtai Securities/independent third parties and the Company (with corresponding calculation) and noted from such contracts that the premium rates offered to Shandong Steel's associates were not lower than that offered to the independent third parties in comparable OTC options transactions. As the number of contracts of the Sampled Transactions (with connected persons) accounted for over 10% of total number of contracts of OTC options transactions between Zhongtai Securities and the Company in 2020, we consider the Sampled Transactions are sufficient for us to form our view and are fair and representative samples.

LETTER FROM GRAM CAPITAL

Conducting Swaps transactions with Shandong Steel and/or its associates

With reference to the Board Letter, in a swap transaction, neither party pays any fees, except for exchange of rights to income, which usually represents an exchange between fixed income and variable income. Fixed income is mainly determined with reference to the benchmark interest rate in the market as well as the Company's cost of capital; variable income is determined with reference to the change of value in the underlying assets within a given period of time.

With reference to the Board Letter, the Company would strive to exercise stringent monitoring over the transaction amounts and annual caps of the Risk Management Services 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. We consider that the effective implementation of the internal control procedures would ensure the fair pricing under the Financial Services Framework Agreements.

Proposed annual caps

a. Conducting OTC options transactions with Shandong Steel and/or its associates

Set out below are (i) the historical premium amounts paid for purchase of OTC options by Shandong Steel and/or its associates and purchase of OTC options by the Group for the year ended 31 December 2020 and the three months ended 31 March 2021 with existing annual caps; and (ii) proposed annual caps of premium to be paid for purchase of OTC options by Shandong Steel and/or its associates and purchase of OTC options by the Group for the three years ending 31 December 2023:

	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
Premium paid by Shandong Steel and/or its associates to the Group	5,256	Nil (<i>Note</i>)
Existing annual caps	9,000	9,000
<i>Utilisation rate (%)</i>	58.4%	NA
Premium paid by the Group to Shandong Steel and/or its associates	1,014	Nil (<i>Note</i>)
Existing annual caps	9,000	9,000
<i>Utilisation rate (%)</i>	11.3%	NA

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	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Annual caps of premium to be paid by Shandong Steel and/or its associates to the Group	40,000	40,000	40,000
Annual caps of premium to be paid by the Group to Shandong Steel and/or its associates	40,000	40,000	40,000

Note: Based on the historical amounts for the three months ended 31 March 2021.

Details of the basis of the proposed annual caps for conducting OTC options transactions with Shandong Steel and/or its associates under Risk Management Services Framework are set out in the Board Letter.

We noted that the historical utilisation of exiting annual cap in respect of such transactions for the year ended 31 December 2020 was not at high level. As advised by the Management, the low utilisation was mainly because (i) the Company did not carry out the such business as the scale of relevant market was small and insufficient demand from its clients in 2019; (ii) in order to meet market demand (the scale of the relevant market grew substantially), the Company launched equity derivatives business in April 2020 and conducted the first OTC options transaction with Zhongtai Securities in September 2020; (iii) constrained by domestic listed companies' perceptions of derivatives business, the Company did not promote business cooperation with Shandong Steel and its related parties on a large scale in the early stage, so the trading volume of commodity options was also thin.

As advised by the Management, the annual caps relating to conducting OTC options transactions with Shandong Steel and/or its associates were determined based on (i) estimated annual trading volume of OTC options of RMB460 million between Shandong Steel Group (excluding Zhongtai Securities and/or its associates) and the Company; and (ii) estimated annual trading volume of OTC options of RMB1 billion between Zhongtai Securities and the Company.

LETTER FROM GRAM CAPITAL

Shandong Steel Group (excluding Zhongtai Securities and/or its associates)

As advised by the Management, the financial derivatives business of risk management companies in the PRC grew substantially in 2020 and the Management expected business needs of risk management of Shandong Steel and/or its associates will increase, so the business size of OTC options transactions with Shandong Steel and/or its associates will also increase accordingly. We noted from《風險管理公司試點業務情況報告》(Report on the Pilot Business of Risk Management Companies*) published in February 2021 and March 2021 that (i) the nominal principal of risk management companies' OTC financial derivatives business for the year ended 31 December 2020 increased by approximately 83% on a year-on-year basis; and (ii) the nominal principal of risk management companies' OTC financial derivatives business for the one month ended 31 January 2021 increased by approximately 222% on a year-on-year basis.

For our due diligence purpose, we noted from 2020 年三季度主要經營數據公告 (the Announcement of Key Operating Data for the Third Quarter of 2020*) released by 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, that for the nine months ended 30 September 2020, the output of its main products (namely rolled steels, reinforcing bars, coils, and etc.) was approximately 11,400 thousand tones and the corresponding operating revenue amounted to approximately RMB45,812 million.

Based on the aforementioned figures, the Management, from a conservative perspective, assumed Shandong Steel Group and its associates (excluding Zhongtai Securities and/or its associates) will put 10% of their revenue to OTC options for hedging purpose during the three years ending 31 December 2023 and the trading volume of OTC options would be at least RMB4,600 million.

Set out below are the operating revenues of Shandong Iron and Steel Co Ltd (stock code: SH600022) for the recent three years as extracted from its annual reports:

	For the year ended 31 December 2017 RMB	For the year ended 31 December 2018 RMB	For the year ended 31 December 2019 RMB
Operating revenue	47,898,377,899.10	55,908,463,616.86	71,091,690,306.15
Average		58,299,510,607.37	

As depicted in the above table, the average operating revenue for the three years ended 31 December 2019 amounted to approximately RMB58,300 million. We consider the aforesaid assumption relating to the trading volume of OTC options for the three years ending 31 December 2023 to be reasonable.

LETTER FROM GRAM CAPITAL

As advised by the Management, based on the Company's share of 10% in commodity OTC options market, the annual trading volume of OTC options between Shandong Steel Group and the Company would be RMB460 million. Furthermore, based on the premium ratio of approximately 2% of the value of the underlying asset, the estimated annual premium income and expenditure would be approximately RMB10 million.

Zhongtai Securities

For the year ended 31 December 2020, the total nominal principal of OTC options traded by Zhongtai Securities and its clients during the year exceeded RMB100 billion.

As advised by the Management, from a conservative perspective, the expected annual cumulative size of OTC options to be traded with the Company would be RMB1 billion in nominal principal (i.e. representing 1% of the total nominal principal of OTC options traded by Zhongtai Securities and its clients for the year ended 31 December 2020). Furthermore, based on the premium rate of 3% (i.e. the prevailing fee rate for structured financial products), the Management estimated the estimated annual premium income and expenditure to be approximately RMB30 million.

Based on the above analysis on (i) estimated annual premium income and expenditure from OTC options transactions with Shandong Steel Group and its associates (excluding Zhongtai Securities and/or its associates); and (ii) estimated annual premium income and expenditure from OTC options transactions with Zhongtai Securities, we consider that the proposed annual caps for the three years ending 31 December 2023 to be fair and reasonable.

b. Conducting swaps transactions with Shandong Steel and/or its associates

Set out below are proposed annual caps of accumulated nominal principal for swap transactions between the Group and Shandong Steel and/or its associates for the three years ending 31 December 2023:

	For the year ending 31 December 2021 RMB million	For the year ending 31 December 2022 RMB million	For the year ending 31 December 2023 RMB million
Nominal principal of swaps traded with Shandong Steel and/or its associates	2,110	2,460	2,660

Details of the basis of the proposed annual caps for conducting swaps transactions with Shandong Steel and/or its associates under Risk Management Services Framework are set out in the Board Letter.

