



鲁证期货
LUZHENG FUTURES

LUZHENG FUTURES COMPANY LIMITED

鲁证期货股份有限公司

(a joint stock company incorporated in the
People's Republic of China with limited liability)
(Stock Code : 01461)





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Corporate Profile

REGISTERED NAME OF THE COMPANY

LUZHENG FUTURES Company Limited

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F Tesbury Centre
28 Queen's Road East, Wanchai, Hong Kong

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Fang
Mr. Liang Zhongwei

Non-executive Directors

Mr. Lu Xiangyou
Mr. Zhang Yunwei
Mr. Li Chuanyong
Mr. Liu Feng

Independent Non-executive Directors

Mr. Gao Zhu
Mr. Yu Xuehui
Mr. Wang Chuanshun
Mr. Wei Wei

AUTHORIZED REPRESENTATIVES

Mr. Chen Fang
Room 201, Unit 1, Building 26
No. 20 South Shanda Road, Licheng District
Jinan, Shandong Province, PRC

Mr. Meng Tao
No. 1402, Unit 2, Building 29
No. 21 Yangguang New Road, Huaiyin District
Jinan, Shandong Province, PRC

JOINT COMPANY SECRETARIES

Mr. Meng Tao
Ms. Ng Wing Shan

AUDITORS

PRC Auditor

PricewaterhouseCoopers Zhong Tian LLP
11/F PricewaterhouseCoopers Center
2 Corporate Avenue
202 Hu Bin Road
Huangpu District, Shanghai, PRC

International Auditor

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

LEGAL ADVISERS

as to Hong Kong law

Clifford Chance
27/F, Jardine House
One Connaught Place
Central, Hong Kong

as to PRC law

Jia Yuan Law Offices
F408, Ocean Plaza
158 Fuxing Men Nei Ave
Xicheng District, Beijing, PRC

COMPLIANCE ADVISOR

Zhongtai International Capital Ltd. (formerly known as
Qilu International Capital Limited)
7/F, Li Po Chun Chambers
189 Des Voeux Road Central, Central, Hong Kong

PRINCIPAL BANKS

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

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

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

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

Bank of China (Jinan Branch)

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

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

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

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

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

H SHARE REGISTRAR

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

STOCK CODE

01461

INVESTOR ENQUIRIES

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Website: <http://www.luzhengqh.com>
E-mail: investor@luzhengqh.com

Financial Highlights

Item	January–June 2015	January–June 2014	Increase over corresponding period of last year
Operating Results (RMB'000)			
Revenue and other incomes ¹	182,614	125,707	45.27%
Profit before income tax	55,716	28,124	98.11%
Profit for the period — Attributable to Shareholders of the Company	42,364	21,779	94.52%
Net cash from operating activities	(6,584)	(58,107)	—
Earnings per Share (RMB/Share)			
Basic earnings per Share	0.06	0.03	94.52%
Diluted earnings per Share	0.06	0.03	94.52%
Profitability Indexes			
Weighted average return on net asset ²	3.27%	1.81%	Increased by 1.45 percentage points

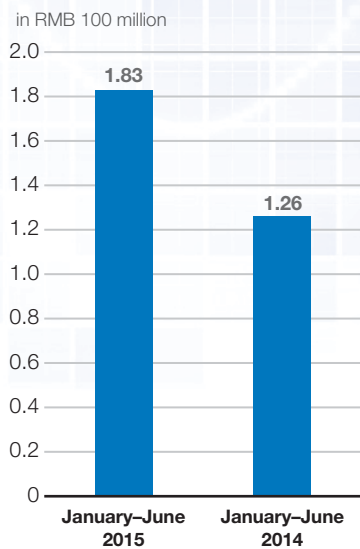
Item	30 June 2015	31 December 2014	Increase at the end of the period as compared to that of the end of last year
Scale Indexes (RMB'000)			
Total assets	9,618,984	5,527,300	74.03%
Total liabilities	8,299,894	4,254,921	95.07%
Accounts payable to brokerage clients	8,177,823	4,205,193	94.47%
Equity attributable to the Company's Shareholders	1,319,090	1,272,379	3.67%
Total Share Capital (in thousands)	750,000	750,000	—
Net asset per Share attributable to the Company's Shareholders (RMB/Share)	1.76	1.70	3.67%
Gearing ratio ³	8.47%	3.76%	Increased by 4.71 percentage points

Note 1 Revenue and other incomes = Operating income + Other gains, net

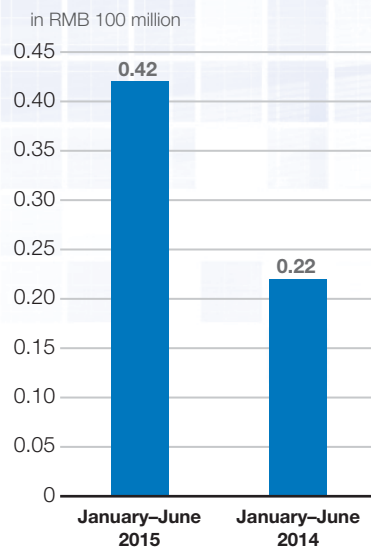
Note 2 Weighted average return on net asset = Profit for the period/Average remaining balance of total equity attributable to Shareholders of the Company as at the beginning and the end of the period

Note 3 Gearing ratio = (Total liabilities — Accounts payable to brokerage clients)/(Total assets — Accounts payable to brokerage clients)

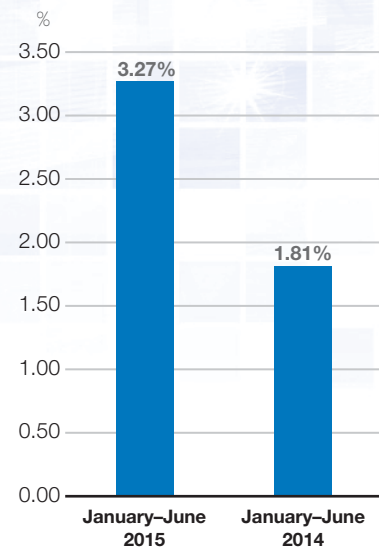
Revenue and other incomes



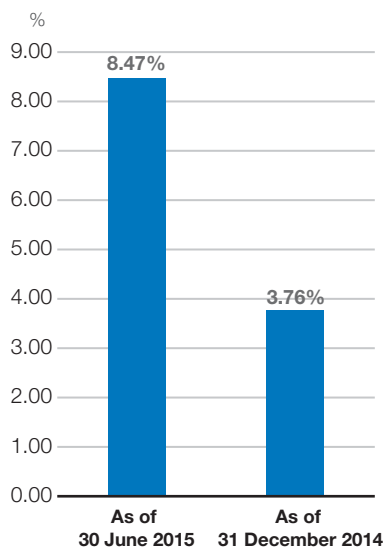
Profit for the period – Attributable to Shareholders of the Company



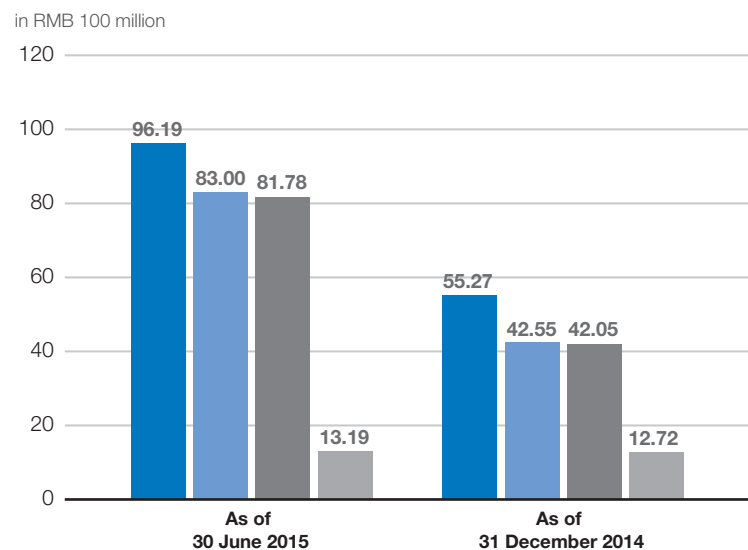
Weighted average return on net asset



Gearing ratio



Scale Indexes



■ Total assets
■ Total liabilities
■ Accounts payable to brokerage clients
■ Equity attributable to the Company's Shareholders

Financial Highlights

The financial information of the Group for the six months ended 30 June 2015 was extracted from pages 24 to 82 to this report, which set forth details of the basis of presentation for the unaudited consolidated financial statements. The financial statements of the Group for the six months ended 30 June 2015 were unaudited.

NET CAPITAL AND RELEVANT CONTROL INDEXES OF THE COMPANY AS AT 30 JUNE 2015

Name of index	As at 30 June 2015	Regulatory Standards
Net Capital (RMB)	996,452,808.99	15,000,000.00
Ratio between net capital and total risk capital reserves	287.13%	100.00%
Ratio between net capital and net asset	79.86%	40.00%
Ratio between current assets and current liabilities	826.18%	100.00%
Ratio between liabilities and net assets	10.07%	150.00%
Clearing settlement funds (RMB)	152,849,961.34	8,000,000.00

Note: As of 30 June 2015, net capital of the Company amounted to RMB996 million. During the Reporting Period, various risk management indexes of the Company, including net capital, are in compliance with the relevant requirements set out in Administrative Rules Regarding Futures Companies' Regulatory Risk Management Indexes (《期貨公司風險監管指標管理辦法》).

Management Discussion and Analysis

MARKET REVIEW

Scales of Trading and Deposits

In the first half of 2015, the futures market in the PRC is active in trading with the market trading and deposits scales increasing significantly year on year, setting a record high again. The total trading volume in the national futures market was 3.391 billion board lots with a total turnover of RMB707.37 trillion, representing a year-on-year increase of 62.59% and 205.76% respectively. As of 30 June 2015, the deposits in the futures market reached RMB422.7 billion, representing a year-on-year growth of 88.62%.

Performance of Products

The price trends in the domestic futures market in the first half of 2015 is set as below:

Performance of agricultural products futures

In the first half of 2015, the overall prices of domestic agricultural products futures (excluding white sugar futures) fluctuated near the bottom end which underpinned by costs. Oil and grease futures and cotton futures saw fluctuations while corn futures experienced significant plunge as a result of the replacement with low-price imports. The white sugar futures market bucked the declining trend with great growth in the first half of 2015 driven by the dual bullish factors, namely the significant reduction on production and the control and regulation on imports.

Performance of metal futures

In the first half of 2015, the metal market witnessed relatively great fluctuation due to the expectation of a loose macro environment and the cycle of the inventory supplementation, which generally experienced a reverse V-shape trend. Nickel, the newly-introduced product, saw the biggest decrease among all non-ferrous metals due to the high inventory globally and the accelerated adjustment in the downstream stainless steel industry. The black non-ferrous market plummeted to new lows as a result of the continued shrink in the investments in infrastructure and real estates.