LETTER FROM GRAM CAPITAL

As advised by the Management, the annual caps relating to conducting swaps transactions with Shandong Steel and/or its associates were determined based on (i) estimated nominal principal of OTC swap traded with Zhongtai Securities; and (ii) estimated nominal principal of OTC swap traded with Shandong Steel Group (excluding Zhongtai Securities and/or its associates).

As advised by the Management, the financial OTC swap of futures companies' risk management subsidiaries in the PRC grew substantially in 2020 and the Management expected business needs of risk management of Shandong Steel and/or its associates will increase, so the business size of OTC options transactions with Shandong Steel and/or its associates will also increase accordingly. We noted from《風險管理公司試點業務情況報告》(Report on the Pilot Business of Risk Management Companies*) published in February 2021 and March 2021 that (i) the nominal principal of risk management companies' OTC swap business for the year ended 31 December 2020 increased by approximately 885% on a year-on-year basis; and (ii) the nominal principal of risk management companies' OTC swap business for the one month ended 31 January 2021 increased by approximately 523% on a year-on-year basis.

Zhongtai Securities

With reference to the Board Letter, as at 31 December 2019 and 31 December 2020, the nominal principal of the swap business carried out by the Group were RMB2,352 million and RMB5,472 million, respectively, with a year-on-year growth rate of 133%. With the further development of the market, the Group's swap business is expected to maintain a relatively high growth rate.

As advised by the Management, for the three years ending 31 December 2023, (i) the Group's nominal principal amount of the swap business will reach RMB11,000 million, RMB16,500 million and RMB21,500 million, respectively; and (ii) the Group expected to trade 15%, 12%, and 10% of the nominal principal for the year with Zhongtai Securities in swaps, respectively.

Based on the above, for the three years ending 31 December 2023, the nominal principal for swap transactions with Zhongtai Securities amounted to RMB1,650 million, RMB2,000 million and RMB2,200 million, respectively.

Upon our enquiries, as at 31 December 2020, the additional nominal principal of the OTC swap business of Zhongtai Securities was approximately RMB50,000 million. Zhongtai Securities need to exchange approximately RMB10,000 million based on 20% of the additional volume in 2020 for the purpose of swap transactions with other counterparties in the market.

Having considered that the additional nominal principal of the OTC swap business of Zhongtai Securities as at 31 December 2020 was higher than the Group's expected nominal principal traded with Zhongtai Securities for each of the three years ending 31 December 2023, we consider the aforesaid basis to be justifiable.

LETTER FROM GRAM CAPITAL

Shandong Steel Group (excluding Zhongtai Securities and/or its associates)

For our due diligence purpose, we noted from 2020 年三季度主要經營數據公告 (the Announcement of Key Operating Data for the Third Quarter of 2020*) released by 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, that for the nine months ended 30 September 2020, the output of its main products (namely rolled steels, reinforcing bars, coils, and etc.) was approximately 11,400 thousand tones and the corresponding operating revenue amounted to approximately RMB45,812 million.

Based on the aforementioned figures, the Management, from a conservative perspective, assumed Shandong Steel Group and its associates (excluding Zhongtai Securities and/or its associates) will apply 1% of their revenue to trading swaps during the three years ending 31 December 2023 and the nominal principal of OTC swap would be approximately RMB460 million.

Set out below are the operating revenues of Shandong Iron and Steel Co Ltd (stock code: SH600022) for the recent three years as extracted from its annual reports:

	For the year ended 31 December 2017 RMB	For the year ended 31 December 2018 RMB	For the year ended 31 December 2019 RMB
Operating revenue	47,898,377,899.10	55,908,463,616.86	71,091,690,306.15
Average		58,299,510,607.37	

As depicted in the above table, the average operating revenue for the three years ended 31 December 2019 amounted to approximately RMB58,300 million, which was higher than the Shandong Iron and Steel Co Ltd's operating revenue of approximately RMB45,812 million for the nine months ended 30 September 2020. We consider the aforesaid basis relating to the trading volume of OTC swap and the nominal principal of OTC swap for the three years ending 31 December 2023 to be reasonable.

Based on the above analysis on (i) estimated nominal principal of OTC swap traded with Zhongtai Securities; and (ii) estimated nominal principal of OTC swap traded with Shandong Steel Group (excluding Zhongtai Securities and/or its associates), we consider that the proposed annual caps for the three years ending 31 December 2023 to be fair and reasonable.

LETTER FROM GRAM CAPITAL

Shareholders should note that as the proposed annual caps for the three years ending 31 December 2023 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 2023, and they do not represent forecasts of revenue/cost to be incurred from the transactions contemplated under the Risk Management Services Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/cost to be incurred from the transactions contemplated under the Risk Management Services Framework Agreement will correspond with the proposed annual caps for the three years ending 31 December 2023.

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.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Framework Agreements are on normal commercial terms and are fair and reasonable; and (ii) the Framework Agreements 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 Agreements 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

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

NOTICE OF ANNUAL GENERAL MEETING



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 2020 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, 17 June 2021 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 2020;
2. To consider and approve the proposal on the work report of the supervisory committee for the year 2020;
3. To consider and approve the proposal on the annual report for the year 2020;
4. To consider and approve the proposal on the final accounts for the year 2020;
5. To consider and approve the proposal on the financial budgets for the year 2021;
6. To consider and approve the proposal on the profit distribution plan for the year 2020;
7. To consider and approve the proposal on the appointment of the accounting firms for the year 2021;
8. To consider and approve the proposal on the appointment of non-executive director;
9. To consider and approve the proposal on the financial services framework agreement with Zhongtai Securities Co., Ltd.; and
10. To consider and approve the proposal on the risk management services framework agreement with Shandong Iron & Steel Group Co., Ltd..

NOTICE OF ANNUAL GENERAL MEETING

SPECIAL RESOLUTION

1. To consider and approve the proposal on amendments to the rules of procedure for the board of directors.

By Order of the Board
LUZHENG FUTURES Company Limited
ZHONG Jinlong
Chairman

Jinan, the PRC, 17 May 2021

Important: A circular setting out further details of the abovementioned resolutions will be dispatched and published by the Company in due course.

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 is entitled to appoint one or more proxies to attend and vote at the meeting 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), no later than 24 hours before the time appointed for holding the AGM or any adjournment thereof (i.e. before 9:30 a.m. on Wednesday, 16 June 2021). The address of the Board's office of the Company is Room 1618, 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. For the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM and their entitlement to the final dividend for 2020, the register of members of the Company will be closed respectively from Tuesday, 18 May 2021 to Thursday, 17 June 2021, both days inclusive, and from Thursday, 24 June 2021 to Tuesday, 29 June 2021, both days inclusive, during which no transfers of shares shall be effected. Shareholders whose names appear on the Company's register of members on Thursday, 17 June 2021 will be entitled to attend and vote at the AGM, and Shareholders whose names appear on the Company's register of members on Tuesday, 29 June 2021 will be entitled to receive the final dividend for 2020.

In order for holders of H shares of the Company to qualify for attending and voting at the AGM, 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, Wan Chai, Hong Kong, no later than 4:30 p.m. on Monday, 17 May 2021. In order for holders of H shares of the Company to qualify for receiving the final dividend for 2020 subject to the approval of Shareholders at AGM, share transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company at the aforementioned address, no later than 4:30 p.m. on Wednesday, 23 June 2021.

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.

NOTICE OF ANNUAL GENERAL MEETING

6. 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: +86-531-81678006

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

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel: +852-28628555
Fax: +852-28650990

As at the date of this notice, the Board of the Company comprises Mr. ZHONG Jinlong and Mr. LIANG Zhongwei as executive directors; Mr. HU Kainan, Mr. MING Gang and Mr. LIU Feng as non-executive directors; and Mr. GAO Zhu, Mr. WANG Chuanshun, Mr. LI Dapeng and Mr. ZHENG Jianping as independent non-executive directors.

**LUZHENG FUTURES COMPANY LIMITED
WORK REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2020**

I. BUSINESS OVERVIEW IN 2020

In 2020, despite the sudden outbreak of the COVID-19 pandemic (the “**Pandemic**”), China’s futures market was operating stably and its role of risk management was further highlighted. The cumulative trading volume and turnover for the year reached 6.153 billion board lots and RMB437.5 trillion, representing a year-on-year increase of 55% and 51%, respectively; with addition of 12 new varieties during the year, there were 90 listed varieties; among them, there were 7 special futures varieties available to foreign investors. It provides effective hedging tools for the various real operating enterprises, thereby increasing its potential for serving the the real economy.

In 2020, the Company took the initiative to pursue various reforms, optimize the operation and management system and mechanism, and put lots of efforts on the construction of a compliance and risk control system while doing a good job in the pandemic prevention and control. As a result, it continued to see improvements in various business indicators and satisfactory results of operation. The operating income for the year amounted to RMB488.819 million, representing a year-on-year increase of 51.87%, and the net profit attributable to shareholders of the parent company was RMB56.834 million, representing a year-on-year increase of 91.04%.

II. MAJOR WORK OF THE BOARD OF DIRECTORS IN 2020

In 2020, the Board of Directors of the Company convened 14 meetings to consider and approve 42 proposals. One general meeting of Shareholders was held to consider and approve 9 proposals; the special committees convened 10 meetings, which provided strong professional support for the decision-making of the Board. Over the past year, the Board of Directors of the Company primarily carried out the following activities:

(1) Continued to improve the corporate governance system

The Board of Directors was committed to improving the corporate governance level by establishing and improving a modern corporate management system. Firstly, amendments were made to the “Articles of Association” so that the articles in relation to Share repurchase, procedures for holding general meetings, and selection of senior management personnel etc. were revised, subject to the requirements of the Company Law of the People’s Republic of China (the “**Company Law**”), the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and other laws and regulations; secondly, amendments were made to the “Rules of Procedures for the Board of Directors” and the “Rules of Procedures for the General Manager” was formulated to ensure that the Board of Directors and the management of the Company exercise their functions and powers and discharge their duties in accordance with the laws, and consider matters in a more efficient manner. This further perfected the institutional foundation of corporate governance.

(2) Pursued various reforms to increase the Company's development potential

In 2020, given the complex economic environment and ever-changing market conditions, the Board of Directors urged the management to implement the decisions of the general meetings and the Board of Directors into the Company's daily operation and management activities, by continuously deepening reforms and strengthening management, and improving compliance and risk control, improving the overall quality and efficiency, and steadily enhancing the corporate governance and comprehensive competitiveness of the Company. Firstly, a series of marketing policies were introduced to stimulate the vitality of operating entities; secondly, the performance-linked appraisal management system was improved to promote organizational and personnel reforms, and create an entrepreneurial culture; thirdly, on-line customer service capabilities were further enhanced; fourthly, the approval process was optimized to promote reforms of the decision-making authorization system and to improve operational quality and efficiency.

(3) Devoted more efforts in the internal control management to improve the compliance and risk control level

In the normal context of stringent and strong financial supervision, the Board of Directors attaches great importance to compliance and risk control management. Firstly, the compliance and risk control function was further increased by employing a chief risk officer in Luzheng Capital as well as a compliance and risk control personnel in various departments and branches; secondly, more than 180 systems were revised by both the parent and subsidiaries. Internal controls and compliance and risk control management were completely and centrally reviewed for weakness. Various business lines were required to revise and improve their business systems, further incorporating the compliance and risk control measures into business systems, leading to an improved compliance and risk control system; thirdly, a daily risk-reporting practice was established so that self-investigation must be done for any case; fourthly, various types of tools such as risk limit management, public opinion monitoring were further utilized to strengthen risk identification, monitoring and disposal capability.

(4) Continuously strengthened money-laundering risk management level for improved anti-money laundering

The Board of Directors attaches great importance to the management of money-laundering risk, and further improved and strengthened the money-laundering risk management system and mechanism. Firstly, the "Anti-money Laundering Internal Control System" was formulated, which further clarifies the Company's money-laundering risk management organization and approaches. Secondly, the Company optimized and adjusted the process design and monitoring related to anti-money laundering work by supplementing and improving the system and procedures of money-laundering risk self-assessment, large amount transaction and suspicious transaction to be reported and emergency responses to material risks associated with anti-money laundering, etc. Thirdly, the anti-money laundering assessment and accountability mechanism was strengthened, to clearly incorporate anti-money laundering into the scope of assessment and accountability, and improve the level of money-laundering risk management.

(5) Strengthen management of subsidiaries

In order to further strengthen the supervision and management of subsidiaries so that they operate according to laws, changes were made to the board of directors, the supervisory committee and management of Luzheng Capital and the board of directors, the general manager of Luzheng International Holding; all levels of subsidiaries were audited in every aspect for compliance, and were notified of any findings as well as relevant rectification plans and urged to make rectification accordingly; pursuant to the regulatory requirements of finance and state-owned assets and based on the principle of “clarifying the development strategy of international operations, strengthening risk control, operating in strict compliance, improving performance and reducing loss”, the overseas subsidiaries established in the early stage were fully reviewed and evaluated. Based on the appraisal result, the overseas subsidiaries’ strategic layout were changed in a timely manner, and the Hong Kong subsidiary Luzheng International Futures Co., Ltd and Swiss subsidiary Jinova S.A. were closed.

(6) It discharged its information disclosure obligations in a compliant way

In 2020, the Company fulfilled its information disclosure obligations in strict compliance with laws, regulations and regulatory requirements and in accordance with the Listing Rules and the Company’s “Information Disclosure Management Measures”. Information disclosure and audit process were improved to ensure true, accurate, complete disclosure of the status of corporate governance and operation management to investors in a timely manner. The Company published 35 announcements in 2020, and the legitimate rights and interests of Shareholders of the Company were effectively protected.