Performance of energy and chemicals futures

In the first half of 2015, energy and chemicals futures were on a bumpy climb on the whole driven by the pick-up of the crude price from the bottom. Plastics and polypropylene saw higher growth while the rubber and pure terephthalic acid recorded relatively low growth due to their own relatively weak fundamentals.

Performance of financial futures

In the first half of 2015, both the domestic stock and bond markets were bullish thanks to the loose liquidity, the application of leveraged tools and the wealth effect in the PRC. The stock index futures and treasury bond futures both witnessed marked growth. As the stock market was impacted by the pressure arising from overvaluation and deleveraging, it underwent significant adjustment since mid to late June in 2015. In view of this and the drastically increased volatility, investors' awareness of using futures for risk aversion had significantly increased.

Management Discussion and Analysis

Progress on Innovation and Development

The main innovations in futures industry in the first half of 2015 include: firstly, CSRC approved the Shanghai International Energy Exchange under the Shanghai Futures Exchange to conduct crude futures trading in December 2014. Along with the releasing of certain rules and regulations by the Shanghai International Energy Exchange in the first half of 2015, as well as the impending trading of crude futures, the depth and width of the system testing and the promotion of training are increasingly strengthened; secondly, the SSE 50 ETF Options started trading in February 2015 and the 100 ETF Options, the 180 ETF Options and the 300 Stock Index Options are actively developing, auguring a new era for derivatives; thirdly, under the orientation of “supporting qualified futures firms in conducting equity and debt financing and listing by issuing shares both at home and abroad”, the CSRC issued the Rules on the Management of Subordinated Debts by Securities Firms (《期貨公司次級債管理規則》) while futures firms and their assets management products were allowed to enter into the inter-bank bond market, which further expanded the investment and financing channels of futures firms; and fourthly, the Internet-based accounts opening business of futures firms were officially launched. The progress made in Internet-based accounts opening can effectively improve our efficiency in opening accounts and reduce the costs in offices and labors through reducing the reliance on physical branches. It can also release the restriction on the business expansion of the Company by geographical factors to certain extent and become an important driver in promoting the innovation and development of futures firms.

GENERAL OPERATING RESULTS

In the first half of 2015, the Group achieved revenue and other incomes of RMB183 million and profit for the period of RMB42.36 million, representing a growth of 45.27% and 94.52% respectively compared with RMB126 million and RMB21.78 million in the corresponding period of last year.

As at 30 June 2015, the Group's total assets amounted to RMB9,619 million, up by 74.03% from RMB5,527 million at the end of 2014. The Group's total liabilities were RMB8,300 million, up by 95.07% from RMB4,255 million at the end of 2014. Net assets attributable to the Company's Shareholders were RMB1,319 million, up by 3.67% from RMB1,272 million at the end of 2014. The gearing ratio of the Group (total assets and total liabilities less accounts payables to brokerage business clients) was 8.47%, up by 4.71 percentage points from 3.76% at the end of 2014, mainly attributable to the short-term borrowings received by the Group. In the first half of 2015, the Group held quality assets and maintained a good financial position.

ANALYSIS OF PRINCIPAL BUSINESS

The main businesses of the Group include futures brokerage, futures asset management, and commodity trading and risk management.

Futures Brokerage Business

In the first half of 2015, all brokerage business indicators of the Company achieved significant growth. The Company recorded brokerage business revenue of RMB144.28 million, increased by 75.30% year on year. The total turnover reached RMB4.20 trillion, increased by 173.05% year on year. The average daily interests achieved RMB5,722 million, increased by 88.35% year on year.

Equity scale reflects the clients' assets scale held by a futures company, which guarantees the brokerage business revenue and provides market basis for innovative businesses. During the Reporting Period, the client balances of the Company surged significantly from RMB4,205 million at the end of 2014 to RMB8,178 million at the end of June 2015, representing an increase of 94.47%.

As part of the business strategy, we started to focus more on corporate clients and professional investors who maintain a higher level of account balance compared to retail clients despite their generally less trading frequency. Such clients also have a greater demand for value-added services, such as commodity trading and futures asset management focusing on risk management. As of 30 June 2015, the services to institutional clients of the Company has further improved, with the average daily interests of institutional clients reaching RMB1,378 million, accounting for 16.89% of the total interests of the Company of RMB8,160 million and representing a year-on-year growth of RMB487 million.

The Company is the only "Class 4" technical grade information technology futures company within the industry, and our Internet-based accounts opening business is at the forefront of the industry. The Company pioneered to introduce the Internet-based accounts opening business, being one of the few futures companies with both PC and mobile Internet-based accounts opening business in the industry, which provides the maximum convenience for clients in opening accounts and laid a solid foundation for the transformation of the brokerage business of the Company.

During the Reporting Period, the Company continued to strengthen the operation and management of branches, actively pushed forward the adjustment of back office employees, and further optimized operation costs. Meanwhile, the Company also actively promoted the transformation of branches into comprehensive sales platforms.

Futures Asset Management Business

During the Reporting Period, the Company's operating income from asset management business was RMB5.514 million, up by RMB2.3499 million or 74.27% as compared with RMB3.1641 million in the same period of last year. The asset management business accounts for 3.03% of the total business income, increasing from 2.52% of the same period of last year.

During the Reporting Period, the Company launched three new collective asset management schemes, and the initial entrusted equity increased by RMB129 million. The number of asset management products managed by the Company has reached 28. As at 30 June 2015, the total amount of assets managed by the Company was RMB263 million. Currently, the investment scope of the asset management products of the Company covers commodity futures, financial futures, stocks and fixed income. Our successful issue and operation of asset management products have brought clients with profits and obtained market recognition. The brand effect of the asset management of the Company began to manifest itself.

During the Reporting Period, the Company emphasized and strengthened the building of asset management teams and introduced high-level talents with overseas educational background, which effectively reinforced the investment team of the Company. Meanwhile, the Company devoted to strengthening cooperation with banks, securities firms and other financial institutions, and built and improved the development of the information and technology system on asset management trading and risk control.

Management Discussion and Analysis

Commodity Trading and Risk Management Business

During the Reporting Period, the Company's loss before income tax from commodities trading and risk management business was RMB711,000, decreasing losses by RMB4.429 million or 86.17% as compared to the same period of last year.

In the first half of 2015, the Group continued to develop the commodities trading and risk management business, which includes commodity trading and over-the-counter ("OTC") derivatives trading, primarily to assist clients in the management of the price risk of commodities.

In terms of commodity trading, the Group actively conducted basis trading in multiple industry chains, including a wide range of products such as oils and fats, grains and crops, ferrous metals and chemicals industry chains, with spot trading turnover of RMB146.8727 million, hence our business scale was further improved. In the first half of 2015, hedging and arbitrage position of the Group amounted to 175,000 board lots in total, with a turnover of RMB13.388 billion. As a result, the market channels and client numbers of the Group were further expanded and increased, the market influence was further strengthened, and other businesses of the Group also obtained better support.

In terms of OTC derivatives trading, the Group entered into master agreements with nearly 30 enterprises and institutions for its OTC derivatives business, which further expanded its business scope and diversified its business. The master agreements covered products including palm oil, soybean meal, cotton, iron ores and rebar, with a nominal amount of RMB204 million. Meanwhile, the Group conducted the first inter-institution OTC options trading in the futures industry, achieving the flow of OTC risks among institutions and laying a solid foundation for further business expansion.

Other Innovative Businesses

Establishment of the information technology subsidiary

In order to better serve our clients, provide the design and development of software, maintain and operate trust services and further expand our sources of income, the Company established Luzheng Information, a wholly-owned information technology subsidiary in February 2015, being the first futures company to establish an information technology subsidiary in the industry. Currently, Luzheng Information is in the process of launching the business of providing trust services for maintenance and operation. It has entered into a technology outsourcing agreement with one futures firm, and is currently under commercial negotiation with another futures firm. It has also been developing a number of software products.

Preparation for crude futures under orderly progress

Facing the huge crude futures market in the PRC, on the one hand, the Company strives to boost its research capacity to provide clients with high-quality research and development reports; on the other hand, the Company actively strengthens the cultivation and retention of clients in the industrial chain to seize the market resources promptly.

Active preparation for options

As an instrument to prevent and transfer the risk of futures prices, options can transfer risks arising from the physical market and the futures market in a more flexible and convenient manner, which is favorable for expanding the width and depth of the business of futures companies. In view of the international markets, the global options trading has been surging significantly since 2005. The options trading scale has been expanding year by year and the absolute value of the turnover has exceeded the turnover of futures trading for five consecutive years. The Company is well prepared in terms of human resources and system capacity to continuously develop the market cultivation. Meanwhile, the Company formally established the market-maker team in the first half of 2015 (market-maker refers to franchised traders who meet the investment demands of investors by providing investors with constant two-way quotations and maintaining the market liquidity), arranged the market-making system tailored to the commodity options and consistently improved trading strategies to improve the overall trading income.

PROSPECTS AND FUTURE PLANS

Market analysis

In 2014, the State Council officially launched the Several Opinions on Further Promoting the Healthy Development of Capital Market (《關於進一步促進資本市場健康發展的若干意見》), and the CSRC issued the Opinions on Further Promoting Innovative Development by Securities Business Firms (《關於進一步推進期貨經營機構創新發展的意見》), which inspired the innovation in the futures market and facilitated futures institutions in transforming their operation concepts and models. The ability of the futures industry in serving the real economy and products development was greatly improved. The year of 2015 is a crucial year for China to deepen its reform in a comprehensive way. The market-oriented reform in the economic and financial sectors will continue to deepen. With the further deepening system reform, the gradual implementation of policies and the increasing maturity of regulatory concepts, the futures market in China is expected to continue to maintain its steady and health growth.

Development plan

The Company was successfully listed on the Stock Exchange on 7 July 2015, which laid a solid foundation for the Company to transform from a futures commission merchant to a provider of comprehensive futures and derivatives products and services, as well as risk management solutions across multiple business lines.

The Company will fully leverage the influence of its Listing in Hong Kong as well as its significantly increased capital strength to capture on the growth potential of the futures industry in China, and strengthen our market position in the futures brokerage business; expand our commodity trading and risk management business to meet the increasing and diverse risk management needs of our corporate clients; expand our futures asset management business to provide comprehensive product portfolio to meet the increasing wealth management needs of our clients; pursue selective acquisitions in China and overseas to expand our market presence; and strengthen our information technology and risk management capabilities to facilitate our business growth and build a first-class professional team. The Company will further improve its corporate governance, speed up the innovation and transformation pace and strive to return investors with better operation performance.