(7) Strict management of connected transactions

The Company managed its connected transactions in strict accordance with relevant provisions of the Listing Rules and the Company’s “Connected Transaction Management Measures” and based on the principles of openness, fairness and justice. In 2020, the Company managed its connected transactions in strict accordance with the framework agreements for continuing connected transaction entered into with the Controlling Shareholders to ensure that relevant transactions were done within the stipulated caps. In November 2020, with approval from the sixteenth meeting of the third session of the Board, the Company and Shandong Steel (one of the Controlling Shareholders) entered into framework agreements of futures brokerage service for the continuing connected transactions for 2021-2023, which provided for the annual caps of futures brokerage service transactions.

(8) Gave full play to its professional advantages to fulfil its social responsibility

In 2020, which marked the successful conclusion of China 's poverty alleviation battle, the Company made positive response to the call for poverty alleviation of the Central Committee of the Communist Party of China and the State Council, and continued to carry out innovation and poverty alleviation, actively implemented new "insurance + futures" agricultural insurance project leveraging on the derivatives markets for de-concentration of risks. During the year, the Company launched a total of 12 "insurance + futures" projects in 13 counties and districts of 4 provinces, namely Heilongjiang, Shandong, Liaoning and Xinjiang, involving 6 varieties, such as corn, soybeans, cotton, red dates, chicken feed and eggs. These projects covered 360,000 tonnes of spot goods, a total of about 58,000 farmers, and about 900,000 mu of agricultural plantation. The insured amount totaled RMB950 million, and the claims of more than RMB28 million were paid.

III. THE DUTY PERFORMANCE BY DIRECTORS IN 2020

In 2020, in accordance with the requirements of and responsibilities conferred by the Company Law, the Listing Rules and the Articles of Association, all Directors diligently and earnestly perform their obligations and exercise their functions and power, carefully considered each resolution put before the Board, and provided relevant and feasible comments and suggestions in connection with the Company's strategic planning and improvement of governance structure, and effectively safeguarded the rights and interests of Shareholders, and promoted the sustainable and healthy development of the Company. For the sake of independence, objectiveness and fairness, 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 that the Board makes scientific and fair decisions independently. The attendance of Directors at the Board meetings in 2020 is as follows.

The attendance of Directors at the Board meetings in 2020

Name of Directors	Number of Board meetings required to attend	Number of meetings attended in person or by communication	Number of meetings attended by proxy	Number of resolutions required to vote	Number of resolutions actually voted
ZHONG Jinlong	14	14	0	42	42
LIU Hongsong	14	13	1	42	42
HU Kainan	14	14	0	42	42
MING Gang	14	14	0	42	42
LIU Feng	14	14	0	42	42
GAO Zhu	14	14	0	42	42
WANG Chuanshun	14	14	0	42	42
LI Dapeng	14	14	0	42	42
ZHENG Jianping	14	14	0	42	42
LIANG Zhongwei	14	14	0	42	42

IV. PRIORITY WORK IN 2021

2021 is the first year of China's "14th Five-Year Plan", and also the first year of the new journey of building a socialist modern country in an all-round way. In 2021, the Board of Directors will focus on the following:

(1) Shortlist the priorities to promote the Company's high quality development

In 2021, the Company will accelerate the building of a marketing and service team to improve per capita efficiency; accelerate the development of research capacity and promote the transformation of brokerage business; put more efforts in developing Special legal person corporate customers and industrial customers, and improve the customer mix; carry out risk management business in a sound manner; optimize the business coordination mechanism between parent and subsidiary companies to stimulate synergy potential and vitality; continue to promote various reforms, optimize the management system and mechanism; adhere to the goal of zero deduction for compliance, continue to strengthen compliance and risk control management, often benchmarking to peers in the industry, and strive to enhance the competitiveness of various businesses to surely meet the goal of rise in the ratings and rankings and achieve high-quality development of the Company.

(2) Continue to strengthen corporate governance and improve the standard of compliant operation

The Company's Board of Directors will further strengthen the corporate governance, improve the operating ways, power-exercising, rules of procedures and management of the Board of Directors, give full play to the professional support of the special committees of the Board of Directors strictly in accordance with the regulatory requirements of listed companies and combined with the current situation of corporate governance and provide effective support to scientific and objective decisions.

(3) Improve information disclosure quality, and properly manage investor relationship

In strict compliance with domestic and foreign laws, regulations and regulatory requirements, information disclosure will be made in a more proactive and timely manner, to further improve the standards and quality of information disclosure, enabling investors to make rational judgments and decisions; carry out insider management and put more efforts on keeping inside information confidential in strict accordance with regulatory requirements; increase engagement with investors and other stakeholders, so that the Company can impress the capital market positively.

(4) Implement the compliance and risk control requirements across the organization with defined accountability and without exemption to make sure they are effective and efficient

Firstly, the compliance and risk control duties shall be defined. The Board of Directors, senior management, chief risk officer, and key persons in charge of various departments and agencies, and all employees of the Company shall perform their duties cautiously and diligently, take responsibility, and have a correct view of development. It is necessary to promote the completion of various business objectives and tasks while effectively preventing the occurrence of failures to perform their duties and functions properly, violations of laws and regulations. Secondly, each of the compliance and risk control requirements shall be executed strictly. It shall pay more attention to the study of laws and regulations, regulatory provisions and self-discipline rules, so as to understand and be informed of such regulations; to formulate or revise relevant systems and procedures in a timely manner in accordance with changes in laws, regulations and regulatory policies, in light of the actual business conditions of the Company, and incorporate the compliance and risk control function in all aspects of business and operation management. It shall prevent mismatch of the systems with the regulatory requirements and the business practices. It is critical to exercise supervision and inspection of the compliance and risk control functions, optimize the compliance and risk control performance management system. The person in breach shall be taken accountable promptly to ensure that various compliance and risk control requirements are implemented. Thirdly, stringent control of the Company's money-laundering risk management shall be exerted on an on-going basis. It will keep up with the latest regulatory requirements, improve the indicators for evaluating the effectiveness of the Company's money-laundering risk and control measures, rationally allocate anti-money laundering resources to make up shortcomings, and strengthen money-laundering risk management and control.

(5) Fulfill its social responsibilities actively

As a state-owned financial listed company, the Company will further enhance its sense of responsibility and mission, by giving full play to the functions of futures and derivatives in the economic activities, especially the important role of "futures + insurance" project in precision poverty alleviation, and further expand the coverage of the project. Further, we will proceed with the rural revitalization strategy in all aspects based on the achievements made in poverty alleviation, demonstrating our commitment to our social responsibilities.

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

I. ROUTINE WORK OF THE SUPERVISORY COMMITTEE IN 2020

Details of the meetings held by the Supervisory Committee of the Company in 2020 are as follows:

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

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

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

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

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

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

II. MAJOR WORK OF THE SUPERVISORY COMMITTEE IN 2020

(1) Supervision and inspection of daily business activities

In 2020, the Supervisory Committee persistently carried out daily supervision and inspection of the Company’s operating activities despite the travelling difficulty during the epidemic outbreak. Firstly, it carried out supervision and inspection on 11 branches, which consist of Wuhan, Wuxi, Jinan, Shanghai, Tianjin, Guangzhou, Beijing, Hangzhou, Qingdao Sales Offices and Jinan, Shanghai branches; secondly, it conducted special internal inspection on how the Company’s information technology was managed and how the risk management subsidiary companies operated; thirdly, it conducted special supervision and inspection of the Company’s annual anti-money laundering.