Management Discussion and Analysis

Plans for future investment or capital asset purchase

On 24 March 2014, the 13th meeting of the first session of the Board of Directors of the Company reviewed and approved the Proposal on the Increase of Share Capital of Luzheng Trading (《關於對魯証經貿有限公司進行增資的議案》) according to which, the Company agreed to invest RMB90.00 million to increase the share capital of Luzheng Trading. The Company has fully paid up RMB60.00 million for such capital increase in the first quarter of 2014. Based on the business demand of Luzheng Trading, the Company proposed to fully pay up the remaining RMB30.00 million in the second half of 2015. The source of the capital increase is the proceeds raised from the Listing.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the profitability of the Company continued to increase. As at the end of June 2015, the equity attributable to the Company's Shareholders were RMB1,319 million, up by 3.69% from RMB1,272 million at the end of 2014, which is mainly attributable to the profits achieved during the Reporting Period.

During the Reporting Period, the Company achieved significant increase in the total asset scale and maintained sound asset quality and liquidity. As at the end of June 2015, the Group's total assets after deducting accounts payable to brokerage clients reached RMB1,441 million, up by 9% as compared with RMB1,322 million at the end of 2014. In specific, cash and bank balance accounted for 64.47%; self-owned treasury deposited with the futures exchanges in the PRC (including refundable deposits and settlement reserves) accounted for 15.06%; investment assets (including investments in subsidiaries, associated companies and financial assets, especially investment in financial assets with strong liquidity) accounted for 9.99%; and the property and equipment and intangible assets accounted for 3.26%.

The total gearing ratio of the Company remained at a relatively low level. As at the end of the Reporting Period, the gearing ratio of the Group (total assets and total liabilities less accounts payables to clients of brokerage business) was 8.47%, up by about 4.71 percentage points compared to the end of 2014. The Group's degree of operating leverage (the total assets less accounts payables to clients/equities of brokerage business attributable to the Company's Shareholders) was 1.09 times, up by about 4.81% over 1.04 times compared to the end of 2014.

The Company dynamically monitors net capital regulatory indicators on real time basis. A simulation test and stress test will be done on regulatory indicators such as net capital before any material capital investment is made to ensure the Company's ongoing compliance with regulatory indicators.

Given the available financial resources, including cash flow from operating activities, the Group's working capital is able to meet the capital demand for business development.

MATERIAL FINANCING OF THE COMPANY

Equity financing

The Company did not conduct any equity financing during the Reporting Period. The Company was listed on the Stock Exchange on 7 July 2015. As at the date of this report, the total share capital of the Company was 1,001,900,000 Shares after the Listing of the Company and the exercise of the over-allotment option, increased from 750,000,000 Shares before the Listing.

Bond financing

The Company did not conduct any bond financing during the Reporting Period.

INVESTMENTS DURING THE REPORTING PERIOD

Use of proceeds

The Company was listed for trading on the Stock Exchange on 7 July 2015. The Company did not raise any proceeds during the Reporting Period.

Progress of investments by subsidiaries and joint stock companies

On 22 January 2015, the 22th meeting of the first session of the Board of Directors of the Company reviewed and approved the Proposal on the Establishment of the Information Technology Subsidiary. The Company contributed RMB10 million to Luzheng Information in March 2015.

ACQUISITION OR DISPOSAL OF MATERIAL ASSETS, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES OF THE GROUP

During the Reporting Period, there was neither acquisition, sale or replacement of the Company's material assets or business merger, nor any major off-balance-sheet items or contingent liabilities matters such as major external guarantee, mortgage, pledge that may affect the Company's financial position and operating results.

Management Discussion and Analysis

EMPLOYEES, REMUNERATION POLICIES AND TRAINING

As at the end of the Reporting Period, the Group had a total of 518 employees.

The Company established a remuneration system with different sequencing management, the incentive and restriction linked to performance assessment with well balance of external competitiveness and internal fairness. It established the corresponding remuneration incentive policies for different talents. Under a strict performance assessment mechanism, it also increased incentives for excellent employees, which inspired the staffs and improved the Company's operating results. The remuneration of the employees of the Company consists of basic salary, performance wage, bonus and benefits. The Company enters into employment contract with each employee to establish employment relation with them according to applicable Chinese laws and regulations. We provide each employee with various social insurances (pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and housing fund and make full payments of the above social insurances and housing fund on time according to regulations.

The Company has designed specific training programs for all business lines and strengthened training programs to provide regular and continual training for our employees. The Company sticks to the principles of combining knowledge training and practice training, reasonably allocating training resources and continuously increasing training on innovative businesses to improve training results. During the Reporting Period, the Company organized trainings on OTC businesses, stocks and options, commodity options and others and conducted a knowledge competition on innovative businesses.

RISK CONTROL

Major risks affecting the Company's operations and the policies

Major risks affecting the Company's operation include credit risk, market risk, liquidity risk, compliance risk and operational risk.

Credit Risk

Credit risk refers to the risk resulting from the failure of a debtor or counterparty to timely perform its contractual obligations. Our credit risk mainly comes from commodity trading and risk management business and our futures brokerage business.

For credit risks related to our commodity trading and risk management business, we established a client credit evaluation system and assess the creditworthiness of our existing and prospective clients based on our onsite investigation and independent third-party investigations, and adjust the credit ratings of our clients on a continuous basis. We determine whether to engage a prospective client and specific forms of trading based on the clients' credit evaluation results in order to prevent default risk.

For credit risks related to our futures brokerage business, we conduct risk rating on our clients based on their wealth, professional knowledge on futures, trading experiences, risk appetite and risk tolerance, and provide appropriate services to our clients and implement corresponding risk management measures accordingly. Meanwhile, we require our clients to maintain higher margin deposits than those required by the futures exchanges in China. Clients are required to replenish their margin deposits within a specific period of time if such margin deposits fall short. Otherwise, we will close out the position. At the same time, the futures exchanges in the PRC impose the daily price up and down limit, which effectively limits the risk exposure of our clients and us.

Market Risk

Market risk refers to the possibility of loss or decreases in our income resulting from the changes in the market which are different from the Company's expectations, including the risk of price fluctuation in equity-based assets and interest rate risk.

To minimize market risk, we have adopted the following measures:

- (1) establishing a systematic investment mechanism, under which our research team provides investment recommendations and our operation teams provide market guidance to our research team;
- (2) our operation teams are required to submit an application to the Company's management before every transaction, with details on possible market risks, consequences and maximum risk tolerance level as well as the nature of the proposed transaction;
- (3) evaluating our risk exposure by quantitative measures, and utilizing risk control measures such as hedging and stop-loss to mitigate the damages when the market conditions deviate from our expectations.

Liquidity Risk

Liquidity risk refers to the risk of whether the assets can be liquidated to repay debts in a foreseeable period without value depreciation.

For liquidity risk, the Company (1) strengthened the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management; (2) established a risk evaluation and monitor system on net capital; (3) conducted comprehensive or special stress tests on the risk control indexes on a regular or ad hoc basis and conducted sensitivity analysis before making any significant business decisions which could affect the risk control indexes, such as significant business expansion and large assets acquisition; and (4) selected those commodities that are more actively traded for our commodity trading and risk management business, or selected the contracts with the largest or second-largest open interest within similar futures contracts for futures trading.

Management Discussion and Analysis

Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, self-discipline penalties and loss of property or reputation because the futures company's business activities or employee conduct violate laws, regulations or rules.

In response to compliance risk, the Company has built up a comprehensive compliance management and organization system; appointed a chief risk officer; established the compliance department and the audit department with full-time compliance management staff; and conducted supervision and control on the business overall compliance through compliance review, compliance training, compliance consultation and internal audit.

Operational Risk

Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system.

To minimize the operational risk, the Company (1) implements strict operation control mechanisms to reduce the risks of technical irregularities or human error and enhance the efficiency and capability of operational risk management; (2) regularly conducts internal audit and evaluates the efficiency and capability of operational risk management; and (3) sets aside 5% of our net commission and fee income of our futures brokerage business as risk reserve fund each month.

Risk management measures adopted or to be adopted by the Company

Having established a four-level structured risk control and management system

The Company sets up a four-level risk management structure: the first level comprises the Board of Directors and the Board of Supervisors; the second level comprises the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; the third level is the pre-, on-going and post-risk management systems set up by the compliance department and the audit department; and the fourth level is the frontline operational risk management system at the Company's business departments and branches.

Consistently improving the corporate governance structure

The Company consistently normalizes the operation of the general meeting to ensure that all Shareholders, especially minority Shareholders, can enjoy equal positions and protect the interest of minority Shareholders. It normalizes and improves the operation of the Board of Directors and gives full play to all Board of Directors committees and independent non-executive Directors. It gives full play to the monitoring role of the Board of Supervisors on the Board of Directors and management.

Consistently improving the overall risk management system

The Company sticks to the principle of implementing a risk management system covering all departments of the Company, all business processes and the whole process of each business to consistently improve the ability to identify and prevent risks among all employees, strengthen the awareness of all employees on risks, foster an excellent risks management culture and ensure the realization of the overall target of the Company in risk management.

Orderly advancing the conducting of innovative businesses and further improving the risks management mechanism in innovative businesses

The compliance department of the Company has been actively participating in the preparatory process of innovative businesses, including participating in the preparation of all systems and processes, the establishment of the risks management system, and the establishment of the systems, processes, positions and response mechanisms of innovative businesses. It pushes ahead the implementation of all systems, processes and the risk management principles through the appraisal and approval beforehand, the independent supervision during the process and the internal audit of the audit department to conduct risk management throughout the whole process of various innovative businesses.

Consistently improving the credit risk management capability in commodity trading and risks management business

With the continuous expansion of the scope of commodity trading and risks management business and the increase of clients under cooperation, the Company will consistently improve due diligence and classified management on clients and implement a system of due diligence and classified management on clients which matches the positioning and business model of the Company. It will promote the principle of “understanding your clients” and consistently improve the credit risk management capability and conduct credit risks appraisal on clients to control the credit risks of clients.

Corporate Governance Report

The Company committed to enhancing corporate governance standard and regarded it as an indispensable part to creating values for Shareholders. The Company has established a modern corporate governance structure which comprises a number of independently operated and effectively balanced bodies including general meetings, the Board of Directors, Board of Supervisors and senior management with reference to the code provisions as set out in the Corporate Governance Code. The Company has also adopted the Corporate Governance Code as our own corporate governance practices.

COMPLIANCE WITH THE REQUIREMENTS OF CORPORATE GOVERNANCE CODE

From the Listing Date to the date of this report, the Company had complied with all code provisions in the Corporate Governance Code, and had adopted most of the recommended best practices set out in the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules). The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code from the Listing Date to 24 August 2015, on which the Company published its interim results announcement. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, and didn't notice any violation of the guidelines.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has appointed a sufficient number of independent non-executive Directors with appropriate professional qualifications, or appropriate accounting or relevant financial management expertise in accordance with the requirements of the Listing Rules. As of the date of this report, the Company appointed a total of four independent non-executive Directors, including Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, Mr. Wei Wei.

AUDIT COMMITTEE

The Company has established the Audit Committee of the Board of Directors in accordance with the requirements of the Listing Rules. The primary responsibilities of the Audit Committee are reviewing and supervising our financial reporting procedures, including making proposals on appointing or changing the external auditors; supervising the Company's internal audit system and its implementation; guiding and evaluating the work of the internal auditing department, and to make suggestions as to the appointment and removal of the head of the internal auditing department; auditing the financial information and its disclosure; to review and supervise the effective implementation of the financial reporting system, internal control system and risk management system of the Company; to evaluate and discuss the arrangements formulated by the Company including whistle-blowing system for employees to report on any potential misconducts regarding the financial reporting, internal control and other aspects of the Company; and other matters that the Board of Directors has authorized it to deal with.

The Audit Committee of the Board of Directors consists of five Directors: Mr. Wang Chuanshun (independent non-executive Director), Mr. Gao Zhu (independent non-executive Director), Mr. Yu Xuehui (independent non-executive Director), Mr. Lu Xiangyou (non-executive Director) and Mr. Liu Feng (non-executive Director). Mr. Wang Chuanshun currently serves as the chairman of the Audit Committee of the Board of Directors.

On 24 August 2015, the Audit Committee reviewed and confirmed the announcement of interim results of the Group for the six months ended 30 June 2015, the 2015 interim report and the unaudited interim financial statements for the six months ended 30 June 2015 prepared in accordance with International Accounting Standards.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors have confirmed their responsibility for preparing financial statements of the Company. The financial information set out in this interim report were unaudited.

Other Information

GLOBAL OFFERING AND SUBSEQUENT EVENTS

The Company was established as a joint stock limited company on 10 December 2012. The Company's Shares were listed and traded on the Main Board of the Stock Exchange on 7 July 2015. The Prospectus has been published on the websites of the Stock Exchange for information disclosure (www.hkexnews.hk) and the Company (<http://www.luzhengqh.com>). On 24 July 2015, the over-allotment option has been partially exercised and additional 1,900,000 H Shares have been issued by the Company. Saved as disclosed above, there is no other major subsequent event of the Company.

SHARE CAPITAL

As of the date of this report, the total share capital of the Company is RMB1,001,900,000, divided into 1,001,900,000 Shares with a nominal value of RMB1.00 each.

INTERIM RESULTS

The interim results of the Group for the six months ended 30 June 2015 were published on the websites of the Stock Exchange for information disclosure (www.hkexnews.hk) and the Company (<http://www.luzhengqh.com>) on 24 August 2015.

INTERIM DIVIDEND

The Board of Directors did not recommend the distribution of an interim dividend for the six months ended 30 June 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities for the period since the Listing Date up to the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As the Company was not listed on the Stock Exchange on 30 June 2015, Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO were not applicable to the Directors, Supervisors and chief executives of the Company during the six months ended 30 June 2015.

As at 24 August 2015, 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 was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which is taken or deemed to have under such provisions of the SFO), or which was required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As the Company was not listed on the Stock Exchange on 30 June 2015, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable to the Company during the six months ended 30 June 2015.

As at 24 August 2015, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executives of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Type of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Qilu Securities Co., Ltd.	Domestic Shares	Beneficial owner	632,356,370 (long position)	63.12%	87.24%
Laiwu Steel Group Co., Ltd. ⁽¹⁾	Domestic Shares	Interest of controlled corporation	632,356,370 (long position)	63.12%	87.24%
Shandong Steel Group Co., Ltd. ⁽²⁾	Domestic Shares	Interest of controlled corporation	632,356,370 (long position)	63.12%	87.24%
Farallon Capital Management, L.L.C.	H Shares	Investment manager	36,389,967 (long position)	3.63%	13.13%
Roche & Owen Associates (Pte) Limited	H Shares	Interest of controlled corporation	23,352,000 (long position)	2.33%	8.43%

Other Information

Name of Shareholder	Type of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
CM International Capital Limited ⁽³⁾	H Shares	Beneficial owner	28,022,000 (long position)	2.80%	10.11%
CM International Capital Limited (中民國際資本有限公司) ⁽³⁾	H Shares	Interest of controlled corporation	28,022,000 (long position)	2.80%	10.11%
China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) ⁽³⁾	H Shares	Interest of controlled corporation	28,022,000 (long position)	2.80%	10.11%
CITIC Capital (Shen Zhen) Asset Management Co., Ltd ⁽⁴⁾	H Shares	Beneficial owner	18,681,000 (long position)	1.86%	6.74%
Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市堯盛鑫諮詢有限公司) ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Advisory Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Finance (Cayman) Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Global Services Holdings Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Holdings Limited ⁽⁴⁾	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%

As at the date of this report, the Company issued 724,810,000 Domestic Shares and 277,090,000 H Shares, resulting 1,001,900,000 Shares in total.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.71% of the equity interest in Qilu Securities Co., Ltd. and is the holding company of Qilu Securities Co., Ltd.. Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,356,370 (long position) Domestic Shares held by Qilu Securities Co., Ltd. for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is wholly owned by Shandong Steel Group Co., Ltd.. Therefore, Shandong Steel Group Co., Ltd. is deemed to be interested in the 632,356,370 (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 28,022,000 (long position) H Shares of the Company. CM International Capital Limited (中民國際資本有限公司) holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) holds 100% of the equity interest in CM International Capital Limited (中民國際資本有限公司). Therefore, China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) and CM International Capital Limited (中民國際資本有限公司) are deemed to be interested in the 28,022,000 (long position) H Shares held by CM International Capital Limited for the purpose of Part XV of the SFO.
- (4) CITIC Capital (Shen Zhen) Asset Management Co., Ltd. directly holds 18,681,000 (long position) H Shares of the Company. Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) holds 100% of the equity interest in CITIC Capital (Shen Zhen) Asset Management Co., Ltd., and CITIC Capital Advisory Limited holds 100% of the equity interest in Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司); CITIC Capital Finance (Cayman) Limited holds 100% of the equity interest in CITIC Capital Advisory Limited. CITIC Capital Global Services Holdings Limited holds 100% of the equity interest in CITIC Capital Finance (Cayman) Limited, and CITIC Capital Holdings Limited holds 100% of the equity interest in CITIC Capital Global Services Holdings Limited. Therefore, CITIC Capital Holdings Limited, CITIC Capital Global Services Holdings Limited, CITIC Capital Finance (Cayman) Limited, CITIC Capital Advisory Limited and Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) are deemed to be interested in the 18,681,000 (long position) H Shares held by CITIC Capital (Shen Zhen) Asset Management Co., Ltd. for the purpose of Part XV of the SFO.

Save as disclosed above, as at 24 August 2015, the Directors of the Company are not aware of any other person (except for a Director, a Supervisor or a chief executive of the Company) who has interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any litigation or arbitration that might have significant impact on its operation activities during the period from the Listing Date up to the Latest Practicable Date.

CHANGES OF INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

From the Listing Date to the Latest Practicable Date, the Company did not appoint or dismiss any Director, Supervisor or senior management. Meanwhile, from the Listing Date to the Latest Practicable Date, there is no change of information about the Directors, Supervisors or chief executive which shall be disclosed pursuant to 13.51 (2) of the Listing Rules.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2015 (Unaudited)	2014 (Unaudited)
Commission and fee income	5	358,905	169,557
Commission and fee expense	5	(280,261)	(108,382)
Net commission and fee income		78,644	61,175
Interest income	6	73,738	44,107
Interest expense	6	(9,313)	(818)
Net interest income		64,425	43,289
Loss on physical commodities trading	7	(95)	(1,295)
Net investment gains	8	17,868	14,582
Other income — refunds of trading fees		20,921	7,856
Operating income		181,763	125,607
Staff costs	9	(44,641)	(36,474)
Commission to brokerage agents		(14,727)	(15,532)
Introducing broker commission		(10,353)	(4,137)
Depreciation and amortization		(3,969)	(4,108)
Impairment losses	10	(139)	(2,279)
Other operating expenses	11	(51,845)	(35,053)
Operating expenses		(125,674)	(97,583)
Operating profit		56,089	28,024
Share of losses of investment in an associate	16	(1,224)	—
Other gains, net		851	100
Profit before income tax		55,716	28,124
Income tax expense	12	(13,352)	(6,345)
Profit for the period		42,364	21,779

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2015 (Unaudited)	2014 (Unaudited)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value		9,649	(2,540)
– Income tax effect on changes in fair value		(2,412)	635
– Amounts reclassified to profit or loss upon disposal or impairment		(2,890)	1,389
Other comprehensive income for the period, net of tax		4,347	(516)
Total comprehensive income		46,711	21,263
Profit attributable to:			
– Shareholders of the Company		42,364	21,779
– Non-controlling interests		–	–
		42,364	21,779
Total comprehensive income attributable to:			
– Shareholders of the Company		46,711	21,263
– Non-controlling interests		–	–
		46,711	21,263
Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share)			
Basic/Diluted	13	0.06	0.03

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

(All amounts in RMB'000 unless otherwise stated)

	Note	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Assets			
Non-current assets			
Property and equipment	14	41,082	41,920
Intangible assets	15	5,631	6,137
Investment in an associate	16	7,462	8,685
Other non-current assets	17	2,901	3,795
Available-for-sale financial assets	18	26,662	17,173
Deferred income tax assets	19	1,829	3,767
Refundable deposits	20	20,149	20,157
Total non-current assets		105,716	101,634
Current assets			
Physical commodities	21	11,632	15,689
Other current assets	22	55,070	19,566
Available-for-sale financial assets	18	108,117	322,318
Derivative financial assets	23	—	—
Financial assets at fair value through profit or loss		238	1,596
Financial assets held under resale agreements	24	35,237	—
Deposits with exchange-clearing organizations	25	3,701,590	2,331,191
Bank balances held for brokerage clients		4,672,751	1,986,475
Cash and bank balances	26	928,633	748,831
Total current assets		9,513,268	5,425,666
Total assets		9,618,984	5,527,300

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

(All amounts in RMB'000 unless otherwise stated)

	Note	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	27	750,000	750,000
Share premium	28	290,292	290,292
Other reserves	28	131,476	122,525
Retained earnings		147,322	109,562
Total equity attributable to shareholders of the Company		1,319,090	1,272,379
Non-controlling interests		—	—
Total equity		1,319,090	1,272,379
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	19	100	—
Other non-current liabilities		1,522	959
Total non-current liabilities		1,622	959
Current liabilities			
Other current liabilities	29	64,945	35,661
Current income tax liabilities		6,721	13,108
Short-term borrowings	30	28,800	—
Derivative financial liabilities	23	—	—
Financial liabilities at fair value through profit or loss	31	19,983	—
Accounts payable to brokerage clients		8,177,823	4,205,193
Total current liabilities		8,298,272	4,253,962
Total liabilities		8,299,894	4,254,921
Total equity and liabilities		9,618,984	5,527,300
Net current assets		1,214,997	1,171,704
Total assets less current liabilities		1,320,712	1,273,338