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

In 2020, the Supervisory Committee reviewed the Company’s financial reports regularly or irregularly, and were provided updates about the Company’s assets and liabilities, cash flow and operating results, and other financial information in a timely manner. It paid close attention to the liquidity of the Company’s own funds, customer margin deposit, and net capital and other risk regulatory indicators. At the same time, it monitored and inspected the legal compliance of the Company’s major investment decision-making procedures irregularly.

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

In 2020, members of the Supervisory Committee implemented supervision and inspection functions by attending general meetings of the Company, and meetings of the Board and management. By attending general meetings and Board meetings, it supervised and inspected the legal compliance of relevant working procedures and voting on important issues, and supervised the performance of duties by the Directors of the Company; by attending management meetings, it kept abreast of the Company’s business and management activities and decision-making on major issues in a timely manner, and monitored the performance of duties by the Company’s senior management.

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

In 2020, in accordance with the standard requirements for the operation of listed companies of the Hong Kong Stock Exchange and in light of the actual conditions of the Company, arrangements were made for the members of the Supervisory Committee to learn the latest regulatory policies and regulations continuously, and understand the relevant laws and regulations relating to listing and regulatory rules so as to strengthen the Supervisors' ability to perform their duties, and ensure that all tasks of the Supervisory Committee were done in a satisfactory manner.

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

In 2020, the Supervisory Committee supervised and inspected such aspects of the Company as finance, legal operation, major decisions and significant operating activities, and attended the general meeting, meetings of the Board and the working meetings of the management as required. Based on the foregoing, the Supervisory Committee issued the following opinions.

- (i) The Supervisory Committee believed that: in 2020, the overall operating activities of the Company were in compliance with related national laws, regulations and related requirements of regulatory policies; the Board practically implemented all resolutions and key decision-making procedures conformed to the requirements of the Company Law and the Articles of Association; the Directors and senior management tried their best in performing their duties pursuant to national laws, regulations and requirements of the Articles of Association and strictly executed all resolutions of the general meetings and the Board, and did not breach any national laws and regulations and the Articles of Association nor harm the interest of the Company when discharging their duties in the Company.
- (ii) The Supervisory Committee believed that: in 2020, the financial and accounting system of the Company was sound, and the financial operation was legal. The financial statements prepared by the Company gave a true, objective and accurate picture of the financial conditions of the Company. According to requirements of International Financial Reporting Standards and Accounting Standard for Chinese Enterprises, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP issued standard and unqualified audit reports, respectively, which gave a true and fair picture of the financial performance and operating results of the Company in 2020.
- (iii) The Supervisory Committee believed that: in 2020, the Company has established an appropriate internal control system in all material aspects and the overall internal control system has been sound and operated effectively, thus ensuring normal production and operation.

- (iv) The Supervisory Committee believed that: in 2020, the transactions between the Company and its Controlling Shareholder Zhongtai Securities and its connected persons, were entered into in line with the general market transaction principles. The price was fair and the information disclosure was complete, and relevant procedures were implemented to ensure that the transactions were fair and reasonable, and no incident was found to use connected transactions to harm the interests of the Company and other minority Shareholders.
- (v) The Supervisory Committee believed that: in 2020, no illegal external guarantees, debt restructurings, non-monetary transactions, asset replacements, major acquisitions or disposal of assets were found. There was no incidents that harmed the interests of the Shareholders of the Company or resulted in the loss of assets of the Company.
- (vi) The Supervisory Committee believed that: in 2020, the Company had implemented relevant regulations and strictly controlled the scope of insiders when dealing with periodic report preparation, profit distribution, and external investment. There were no such incidents as disclosure of secrets, insider transactions, or illegal trading of the Company's Shares by Directors, Supervisors, senior management and other insiders.

IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2021

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

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

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

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

(3) Prevent risks and extend its functions

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

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

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

COMPARISON TABLE OF THE AMENDMENTS TO THE RULES OF PROCEDURE
FOR THE BOARD OF DIRECTORS OF LUZHENG FUTURES COMPANY LIMITED

Before amendment	After amendment	Reasons for amendment
<p>Article 3 The Board shall exercise the following functions and powers:</p> <p>(I) to convene the shareholders' general meetings and report its work to the shareholders' general meetings;</p> <p>(II) to implement the resolutions of the shareholders' general meetings;</p> <p>(III) to decide on the Company's business plans and investment plans, specific annual business objectives and financing plans other than the issuance of corporate debentures or other securities, and listings;</p> <p>(IV) to formulate the Company's annual financial budgets and final accounts;</p> <p>(V) to formulate the Company's profit distribution plan and plan for making up losses;</p> <p>(VI) to formulate proposals for the increase or reduction of the Company's registered capital and the issuance of corporate debentures;</p> <p>(VII) to formulate proposals for the major acquisition and repurchase of the Company's shares or the merger, demerger, dissolution or change of corporate form of the Company;</p> <p>(VIII) to determine on establishment of the Company's internal management structure and on the establishment or closing of the Company's sub-branches or representative offices;</p>	<p>Article 3 The Board shall shall exercise the following functions and powers:</p> <p>(I) to convene the shareholders' general meetings and report its work to the shareholders' general meetings;</p> <p>(II) to implement the resolutions of the shareholders' general meetings;</p> <p>(III) to decide on the Company's business plans and investment plans, specific annual business objectives and financing plans other than the issuance of corporate debentures or other securities, and listings; to review and consider the following matters:</p> <p>(IV) to formulate the Company's annual financial budgets and final accounts;</p> <p>(V) to formulate the Company's profit distribution plan and plan for making up losses;</p> <p>(VI) to formulate proposals for the increase or reduction of the Company's registered capital and the issuance of corporate debentures;</p> <p>(VII) to formulate proposals for the major acquisition and repurchase of the Company's shares or the merger, demerger, dissolution or change of corporate form of the Company;</p> <p>(VIII) to determine on establishment of the Company's internal management structure and on the establishment or closing of the Company's sub-branches or representative offices;</p>	<p>Amendments are made to the functions and powers of the board of directors to ensure that the functions and powers of the board of directors are clearer, more definite and organized in accordance with the Company Law of the PRC and the Articles of Association of LUZHENG FUTURES Company Limited, and the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.</p>