Condensed Consolidated Statements of Changes in Equity

For the six months ended 30 June 2015

(All amounts in RMB'000 unless otherwise stated)

(Unaudited)	Attributable to shareholders of the Company				Total equity
	Share capital (Note 27)	Share premium (Note 28)	Reserves (Note 28)	Retained earnings	
Balance at 1 January 2015	750,000	290,292	122,525	109,562	1,272,379
Profit for the period	—	—	—	42,364	42,364
Other comprehensive income for the period	—	—	4,347	—	4,347
Total comprehensive income for the period	—	—	4,347	42,364	46,711
Net appropriation to reserves	—	—	4,604	(4,604)	—
Balance at 30 June 2015	750,000	290,292	131,476	147,322	1,319,090
Balance at 1 January 2014	750,000	290,292	98,720	50,527	1,189,539
Profit for the period	—	—	—	21,779	21,779
Other comprehensive income for the period	—	—	(516)	—	(516)
Total comprehensive income	—	—	(516)	21,779	21,263
Net appropriation to reserves	—	—	2,746	(2,746)	—
Balance at 30 June 2014	750,000	290,292	100,950	69,560	1,210,802

Condensed Consolidated Statements of Cash Flows

For the six months ended 30 June 2015
(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Cash flows from operating activities		
Profit before income tax	55,716	28,124
Adjustments for the below items:		
Depreciation and amortization	3,969	4,108
Impairment losses	139	2,279
Net losses on disposal of property and equipment and intangible assets	2	9
Realized gains from disposal of available-for-sale financial assets	(5,041)	(1,524)
Dividends and interest income from available-for-sale financial assets and term deposits	(13,060)	(11,894)
Changes in fair value of financial assets at fair value through profit or loss and derivative financial instruments	(771)	(1,341)
Share of losses of investment in an associate	1,224	—
	42,178	19,761
Net increase in operating assets:		
Net increase in bank balances held for brokerage clients	(2,686,276)	(306,830)
Net increase in deposits with exchange-clearing organizations	(1,302,222)	(369,198)
Net decrease/(increase) in financial assets at fair value through profit and loss	2,128	(29,338)
Net increase in other assets	(35,974)	(27,335)
Net increase in financial assets held under resale agreements	(35,237)	—
Net decrease/(increase) in physical commodities	4,056	(13,398)
	(4,053,525)	(746,099)
Net increase in operating liabilities:		
Net increase in accounts payable to brokerage clients	3,972,630	676,375
Net increase in financial liabilities at fair value through profit or loss	19,983	—
Net increase in other liabilities	29,851	4,955
	4,022,464	681,330
Income tax paid	(17,701)	(13,099)
Net cash outflow from operating activities	(6,584)	(58,107)

Condensed Consolidated Statements of Cash Flows

For the six months ended 30 June 2015

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Cash flows from investing activities		
Payment for investment in an associate	—	(9,800)
Dividends and interest received from available-for-sale financial assets and term deposits	13,060	11,894
Purchases of property and equipment, intangible assets and other long-term assets	(2,451)	(1,048)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	1,135	4
Payment for purchases of available-for-sale financial assets and term deposits	(288,667)	(337,000)
Proceeds on maturity and disposal of available-for-sale financial assets and term deposits	398,585	178,049
Net cash inflow/(outflow) from investing activities	121,662	(157,901)
Cash flows from financing activities		
Proceeds from bank borrowings	28,800	—
Net cash inflow from financing activities	28,800	—
Net increase/(decrease) in cash and cash equivalents	143,878	(216,008)
Cash and cash equivalents at beginning of period	367,428	340,804
Cash and cash equivalents at end of period (Note 32)	511,306	124,796

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

1 General information

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

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

As at 30 June 2015, the registered share capital of the Company is RMB750 million. The Company holds the futures business licence No. 31190000 and business licence No. 370000018085761. The registered address of the Company is Floor 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province.

The Company and its subsidiary (the “Group”) are principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, futures asset management, commodity trading and other business activities as permitted by the CSRC.

The condensed interim financial information is presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2 Basis of preparation

The condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

2.1 Going-concern basis

The Group meets its day-to-day working capital requirements mainly through its self-owned funds. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group’s products; and (b) the availability of bank finance for the foreseeable future. The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

3 Accounting policies

Except for certain number of financial instruments measured at fair value, the interim financial information has been prepared under the historical cost convention. The accounting policies and methods of computation used in the condensed interim financial information for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's consolidated financial statements for the three years ended 31 December 2012, 2013 and 2014 underlying the preparation of the accountants report included in the prospectus of the Group in connection with the initial public offering of H shares of the Group on the Main Board of the Hong Kong Stock Exchange. The condensed interim financial information should be read in conjunction with the aforementioned accountants' report.

Amendments to IFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

4.1 Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

4 Estimates (continued)

4.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

4.3 Income taxes

The Group is mainly subject to income taxes in China. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

4.4 Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

As of the end of the period, the Group assessed and concluded that the following structured entities are controlled by the Company and should be included for consolidation:

Huiquanwencheng No. 1 Asset Management Scheme: This is a collective asset management scheme comprising a single unit class issued by the Group in May 2015. The Group manages this scheme, and meanwhile holds 20% of the interest in the scheme from inception. The Group collects management fee at 1.75% based on the net asset value of the scheme, as well as a performance reward calculated at 30% of the gross return of the scheme upon its termination. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. Moreover, the Group cannot withdraw its holding within the operating period of the scheme. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return attributable to the Group, it is concluded that the Group is a principal of the scheme since the Group's exposure to the variable return is significant.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

5 Net commission and fee income

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Commission and fee income	—	
Futures brokerage service	307,285	156,854
Settlement and clearing service income from other futures firms	45,953	9,539
Asset management service	5,387	3,164
Investment consultancy	280	—
	358,905	169,557
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	234,308	98,958
Settlement and clearing service expense to exchange-clearing organizations	45,953	9,424
	280,261	108,382

6 Net interest income

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Interest income		
Interest income from deposits with banks	61,378	37,688
Interest income from deposits with exchange-clearing organizations	12,133	6,419
Other interest income	227	—
	73,738	44,107
Interest expense		
Interest expense on settlement and clearing services to other futures firms	719	818
Interest expense to other brokerage clients	8,594	—
	9,313	818

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

7 Loss on physical commodities trading

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Sales proceeds	65,571	107,972
Costs of purchases	(65,666)	(109,267)
	(95)	(1,295)

The Company's subsidiary involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized upon the transfer of risks and rewards of the ownership.

8 Net investment gains

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Net realized gains from disposal of available-for sale financial assets	5,041	1,524
Dividends and interest income from available-for-sale financial assets	13,060	11,894
Net realized (losses)/gains from disposal of financial assets at fair value through profit and loss	(2,102)	59
Dividends from financial assets at fair value through profit and loss	65	—
Net realized gains/(losses) from derivative financial instruments	1,033	(236)
Unrealized fair value change of financial instruments at fair value through profit or loss		
— Financial assets at fair value through profit or loss	84	694
— Derivative financial instruments	931	647
— Financial liabilities at fair value through profit or loss	(244)	—
	17,868	14,582

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

9 Staff costs

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Salaries and bonus	34,645	26,267
Pension	3,854	3,691
Other social security	4,449	4,246
Labour union funds and employee education funds	1,561	1,169
Other welfare	132	1,101
	44,641	36,474

10 Impairment losses

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Available-for-sale financial assets	—	2,279
Other current assets	139	—
	139	2,279

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

11 Other operating expenses

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Office expenses	9,698	7,803
Consulting expenses	7,576	2,190
Business tax and surcharges	6,451	3,936
Rentals	6,408	6,549
Marketing and distribution expenses	6,091	5,089
Futures Investors Protection Fund	4,643	1,845
Listing expenses	4,102	—
Information system maintenance fees	2,181	3,648
Property maintenance fee	1,857	1,745
Professional service expenses	755	467
Other expenses	2,083	1,781
	51,845	35,053

12 Income tax expense

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Current		
— Mainland China	10,390	7,013
Deferred		
— Mainland China (Note 19)	2,962	(668)
Income tax		
— Mainland China	13,352	6,345

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

12 Income tax expense (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Profit before income tax	55,716	28,124
Tax calculated at applicable statutory tax rate of 25%	13,929	7,031
Items deducted for tax purposes but not subtracted to arrive at taxable income	(1,162)	(686)
Items not deductible for tax purposes	585	—
	13,352	6,345

13 Earnings per share

13.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Profit attributable to shareholders of the Company (in RMB thousands)	42,364	21,779
Weighted average number of ordinary shares in issue (in thousands)	750,000	750,000
Basic earnings per share (in RMB)	0.06	0.03

13.2 Diluted earnings per share

For the period ended 30 June 2015, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share (for the period ended 30 June 2014: same).

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

14 Property and equipment

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2015	40,073	8,983	23,413	72,469
Additions	—	—	1,463	1,463
Disposals	—	(1,143)	(90)	(1,233)
30 June 2015	40,073	7,840	24,786	72,699
Accumulated depreciation				
1 January 2015	(5,046)	(6,315)	(19,188)	(30,549)
Additions	(649)	(519)	(983)	(2,151)
Disposals	—	1,011	72	1,083
30 June 2015	(5,695)	(5,823)	(20,099)	(31,617)
Carrying amount				
30 June 2015	34,378	2,017	4,687	41,082

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2014	40,073	8,544	22,038	70,655
Additions	—	439	577	1,016
Disposals	—	—	(196)	(196)
30 June 2014	40,073	8,983	22,419	71,475
Accumulated depreciation				
1 January 2014	(3,747)	(5,143)	(16,951)	(25,841)
Additions	(649)	(590)	(1,284)	(2,523)
Disposals	—	—	182	182
30 June 2014	(4,396)	(5,733)	(18,053)	(28,182)
Carrying amount				
30 June 2014	35,677	3,250	4,366	43,293

All buildings of the Group are located outside Hong Kong.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

15 Intangible assets

	Six months ended 30 June 2015 (Unaudited)
Cost	
At 1 January	9,936
Additions	—
At 30 June	9,936
Accumulated amortization	
At 1 January	(3,799)
Charges	(506)
At 30 June	(4,305)
Carrying amount	
At 30 June	5,631

	Six months ended 30 June 2014 (Unaudited)
Cost	
At 1 January	9,847
Additions	30
At 30 June	9,877
Accumulated amortization	
At 1 January	(2,801)
Charges	(499)
At 30 June	(3,300)
Carrying amount	
At 30 June	6,577

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

16 Investment in an associate

The Group invested RMB9.8 million in an associate named Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司) ("Rizhao BOT") during the year ended 31 December 2014.

The registered capital of Rizhao BOT is RMB100 million. The Group holds 49% of its equity and accounts for the associate using equity method. Rizhao BOT is located in Rizhao City, Shandong Province and still in an early period of its business operations.

Upon completion of the equity restructuring of Rizhao BOT in 22 May 2015, the Group's equity holding in Rizhao BOT is diluted from 49% to 29.5%, and committed an additional capital injection of RMB24,878 thousand. As at 30 June 2015, the Group has not made payment for the disproportionate capital increase yet. The Group accounts for the associate using equity method.

The carrying amount of the associate and a reconciliation of the associate's summarized financial information to the carrying amount of the Group's interest in the associate are as follows:

	Six months ended 30 June 2015 (Unaudited)
At 1 January	9,800
Capital injection	—
Share of losses for the period	(2,338)
At 30 June	7,462

	Six months ended 30 June 2014 (Unaudited)
At 1 January	—
Capital injection	9,800
Share of losses for the period	—
At 30 June	9,800

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

17 Other non-current assets

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Leasehold improvement ⁽¹⁾	2,692	3,545
Long-term prepaid expenses	209	250
	2,901	3,795

(1) Changes in leasehold improvement are analyzed as follows:

	30 June 2015 (Unaudited)	30 June 2014 (Unaudited)
At 1 January	3,545	3,166
Additions	459	556
Amortization	(1,312)	(1,086)
At 30 June	2,692	2,636

Leasehold improvements of the Group is amortized over the expected beneficial periods.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

18 Available-for-sale financial assets

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Non-current – Unlisted		
At fair value		
Collective asset management schemes	25,262	15,773
At cost		
Investments in exchange memberships	1,400	1,400
	26,662	17,173
Current – Unlisted		
At fair value		
Trust schemes	95,000	161,768
Debt instruments	–	100,250
Collective asset management schemes	13,117	60,300
	108,117	322,318
	134,779	339,491

As at 30 June 2015, no securities of the Group were placed as collateral (31 December 2014: same).

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

19 Deferred income tax assets and liabilities

(1) The net movements on the deferred income tax account are as follows:

	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Balance at beginning of period	3,767	5,089
Income statement charge (Note 12)	(2,962)	668
Tax charge relating to components of other comprehensive income	924	(325)
Balance at end of period	1,729	5,432

(2) Gross movements in deferred income tax assets and liabilities

The gross movements in deferred income tax assets during the period are as follows:

	Impairment losses from available-for- sale financial assets	Changes in fair value of available-for- sale financial assets	Deductible Loss	Others	Total
(Unaudited)					
As at 1 January 2015	3,557	329	—	2,197	6,083
Income statement charge	(2,372)	—	—	1,054	(1,318)
Tax charge relating to components of other comprehensive income	—	(362)	—	—	(362)
As at 30 June 2015	1,185	(33)	—	3,251	4,403
(Unaudited)					
As at 1 January 2014	5,563	(171)	—	302	5,694
Income statement charge	570	—	1,447	5	2,022
Tax charge relating to components of other comprehensive income	—	107	—	65	172
As at 30 June 2014	6,133	(64)	1,447	372	7,888

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

19 Deferred income tax assets and liabilities (continued)

(2) Gross movements in deferred income tax assets and liabilities (continued)

The gross movements in deferred income tax liabilities during the period are as follows:

	Changes in fair value of available-for-sale financial assets	Others	Total
(Unaudited)			
As at 1 January 2015	1,285	1,032	2,317
Income statement charge	—	1,642	1,642
Tax charge relating to components of other comprehensive income	(1,285)	—	(1,285)
As at 30 June 2015	—	2,674	2,674
(Unaudited)			
As at 1 January 2014	—	1,101	1,101
Income statement charge	170	1,185	1,355
Tax charge relating to components of other comprehensive income	—	—	—
As at 30 June 2014	170	2,286	2,456

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

19 Deferred income tax assets and liabilities (continued)

(3) Offsetting of deferred income tax assets and liabilities:

	30 June 2015 (Unaudited)	30 June 2014 (Unaudited)
Deferred income tax assets	(2,574)	(2,456)
Deferred income tax liabilities	(2,574)	(2,456)

Net amount of deferred income tax assets and liabilities after offsetting:

	30 June 2015 (Unaudited)	30 June 2014 (Unaudited)
Deferred income tax assets	1,829	5,432
Deferred income tax liabilities	100	—

20 Refundable deposits

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Security deposit placed with the China Financial Futures Exchange (the "CFFE")	20,149	20,157

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

21 Physical commodities

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Trading commodities	19,524	22,446
Impairment ⁽¹⁾	(7,892)	(6,757)
	11,632	15,689

- (1) As a result of declining market prices for some commodities, as at 30 June 2015 the net realizable value of the physical commodities is lower than the cost. The Group has written the carrying amount of the physical commodities down to the net realizable value with the amount of RMB7,892 thousand (31 December 2014: RMB6,757 thousand). The impairment change was included in costs of purchases of physical commodities trading of relevant periods.

22 Other current assets

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Accrued listing expenses	27,069	—
Deposit for physical commodity trading	—	6,658
Prepayments	15,045	5,465
Interest receivable from deposits	10,411	3,734
Accounts receivable	1,257	1,324
Other receivables	1,288	2,385
	55,070	19,566

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

23 Financial derivative instruments

	30 June 2015		31 December 2014	
	Contractual value	Fair value (Unaudited)	Contractual value	Fair value (Audited)
Commodities futures	18,240	151	46,346	(369)
Stock index futures	3,257	(20)	1,073	(1)
Less: Cash paid as settlement		(131)		370
Net position		—		—

As at 30 June 2015, the Group also held certain OTC options (as at 31 December 2014: the Group held OTC options and OTC commodity forwards). The fair value change of such derivative instruments is considered not significant (31 December 2014: same).

24 Financial assets held under resale agreements

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Analysed by asset type:		
— Warehouse receipts ⁽¹⁾	33,737	—
— Debt securities	1,500	—
	35,237	—

(1) The Group received warehouse receipt as collateral which can be resold or re-pledged. As at 30 June 2015, the Group has accepted collateral that can be resold or re-pledged with a fair value of RMB43,664 thousand (31 December 2014: nil), of which collateral with a fair value of RMB32,748 thousand was re-pledged to secure the Group's borrowings with a principal amount of RMB28,800 thousand from Ping An Bank Co., Ltd. ("Ping An Bank") (Note 30) (31 December 2014: nil).

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

25 Deposits with exchange-clearing organizations

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Clients' margin deposits	1,969,766	1,670,891
Clients' unrestricted deposits	1,552,049	548,702
Proprietary clearing settlement funds	179,775	111,598
	3,701,590	2,331,191
Represented by		
Deposits with DCE	553,979	389,279
Deposits with SHFE	369,668	431,694
Deposits with ZCE	185,528	249,131
Deposits with CFFE	2,592,415	1,261,087
	3,701,590	2,331,191

26 Cash and bank balances

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Cash	205	61
Term deposit with banks	589,102	485,000
Demand deposit with banks	318,824	263,765
Demand deposit with securities companies	20,502	5
	928,633	748,831

The Group's term deposits and demand deposits are mainly deposited with joint-stock commercial banks and major city commercial banks in China.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

27 Share capital

All shares issued by the Company are fully paid common shares, with a notional value of RMB1.00 per share. The number of shares and nominal value of the Company's share capital are as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Registered, issued and fully paid share capital	750,000	750,000

28 Share premium and reserves

	Share premium	Surplus reserve	Other risk reserves	Available- for-sale financial assets revaluation reserve ⁽¹⁾	Total
(Unaudited)					
As at 1 January 2015	290,292	14,263	105,393	2,869	412,817
Amounts recognized in other comprehensive income	—	—	—	4,346	4,346
Appropriation to futures risk reserve	—	—	4,705	—	4,705
Utilization of futures risk reserve	—	—	(100)	—	(100)
As at 30 June 2015	290,292	14,263	109,998	7,215	421,768
(Unaudited)					
As at 1 January 2014	290,292	7,128	91,272	320	389,012
Amounts recognized in other comprehensive income	—	—	—	(516)	(516)
Appropriation to futures risk reserve	—	—	3,296	—	3,296
Utilization of futures risk reserve	—	—	(550)	—	(550)
As at 30 June 2014	290,292	7,128	94,018	(196)	391,242

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

28 Share premium and reserves (continued)

(1) Available-for-sale financial assets revaluation reserve

(Unaudited)	Six months ended 30 June 2015		
	Pre-tax amount	Income tax effect	After-tax net amount
Balance at beginning of period	3,825	(956)	2,869
Changes in fair value of available-for-sale financial assets	9,649	(2,412)	7,237
Amounts reclassified to losses upon disposal or impairment of available-for-sale financial assets	(3,855)	964	(2,891)
Balance at end of period	9,619	(2,404)	7,215

(Unaudited)	Six months ended 30 June 2014		
	Pre-tax amount	Income tax effect	After-tax net amount
Balance at beginning of period	426	(106)	320
Changes in fair value of available-for-sale financial assets	(2,540)	635	(1,905)
Amounts reclassified to profits upon disposal or impairment of available-for-sale financial assets	1,852	(463)	1,389
Balance at end of period	(262)	66	(196)

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

29 Other current liabilities

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Listing expenses payable	19,327	—
Salaries, bonus, allowance and benefits payables	13,687	25,089
Advance for physical commodity trading and OTC options	7,672	2,274
Payable to Futures Investors Protection Fund	4,353	1,270
Interest payable	4,623	38
Accounts payable	61	—
Other payables	15,222	6,990
	64,945	35,661

30 Short-term borrowings

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bank borrowings	28,800	—

According to the credit facility arrangement between the Group and Ping An Bank, Ping An Bank agreed to provide us a credit facility of RMB300,000 thousand extending for one year, which is secured by standard warehouse receipts that the Group has accepted as collateral (Note 24(1)).

As at June 30, 2015, the balance of short-term borrowings of the Group was RMB28,800 thousand, bearing interest at a rate of 6.8% per annum (31 December 2014: nil).

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

31 Financial liabilities at fair value through profit or loss

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Huiquanwencheng No. 1	19,983	—

32 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents represent cash and bank balances that can be used to meet short-term cash commitments.

	30 June 2015 (Unaudited)	30 June 2014 (Unaudited)
Cash and bank balances (Note 26)	928,633	567,541
Proprietary deposit with exchange-clearing organizations (Note 25)	179,775	100,255
Less:		
Term deposit with original maturity over three months	(589,102)	(535,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(8,000)	(8,000)
	511,306	124,796

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

33 Commitments and contingent liabilities

(1) Capital commitments

Other than what has been disclosed in Note 16, as at 30 June 2015, the Group were not involved in any material capital commitments (31 December 2014: same).