APPENDIX III**COMPARISON TABLE OF THE AMENDMENTS TO THE
RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS**

Before amendment	After amendment	Reasons for amendment
(IX) to elect a chairman and vice-chairman of the board of directors of the Company;	(IX) to elect a chairman and vice-chairman of the board of directors of the Company;	
(X) to appoint or dismiss the general manager, secretary to the board of directors and chief risk officer, and to fix their remuneration, bonus and punishment;	(X) to appoint or dismiss the general manager, secretary to the board of directors and chief risk officer, and to fix their remuneration, bonus and punishment;	
(XI) to appoint or dismiss deputy general managers and financial controller of the Company pursuant to the general manager's nominations and fix their remuneration, bonus and punishment;	(XI) to appoint or dismiss deputy general managers and financial controller of the Company pursuant to the general manager's nominations and fix their remuneration, bonus and punishment;	
(XII) to formulate the Company's basic management system;	(XII) to formulate the Company's basic management system;	
(XIII) to formulate proposals for amendment to the Articles of Association;	(XIII) to formulate proposals for amendment to the Articles of Association;	
(XIV) to manage the information disclosure of the Company;	(XIV) to manage the information disclosure of the Company;	
(XV) to determine establishment of special committees under the board of directors, appointment and dismissal of chairmen of these committees;	(XV) to determine establishment of special committees under the board of directors, appointment and dismissal of chairmen of these committees;	
(XVI) to propose to shareholders' general meetings for the appointment or replacement of the auditors of the Company;	(XVI) to propose to shareholders' general meetings for the appointment or replacement of the auditors of the Company;	

APPENDIX III

COMPARISON TABLE OF THE AMENDMENTS TO THE RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS

Before amendment	After amendment	Reasons for amendment
(XVII) to hear the regular or non-regular work reports from the general manager of the Company or senior management officers appointed by the general manager and to approve the work reports of the general manager;	(XVII) to hear the regular or non-regular work reports from the general manager of the Company or senior management officers appointed by the general manager and to approve the work reports of the general manager;	
(XVIII) to consider and decide on the safe depository system for customer margins to ensure that the depositing of customer margins is in compliance with the requirements for protecting customer assets as well as the safe depositing and monitoring of futures margins;	(XVIII) to consider and decide on the safe depository system for customer margins to ensure that the depositing of customer margins is in compliance with the requirements for protecting customer assets as well as the safe depositing and monitoring of futures margins;	
(XIX) to consider and decide on the Company's risk control system and internal control system;	(XIX) to consider and decide on the Company's risk control system and internal control system;	
(XX) to decide on the venture capital, acquisition and sale of assets, pledge of assets, external guarantees, entrusted asset management and connected transactions of the Company within the authorization of the shareholders' general meeting;	(XX) to decide on the venture capital, acquisition and disposal of assets, pledge of assets, external guarantees, entrusted asset management and connected transactions of the Company within the authorization of the shareholders' general meeting;	
(XXI) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange on which the Company's shares are listed, shareholders' general meetings and the Articles of Association.	(XXI) to exercise other functions and powers conferred by laws, regulations and listing rules of the stock exchange on which the Company's shares are listed, shareholders' general meetings and the Articles of Association.	
Except for the matters specified in sub-paragraphs (VI), (VII) and (XIII) which shall be approved by two-thirds or more of the directors with votes, the board's resolutions in respect of any other aforesaid matters may be passed by half or more of the directors with votes. The board of directors shall perform its duties in accordance with PRC laws, administrative regulations, the Articles of Association and resolutions of shareholders.	Except for the matters specified in sub-paragraphs (VI), (VII) and (XIII) which shall be approved by two-thirds or more of the directors with votes, the board's resolutions in respect of any other aforesaid matters may be passed by half or more of the directors with votes. The board of directors shall perform its duties in accordance with PRC laws, administrative regulations, the Articles of Association and resolutions of shareholders.	

Before amendment	After amendment	Reasons for amendment
	<p><u>1. The Company's business strategies and investment plans.</u></p> <p><u>2. Election or replacement of directors not being staff representatives and to determine matters relating to the directors' remunerations.</u></p> <p><u>3. The work reports of the board of directors and the annual reports of the Company.</u></p> <p><u>4. The Company's plans for annual financial budgets and final accounts.</u></p> <p><u>5. The Company's profit distribution plan and plan for making up losses.</u></p> <p><u>6. Initial public offering of shares.</u></p> <p><u>7. Proposals for an increase or a reduction in the Company's registered capital, and the issue of debentures by the Company.</u></p> <p><u>8. The material acquisition and repurchase of the Company's shares or merger, demerger, dissolution, liquidation or change in the form of business of the Company.</u></p> <p><u>9. The appointment, dismissal or non-reappointment of the accounting firms.</u></p> <p><u>10. Amendments to the Articles of Association.</u></p> <p><u>11. Proposals put forward by any shareholder representing 3% or more of the Company's shares with voting rights.</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>12. Share incentive plans of the Company.</u></p> <p><u>13. To consider the following transactions such as venture capital, acquisition and sale of assets, external investment, pledge of assets, connected transactions, procurement of bulk materials and purchase of services, construction.</u></p> <p><u>(1) The major disposal and acquisition of the Company's assets, of which ratios tested under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules") are more than the prescribed 25%.</u></p> <p><u>(2) To consider the transactions that satisfy one of the following criteria: venture capital, external investment (including investment in subsidiaries), provision of financial assistance (including entrusted loans, external financial assistance, etc.), renting or leasing assets, entering into management contracts (including entrusting and entrusted operation), donating assets or receiving donated assets, credit and debt restructuring, transfer of research and development projects, signing of license agreements, waiver of rights (including waiver of pre-emptive right, priority for invited capital contribution), and purchase of bulk materials (excluding the purchase of held-for-trading bulk materials), purchase of services (not applicable to those within the budget), construction.</u></p> <p><u>① Entering into transactions of which assets tested under the ratios specified in the Listing Rules represent more than 25% of the Company's latest total audited assets;</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>② Entering into transactions in which the operating revenue of the subject during the latest fiscal year tested under the ratio specified in the Listing Rules represent more than 25% of the Company's audited operating revenue for the latest fiscal year;</u></p> <p><u>③ Entering into transactions in which the net profits of the subject during the latest fiscal year tested under the ratio specified in the Listing Rules represent more than 25% of the Company's audited net profits for the latest fiscal year;</u></p> <p><u>④ Entering into transactions in which the amount (including the debt assumed and expenses) tested under the ratio specified in the Listing Rules represent more than 25% of the total market capitalization (calculated based on the average closing price of the shares of the Company in the last five trading days immediately preceding the transaction).</u></p> <p><u>(3) The Company's total external financing amount or external borrowing balance for any twelve consecutive months in the accumulative manner equals or exceeds 50% of the Company's latest total audited assets.</u></p> <p><u>(4) Connected transactions, of which ratios derived from the total asset test, income test, consideration test and equity test specified in the Listing Rules exceed the caps approved by the board of directors.</u></p> <p><u>14. Transactions, of which the total value of the fixed assets disposed of in four consecutive months exceeds 33% of the value of the fixed assets as per the latest balance sheet reviewed by the shareholders' general meeting.</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>15. Matters that shall be resolved by the shareholders' general meeting as required by operation of laws, administrative regulations, regulatory requirements, the listing rules of the stock exchange on which the shares are listed, and the Articles of Association.</u></p> <p><u>(IV) To consider and decide on the following matters:</u></p> <p><u>1. to decide on the Company's business plans and investment plans, specific annual business objectives and financing plans other than the issuance of corporate debentures or other securities, and listings.</u></p> <p><u>2. to determine on establishment of the Company's internal management structure and on the establishment or closing of the Company's sub-branches or representative offices.</u></p> <p><u>3. to write off a single asset loss more than RMB500,000.</u></p> <p><u>4. to elect a chairman and vice-chairman of the board of directors of the Company.</u></p> <p><u>5. to appoint or dismiss the Company's general manager, secretary to the board of directors and chief risk officer.</u></p> <p><u>6. to appoint or dismiss senior management such as deputy general managers and financial controller of the Company pursuant to the general manager's nominations.</u></p> <p><u>7. to formulate the performance appraisal and remuneration system for the Company's senior management, as well as the performance appraisal and remuneration statistics.</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>8. to formulate the Company's basic management system.</u></p> <p><u>9. to manage the information disclosure of the Company.</u></p> <p><u>10. to consider and approve the Company's interim reports and ESG reports.</u></p> <p><u>11. to determine establishment of special committees under the board of directors and to appoint and dismiss the chairmen of these committees.</u></p> <p><u>12. to hear the regular or non-regular work reports from the general manager of the Company or senior management officers appointed by the general manager and to approve the work reports of the general manager.</u></p> <p><u>13. to consider and decide on the safe depository system for customer margins to ensure that the depositing of customer margins is in compliance with the requirements for protecting customer assets as well as the safe depositing and monitoring of futures margins.</u></p> <p><u>14. to consider and decide on the Company's basic risk control system and basic internal control system.</u></p> <p><u>15. to decide on the following transactions such as venture capital, acquisition and disposal of assets, external investment, pledge of assets, connected transactions, procurement of bulk materials and purchase of services, construction.</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>(1) to consider and decide on the Company's major disposal and acquisition of assets, of which ratios derived from testing under the Listing Rules are more than 5% but less than 25%.</u></p> <p><u>(2) to consider and decide on the transactions that satisfy one of the following criteria: venture capital, external investment (including investment in subsidiaries), provision of financial assistance (including entrusted loans, external financial assistance, etc.), renting or leasing assets, entering into management contracts (including entrusting and entrusted operation), donating assets or receiving donated assets, credit and debt restructuring, transfer of research and development projects, signing of license agreements, waiver of rights (including waiver of pre-emptive right, priority for invited capital contribution), and procurement of bulk materials (excluding the procurement of held-for-trading bulk materials), purchase of services (not applicable to those within the budget), construction.</u></p> <p><u>① Entering into transactions in which the total assets tested under the ratios specified in the Listing Rules represent more than 5% but less than 25% of the Company's latest total audited assets;</u></p> <p><u>② Entering into transactions in which the operating revenue of the subject during the latest fiscal year tested under the ratios specified in the Listing Rules represent more than 5% but less than 25% of the Company's audited operating revenue during the latest fiscal year;</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>③ Entering into transactions in which the net profits of the subject during the latest fiscal year tested under the ratios specified in the Listing Rules represent more than 5% but less than 25% of the Company's audited net profits for the latest fiscal year;</u></p> <p><u>④ Entering into transactions in which the amount (including the debt assumed and expenses) tested under the ratios specified in the Listing Rules represent more than 5% but less than 25% of the Company's total market capitalization (calculated based on the average closing price of the shares in the last five trading days immediately preceding the transaction).</u></p> <p><u>(3) to consider and decide on the Company's transactions in which total external financing amount or external borrowing balance for twelve consecutive months in the accumulative manner represent more than 10% but less than 50% of the Company's latest total audited assets.</u></p> <p><u>(4) Entering into connected transactions of which all the ratios derived from the total assets test, income test, consideration test, and equity test under the Listing Rules are lower than 5%, or in which the ratios equal or exceed 5% but are lower than 25%, and the total transaction amount is less than HK\$10 million (except for transactions of which all the ratios derived from the total assets test, income test, consideration test, and equity test under the Listing Rules are lower than 0.1%, or in which the ratios are lower than 1%, and the transactions constitute connected transaction only by virtue of the relationship between the connected persons involved with the Company's subsidiary, or the ratios are less than 5% and the total amount is less than HK\$3 million).</u></p>	

Before amendment	After amendment	Reasons for amendment
	<p><u>16. to consider and approve the caps of the Company's own capital investment and asset management business.</u></p> <p><u>17. to consider and approve a transaction in which the aggregate value of the Company's fixed assets disposed of within four consecutive months represent more than 10% but less than 33% of the value of the fixed assets as per the latest balance sheet reviewed at shareholders' general meeting.</u></p> <p><u>18. to consider and approve interim and annual reports on net capital and other risk control indicators, and comprehensive risk management reports.</u></p> <p><u>19. to consider and approve the setting of company-level risk limits, the formulation of and adjustment to the Company's risk appetite and risk tolerance.</u></p> <p><u>20. to consider and approve anti-money laundering internal control system, and to review anti-money laundering work reports.</u></p> <p><u>21. to consider and approve donations in an aggregate amount of more than RMB3 million and no more than RMB20 million in a fiscal year.</u></p> <p><u>22. Other matters to be resolved by the board of directors as required by laws, regulations, regulatory rules and listing rules of the stock exchange on which the Company's shares are listed and the Articles of Association and authorized by shareholders' general meetings.</u></p>	

Before amendment	After amendment	Reasons for amendment
<p>Article 5 The board of directors has the power to authorize the following transactions: acquisition and disposal of assets, external investment, pledge of assets, entrusted asset management, connected transactions; all transactions beyond such authorization shall be subject to approval at the shareholders' general meeting.</p> <p>(I) to consider and decide on Company's major disposal and acquisition of assets, the ratios in respect of which under Hong Kong Listing Rules are more than 5%, but are less than 25%.</p> <p>(II) to consider and decide on the transactions that satisfy one of the following criteria (external investment (including entrusted wealth management and investment in subsidiaries), provision of financial assistance (including entrusted loans, external financial assistance, etc.), renting or leasing assets, entering into management contracts (including entrusting and entrusted operation), donating assets or receiving donated assets, credit and debt restructuring, transfer of research and development projects, signing of license agreements, waiver of rights (including waiver of pre-emptive right, priority for invited capital contribution)). The authority to decide on any transactions concerning the Company's main operation in its usual business course shall be separately stipulated by the Company.</p> <p>1. Entering into transactions in which the total assets tested under the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's latest total audited assets;</p>	<p>Article 5 The board of directors has the power to authorize the following transactions: acquisition and disposal of assets, external investment, pledge of assets, entrusted asset management, connected transactions; all transactions beyond such authorization shall be subject to approval at the shareholders' general meeting.</p> <p>(I) to consider and decide on Company's major disposal and acquisition of assets, the ratios in respect of which under Hong Kong Listing Rules are more than 5%, but are less than 25%.</p> <p>(II) to consider and decide on the transactions that satisfy one of the following criteria (external investment (including entrusted wealth management and investment in subsidiaries), provision of financial assistance (including entrusted loans, external financial assistance, etc.), renting or leasing assets, entering into management contracts (including entrusting and entrusted operation), donating assets or receiving donated assets, credit and debt restructuring, transfer of research and development projects, signing of license agreements, waiver of rights (including waiver of pre-emptive right, priority for invited capital contribution)). The authority to decide on any transactions concerning the Company's main operation in its usual business course shall be separately stipulated by the Company.</p> <p>1. Entering into transactions in which the total assets tested under the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's latest total audited assets;</p>	<p>It has been reflected in Article 3 of these rules of procedure.</p>