(2) Operating lease commitments

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year	8,640	9,306
1 to 3 years	11,225	13,397
Over 3 years	12,941	14,158
	32,806	36,861

(3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 30 June 2015, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down (31 December 2014: same).

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions

34.1 Related parties

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 30 June 2015:

Significant related legal entities	The relationship with the Group
Qilu Securities Co., Ltd. ("Qilu Securities")	The controlling shareholder of the Company
Zhongtai Financial International Ltd. ("Zhongtai International") (Formerly known as Qilu International Holdings Ltd.)	Controlled by the controlling shareholder of the Company
Zhongtai International Capital Ltd. ("Zhongtai International Capital") (Formerly known as Qilu International Capital Ltd.)	Controlled by the controlling shareholder of the Company
Qilu Investment Management Consulting (Shenzhen) Co., Ltd. ("Qilu Consulting")	Controlled by the controlling shareholder of the Company
Qilu Securities (Shanghai) Asset Management Co., Ltd. ("Qilu Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The largest and direct controlling shareholder of Qilu Securities
Shandong Laigang Yongfeng Steel International Trade Co., Ltd. ("Laigang Trade")	Controlled by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel")	The indirect controlling shareholder of Qilu Securities

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (continued)

34.1 Related parties (continued)

Significant related legal entities	The relationship with the Group
Laiwu Xintai Copper Industry Co., Ltd. ("Xintai Copper")	Controlled by Laiwu Steel
Shandong Yongfeng Steel International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Laiwu Steel
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Jinan Steel Co., Ltd. ("Jinan Steel")	Controlled by Shandong Steel
Rizhao BOT	Associate invested by the Group

34.2 Related party transactions and balances

34.2.1 The Company's direct controlling shareholder — Qilu Securities

Transactions during the period

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Income from providing futures brokerage service	3,077	214
Proceeds from disposal of collective asset management schemes managed by Qilu Securities		
— Qilu Huiquan B	8,782	—
Introducing broker commission	10,353	4,137
Commission payable for new shares subscription	—	3
Rentals payable	95	52
Consulting fee payable	76	—

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (continued)

34.2 Related party transactions and balances (continued)

34.2.1 The Company's direct controlling shareholder — Qilu Securities (continued)

Balances at the end of the year/period

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Accounts payable to brokerage clients	660,102	289,434
Demand deposit with Qilu Securities	15,836	4
Other current liabilities		
— Introducing broker commission payable	10,353	2,001
— Consulting fee payable	76	—
— Other payable	43	43
— Rental payable	65	65
Other receivable		
— Rental prepayment	75	75
Collective asset management schemes managed by Qilu Securities		
— Jintaishan No. 1 & No. 2	23,976	15,773
		Available-for-sale financial assets
— Qilu Huiquan B	—	8,782
		Available-for-sale financial assets

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (continued)

34.2 Related party transactions and balances (continued)

34.2.2 Related parties other than the Company's direct controlling shareholder

Transactions during the period

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Income from providing futures brokerage service		
— Wanjia Funds	8	14
— Jinan Steel	2	7
— Zhongtai International	12	—
Interest income from bank deposit		
— Laishang Bank	788	—
Sponsor fee		
— Zhongtai International Capital	2,366	—
Consulting Fee		
— Qilu Asset Management	810	—
Proceeds from disposal of fund managed by Wanjia Funds		
— Wanjia Funds — Luzheng Futures — Tongxin	29,013	—
Cost of purchase of physical commodities		
— Yongfeng Trade	—	8,061

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (continued)

34.2 Related party transactions and balances (continued)

34.2.2 Related parties other than the Company's direct controlling shareholder (continued)

Balance at the end of year/period

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Accounts payable to brokerage clients		
– Wanjia Funds	–	35,748
– Jinan Steel	2,905	2,449
– Zhongtai International	16,477	4,086
– Qilu Asset Management	–	2,947
– Xintai Copper	1	1
Cash and bank balance		
– Laishang Bank	335,788	145,001
Sponsor fee		
– Zhongtai International Capital	2,366	–
Consulting Fee payable		
– Qilu Asset Management	810	–
Collective asset management scheme managed by Wanjia Funds		
– Wanjia Funds – Luzheng Futures		Available-for-sale
– Tongxin	957	financial assets 28,684

34.2.3 Key management personnel

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, board of supervisors and other members of the senior management.

	Six months ended 30 June 2015 (Unaudited)	2014 (Unaudited)
Key management compensation	1,233	1,225

There is no loan or advance to key management during the six months ended 30 June 2015 and 2014.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

35 Segment analysis

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- (a) Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- (b) Futures asset management: including asset portfolio management and maintenance, investment advisory and transaction execution services;
- (c) Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- (d) Headquarters and others: including headquarters operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the six months ended 30 June 2015 and 2014.

Expenses for each segment mainly contains depreciation cost allocated based on the area of the office, actual expense of salaries, bonus, and other relevant staff cost which is directly related.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

35 Segment analysis (continued)

The Group mainly operates in Shandong Province, the PRC.

(Unaudited)	Six months ended 30 June 2015					
	Futures brokerage	Commodity		Headquarters and others	Elimination	Total
		trading and risk management	Futures asset management			
Net commission and fee income						
– external	73,028	–	5,336	280	–	78,644
– internal	156	–	51	–	(207)	–
Net interest income						
– external	50,177	376	7	13,865	–	64,425
Loss on physical commodities trading						
– external	–	(95)	–	–	–	(95)
Net investment gains						
– external	–	7,416	120	10,332	–	17,868
Other income						
– external	20,921	–	–	–	–	20,921
Total operating income	144,282	7,697	5,514	24,477	(207)	181,763
Total operating expenses	(67,420)	(7,239)	(5,056)	(46,152)	193	(125,674)
Share of losses of investment in an associate	–	(1,224)	–	–	–	(1,224)
Other gains, net	796	55	–	–	–	851
Profit/(Loss) before income tax	77,658	(711)	458	(21,675)	(14)	55,716
Total assets	8,415,437	147,836	8,340	1,208,296	(160,925)	9,618,984
Total liabilities	8,263,423	28,412	6,926	32,098	(30,965)	8,299,894
Supplemental information						
Depreciation and amortization	2,000	427	82	1,460	–	3,969
Impairment provision/(reversal)	119	61	–	–	(41)	139
Capital expenditure	1,959	–	–	–	–	1,959

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

35 Segment analysis (continued)

(Unaudited)	Six months ended 30 June 2014					Elimination	Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarters and others			
Net commission and fee income							
– external	58,011	–	3,164	–	–	–	61,175
– internal	54	–	–	–	(54)	–	–
Net interest income							
– external	16,384	102	–	26,803	–	–	43,289
Loss on physical commodities trading							
– external	–	(1,295)	–	–	–	–	(1,295)
Net investment gains							
– external	–	564	–	14,018	–	–	14,582
Other income							
– external	7,856	–	–	–	–	–	7,856
Total operating income	82,305	(629)	3,164	40,821	(54)	–	125,607
Total operating expenses	(60,823)	(4,520)	(2,602)	(29,692)	54	–	(97,583)
Other gains, net	92	9	–	(1)	–	–	100
Profit/(Loss) before income tax	21,574	(5,140)	562	11,128	–	–	28,124
Total assets	3,399,596	130,985	894	1,125,873	(144,397)	–	4,512,951
Total liabilities	3,297,669	15,150	–	13,727	(24,397)	–	3,302,149
Supplemental information							
Depreciation and amortization	1,746	149	14	2,199	–	–	4,108
Impairment provision	–	–	–	2,279	–	–	2,279
Capital expenditure	1,154	–	–	828	–	–	1,982

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management

36.1 Risk management policies and structure

(1) Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximize the shareholders' value. The Group's risk management strategy is to identify and analyze the risks to which the Group is exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Operating risks to which the Group is exposed to mainly include: credit risk, market risk, liquidity risk and capital management risk. The Group has designed a comprehensive system, internal control policies and procedures to identify, access, monitor and manage the financial risks. The Group reviews the risk management policies and systems regularly, and revises according to the market environment, as well as changes in products and services. The group is devoted to establish a control environment consisting of a clear framework, normative process and specific responsibilities.

(2) Policies and structure for the Company

The risk management framework is structured into four levels consisting of (i) Board, Supervisory Committee, Risk Control Committee and Audit Committee; (ii) the top management; (iii) Compliance and Internal Audit departments; and (iv) risk management functions in operating departments.

Level 1: Board, Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for the Company's overall risk strategy, risk preference, risk management policies and business progress. The Board is responsible for the Company's overall risk control efficiency. The Supervisory Committee focuses on monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons. The Risk Control Committee is responsible for accessing, suggesting and supervising the Company's risk management progress.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.1 Risk management policies and structure (continued)

(2) Policies and structure for the Company (continued)

Level 2: Risk Control Committee, Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee

The Risk Control Committee is responsible ensuring that the decision making procedures and risk control system are in compliance with applicable laws and regulations. The Audit Committee is principally responsible for the overall audit related matters. The Asset Management Investment Decision Committee is principally responsible for reviewing the investment scale, major issues in product design, operations, liquidation and other major issues raised by the Asset Management Department. The Treasury Operations Investment Decision Committee principally responsible for reviewing the scale of the treasury operations, prospective investment portfolio, stop-loss measures and other major issues raised by the Treasury Department.

Level 3: Compliance and Internal Inspection departments

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

Level 4: Frontline operation teams at our business departments and branches

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities; including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.1 Risk management policies and structure (continued)

(3) Policies and structure for the subsidiary

Subsidiary's risk management structure constitutes board, supervisory committee, Risk Management Department and relevant business department:

Level 1: The board authorizes the risk control system, and formulate the maximum amount of investment, scale of futures investment, upper limit of future exposure position and single futures transactions. At the same time, the supervisory committee monitors the specific responsibility of board and management level.

Level 2: Risk Management Department is responsible for overall controlling of risk management, including setting out specific risk control measures; performing risk evaluation of investment activity and providing relevant suggestions; monitoring the implementation procedure of risk control measures, etc., based on the real business situation.

Level 3: Risk management function in Trading Department monitors the daily risk of investment business and provides relevant pre-warning.

36.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating.

The Group's credit risks mainly come from financial assets which include bank balances, bank balances held for brokerage clients, deposits with exchange-clearing organizations, available-for-sale financial assets, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.2 Credit risk (continued)

In terms of the Group's investment in debt instruments and certain trust schemes which are debt in nature, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances, bank balances held for brokerage clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation.