Before amendment	After amendment	Reasons for amendment
<p>2. Entering into transactions in which the operating revenue of the subject (e.g. equity interest) during the latest fiscal year tested under the ratios specified in the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's audited operating revenue during the latest fiscal year;</p> <p>3. Entering into transactions in which the net profits of or to be generated by the subject (e.g. equity interest) during the latest fiscal year tested under the ratios specified in the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's audited net profits for the latest fiscal year;</p> <p>4. Entering into transactions in which the amount (including the debt assumed and expenses) tested under the ratios specified in the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's total market capitalization (calculated based on the average closing price of the Company's shares in the last five trading days immediately preceding the transaction);</p> <p>(III) to consider and decide on the Company's financing or borrowing, of which the balance in aggregate for twelve consecutive months represent less than 50% of the Company's latest total audited assets.</p> <p>Should the above-mentioned caps be met or exceeded, an intermediary agency with appropriate securities and futures-related business qualifications shall also be appointed to evaluate or audit the subject, before it is proposed to the shareholders' general meeting for consideration.</p>	<p>2. Entering into transactions in which the operating revenue of the subject (e.g. equity interest) during the latest fiscal year tested under the ratios specified in the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's audited operating revenue during the latest fiscal year;</p> <p>3. Entering into transactions in which the net profits of or to be generated by the subject (e.g. equity interest) during the latest fiscal year tested under the ratios specified in the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's audited net profits for the latest fiscal year;</p> <p>4. Entering into transactions in which the amount (including the debt assumed and expenses) tested under the ratios specified in the Hong Kong Listing Rules represent more than 5% but less than 25% of the Company's total market capitalization (calculated based on the average closing price of the Company's shares in the last five trading days immediately preceding the transaction);</p> <p>(III) to consider and decide on the Company's financing or borrowing, of which the balance in aggregate for twelve consecutive months represent less than 50% of the Company's latest total audited assets.</p> <p>Should the above-mentioned caps be met or exceeded, an intermediary agency with appropriate securities and futures-related business qualifications shall also be appointed to evaluate or audit the subject, before it is proposed to the shareholders' general meeting for consideration.</p>	

Before amendment	After amendment	Reasons for amendment
Additions	Article 13 The board of directors shall provide the directors with sufficient information, including the background information relating to the topics to be discussed at the meeting and the information and data which can enable the directors to understand the Company's business development, and shall endeavor to serve the relevant documents and materials of the meeting to all directors as concurrently as the notice of the meeting. They shall be served to all directors before the meeting should they cannot be served at the same time as the notice of the meeting. The directors shall carefully read the relevant documents received from the board of directors and get ready to comment thereon.	Such amendments are made out of needs in practice, and with reference to market cases.
Article 16 The secretary to the board of directors and the general manager shall attend the board meetings, and the supervisors may attend the board meetings without voting right. When necessary, other senior management personnel and related personnel and representatives of intermediary agencies may also attend board meetings.	Article 16 The secretary to the board of directors and the general manager shall attend the board meetings, and the supervisors may attend the board meetings without voting right. When necessary, other senior management personnel and related personnel and representatives of intermediary agencies may also attend board meetings. <u>When necessary for work, the secretary of the Company's disciplinary committee shall attend the board meeting.</u> Any person who are not members of the board of directors attending board meetings shall not participate in proceedings of the meetings and vote.	According to the requirements of the relevant documents of the Communist Party of China, the secretary of the Company's Disciplinary Committee shall comply with certain rules in attending the board of directors.
Additions	Article 17 The main purposes of supervisors to attend the meetings are to supervise the board of directors and ensure it makes resolutions in accordance with the Articles of Association and legal procedures, to hear instead of participating in the proceedings of the meeting of the board of directors. Supervisors who disagree on the resolutions of the board of directors may send their written opinions to the board of directors through the supervisory committee upon conclusion of the meeting.	Such amendments are made out of needs in practice, and with reference to market cases.

Before amendment	After amendment	Reasons for amendment
<p>Article 27 Where a resolution is signed and voted by each director and the number of affirmative votes meets the requirements of laws, regulations and the Articles of Association for minimum number of people, it shall be taken as valid as a resolution passed at a board meeting legally convened. Such written resolution may consist of documents in counterparts, each having been signed by one or more directors. A resolution signed by a director or with his signature and sent to the Company by mail, facsimile or by hand, for the purpose of this Article, shall be taken as a document signed by him. A resolution of the board of directors shall take effect after being signed by the directors present at the meeting. Amendment or modification to the resolutions of the board of directors that have become effective must be made in accordance with the legal procedures stipulated in laws, administrative regulations, departmental rules and the Articles of Association.</p>	<p>Article 278 Where a resolution is signed and voted by each director and the number of affirmative votes meets the requirements of laws, regulations and the Articles of Association for minimum number of people, it shall be taken as valid as a resolution passed at a physical board meeting legally convened. Such written resolution may consist of documents in counterparts, each having been signed by one or more directors. A resolution signed by a director or with his signature and sent to the Company by mail, facsimile or by hand, for the purpose of this Article, shall be taken as a document signed by him. A resolution of the board of directors shall take effect after being signed by the directors present at the meeting. Amendment or modification to the resolutions of the board of directors that have become effective must be made in accordance with the legal procedures stipulated in laws, administrative regulations, departmental rules and the Articles of Association.</p>	<p>Such amendments are made out of needs in practice, and with reference to market cases.</p>
<p>Article 44 These rules will take effect from the date of the initial public offering and listing of the Company's shares in Hong Kong after being considered and approved by the shareholders' general meeting of the Company.</p>	<p>Article 445 These rules will take effect, from the date of the initial public offering and listing of the Company's shares in Hong Kong after being considered and approved by the shareholders' general meeting of the Company.</p>	<p>These amendments are made based on actual conditions.</p>

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 of 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 Companies in Appendix 10 of 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 been acquired or disposed of or leased by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of or leased by the Company or any of its subsidiaries since 31 December 2020 (being the date on which the latest published audited consolidated accounts of the Company were made up).
- 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, except that Mr. Zhong Jinlong and Mr. Hu Kainan, the Directors of the Company, are holding office in Zhongtai Securities and/or its associates, none of the 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, to the best knowledge of the Directors, 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

As at the Latest Practicable Date, to the best knowledge of the Directors, 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 have been recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd. (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%
Xu Guiqin	H Shares	Beneficial owner	18,276,000 (long position)	1.82%	6.59%

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

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 41.32% of the equity interest in Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.

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

Save as disclosed above, as at 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 or which were proposed to be acquired or disposed of or leased by any member of the Group since 31 December 2020, 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 28 May 2021 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, Dah Sing Financial Centre, 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 Risk Management Service Framework Agreement;
- (3) the letter from the Independent Board Committee to the Independent Shareholders as set out on pages 34 to 35 of this circular;
- (4) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 36 to 61 of this circular;
- (5) the written consent of Gram Capital referred to in paragraph 6 of this appendix; and
- (6) 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 2020, 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. Liang Zhongwei 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 Corporate Governance (formerly known as 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.