To mitigate the credit risk from futures brokerage service, the Group usually require the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse receipts or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 31 December 2014 and 30 June 2015, the fair values of such collateral were RMB69,864 thousand and RMB121,116 thousand respectively.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.2 Credit risk (continued)

(1) Maximum credit risk exposure

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Refundable deposits	20,149	20,157
Other current assets	10,430	5,220
Available-for-sale financial assets	—	212,018
Financial assets held under resale agreements	35,237	—
Deposits with exchange-clearing organizations	3,701,590	2,331,191
Bank balances held for brokerage clients	4,672,751	1,986,475
Bank balances	928,433	748,770
	9,368,590	5,303,831

(2) Credit risk from brokerage service

Client Risk Ratio	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,739,307	7,831,245	1,338,778	3,862,229
80%–100%	312,467	335,309	313,855	333,593
Above 100%	11,609	11,269	18,257	17,382
	2,063,383	8,177,823	1,670,890	4,213,204
Coverage ratio		396%		252%

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.3 Market risk

Summary

Market risk is from loss in fair value of financial instruments or cash flows movement, due to key factors such as price risk, interest rate risk and currency risk.

36.3.1 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives and collective asset management schemes. The market prices of those financial instruments could lead to the fluctuation of investment value. All these investments of the Group are in the domestic capital markets in the PRC. The Group is faced with high market risk due to the volatility of the domestic stock markets in the PRC.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to control the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

The portfolios of the Group mainly comprised collective asset management schemes, trust schemes and equity securities as at 30 June 2015.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.3 Market risk (continued)

Summary (continued)

36.3.1 Price risk (continued)

Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, derivatives, trust schemes and collective asset management schemes in nature of equity by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Profit before income tax		
Increase by 5%	1,092	2,451
Decrease by 5%	(1,092)	(2,451)

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Other comprehensive income before income tax		
Increase by 5%	1,919	6,304
Decrease by 5%	(1,919)	(6,304)

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.3 Market risk (continued)

Summary (continued)

36.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of the Group are bank deposit, bank balances held for brokerage clients, and deposits with exchange-clearing organizations. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

Finance departments of the Company and its subsidiary monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

(Unaudited)	Within 1 month	1–3 months	3 months to 1 year	Non-interest bearing	Total
As at 30 June 2015					
Refundable deposits	20,149	—	—	—	20,149
Other current assets	—	—	—	10,430	10,430
Financial assets held under resale	1,500	33,737	—	—	35,237
Deposits with exchange- clearing organizations	1,731,824	—	—	1,969,766	3,701,590
Bank balances held for brokerage clients	4,672,751	—	—	—	4,672,751
Cash and Bank balances	403,633	65,000	460,000	—	928,633
	6,829,857	98,737	460,000	1,980,196	9,368,790
Other current liabilities	—	—	—	(20,447)	(20,447)
Accounts payable to brokerage clients	(1,705,094)	—	—	(6,472,729)	(8,177,823)
Short-term borrowings	—	—	(28,800)	—	(28,800)
	(1,705,094)	—	(28,800)	(6,493,176)	(8,227,070)
Interest rate sensitivity gap	5,124,763	98,737	431,200	(4,512,980)	1,141,720

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.3 Market risk (continued)

Summary (continued)

36.3.2 Interest rate risk (continued)

(Audited)	Within 1 month	1–3 months	3 months to 1 year	Non-interest bearing	Total
As at 31 December 2014					
Refundable deposits	20,157	—	—	—	20,157
Other current assets	—	—	—	5,220	5,220
Available-for-sale financial assets	—	—	212,018	—	212,018
Deposits with exchange- clearing organizations	660,301	—	—	1,670,890	2,331,191
Bank balances held for brokerage clients	1,986,475	—	—	—	1,986,475
Cash and Bank balances	263,831	—	485,000	—	748,831
	2,930,764	—	697,018	1,676,110	5,303,892
Other current liabilities	—	—	—	(5,405)	(5,405)
Accounts payable to brokerage clients	(125,821)	—	—	(4,079,372)	(4,205,193)
	(125,821)	—	—	(4,084,777)	(4,210,598)
Interest rate sensitivity gap	2,804,943	—	697,018	(2,408,667)	1,093,294

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.3 Market risk (continued)

Summary (continued)

36.3.2 Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and liabilities. A 50 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in profit before income tax, while a negative result indicates otherwise.

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Net interest income		
Increases by 50bps	25,776	14,849
Decreases by 50bps	(25,776)	(14,849)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand depots moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.3 Market risk (continued)

Summary (continued)

36.3.3 Currency risk

No material currency risk for the Group as all the business activities are within mainland China and settled in RMB.

36.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may suffer from liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, significant proprietary trading position, or an excessive high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be faced with penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause bad effects on the Group's operations and reputation.

The Group manages and controls its funds in a centralized manner. The Company's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can identify, measure, monitor and control liquidity risk effectively and ensure that the requirement of liquidity could be met timely with an appropriate cost.

The Group's finance department organize the cash budget annually and set up the fund plan based on it. Under the approval of the Company, the funds will be scheduled and arranged uniformly in order to ensure the consistence of funds demand and cost of the capital control.

After approved by the board, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the aforementioned forecasts. As at 30 June 2015 and 2014, the Group held cash and cash equivalents of approximately RMB511 million and RMB125 million respectively that are expected to readily generate cash inflows for managing liquidity risk.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.4 Liquidity risk (continued)

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for brokerage clients.

(Unaudited)	On demand	Within 1 month	1–3 months	3 months to 1 year	Total
As at 30 June 2015					
Non-derivative cash flow					
Other current liabilities	4,624	3,350	—	12,473	20,447
Short-term borrowings	—	161	333	29,192	29,686
Accounts payable to brokerage clients	8,177,823	—	—	—	8,177,823
Financial liabilities at fair value through profit or loss	—	—	—	19,983	19,983
	8,182,447	3,511	333	61,648	8,247,939
Derivative cash flow					
Derivative financial instruments settled on a gross basis					
(a) total inflow	—	—	—	—	—
(b) total outflow	—	(3,763)	—	—	(3,763)

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.4 Liquidity risk (continued)

(Audited)	On demand	Within 1 month	1–3 months	3 months to 1 year	Total
As at 31 December 2014					
Non-derivative cash flow					
Accounts payable to					
brokerage clients	4,205,193	—	—	—	4,205,193
Other current liabilities	38	3,323	—	2,044	5,405
	4,205,231	3,323	—	2,044	4,210,598
Derivative cash flow					
Derivative financial instruments settled on a gross basis					
(a) total inflow	—	—	1,023	—	1,023
(b) total outflow	—	—	(15,178)	—	(15,178)

36.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiary to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiary;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

36 Financial risk management (continued)

36.5 Capital management (continued)

According to the Notice of “Decision on Revising <Futures company’s regulatory risk management index scheme>” (《期貨公司風險監管指標管理辦法》) (CSRC Notice No. 12 [2013]), the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB15,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 40%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB8,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

37.1 Financial instruments not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, bank balances held for brokerage clients and financial assets held under resale agreements, deposits with exchange-clearing organizations, refundable deposits, accounts payable to brokerage clients, their fair values approximate their carrying amounts.

37.2 Financial instruments measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

Level I — Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level II — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level III — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

The following table presents the financial assets and liabilities that are measured at fair value as at 30 June 2015 and 31 December 2014.

(Unaudited)	Level 1	Level 2	Level 3	Total
As at 30 June 2015				
Financial assets at fair value through profit or loss				
— Equity securities	238	—	—	238
Available-for-sale financial assets				
— Collective asset management schemes ⁽¹⁾	—	38,379	—	38,379
— Trust schemes ⁽²⁾	—	95,000	—	95,000
	238	133,379	—	133,617
Financial liabilities at fair value through profit or loss	—	—	(19,983)	(19,983)
(Audited)				
As at 31 December 2014				
Financial assets at fair value through profit or loss				
— Equity securities	1,596	—	—	1,596
Available-for-sale financial assets				
— Collective asset management schemes	—	76,073	—	76,073
— Trust schemes	—	—	161,768	161,768
— Debt instruments	—	—	100,250	100,250
	1,596	76,073	262,018	339,687

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

- (1) As at 30 June 2015, collective asset management schemes that are classified as level 2 in fair value hierarchy are issued and managed by the Company, Qilu Securities, Wanjia Funds and other non-related financial institutions, with the underlying investments mainly in stocks and bonds that are listed on stock exchanges, bonds that are quoted on the interbank market and listed financial and commodity futures in the PRC. Fair value of the asset management schemes is calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 36.3.1.
- (2) As at 30 June 2015, trust scheme that is classified as level 2 in fair value hierarchy is issued by Shandong International Trust Corporation Limited (山東省國際信託有限公司), with underlying investments in listed equity securities. The Group held the senior tranche of the trust scheme and achieved an expected rate of return through investment income from underlying instruments and possibly a structuring design within trust schemes where principal and return of senior tranche is guaranteed by junior tranche investors. It is mainly exposed to price risk as disclosed in Note 36.3.1.

For the six months ended 30 June 2015, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2014: same).

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

(c) Valuation methods for specific investments

As at 30 June 2015, the Group's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (2) For collective asset management products and trust schemes, fair value is determined based on the net asset value as at the reporting date.

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the period/year ended 30 June 2015 and 31 December 2014.

(Unaudited)	Available- for-sale financial assets
Balance at 1 January 2015	262,018
Increase	—
Decrease	(262,018)
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Balance at 30 June 2015	—
Total gains or losses for the year included in profit or loss for assets held at end of period under "Net investment gains"	3,584
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Change in unrealized gains or losses for the period included in profit or loss for assets held at end of period	—
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Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

(Unaudited)	Financial liabilities at fair value through profit or loss
Balance at 1 January 2015	—
Consolidation of structured entities (“SEs”) as presented in Note 4.4	20,227
Losses recognized in profit or loss	(244)
Purchases	—
Settlements	—
Balance at 30 June 2015	19,983
Total gains or losses for the period included in profit or loss for liabilities held at end of period under “Net investment gains”	(244)
Change in unrealized gains or losses for the period included in profit or loss for assets held at end of period	(244)
(Audited)	Available-for-sale financial assets
Balance at 1 January 2014	214,913
Increase	262,018
Decrease	(214,913)
Balance at 31 December 2014	262,018
Total gains or losses for the year included in profit or loss for assets held at end of year under “Net investment gains”	10,788
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	—

Notes to the Interim Condensed Financial Information

(All amounts in RMB'000 unless otherwise stated)

38 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include collective asset management schemes and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 30 June 2015, the interests in unconsolidated structured entities held by the Group included investment recognized as available-for-sale financial assets. The related carrying amount and the maximum exposure were as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Available-for-sale financial assets	133,379	237,841

For the period ended 30 June 2015, the income from these unconsolidated SEs held by the Group was as follows:

	Six months ended 30 June 2015 (Unaudited)	2014 (Unaudited)
Net investment gains	5,041	1,524

As at 30 June 2015, the Group had no financial support provided to these unconsolidated SEs, and there was no plan of providing financial support by the Group to these unconsolidated SEs (30 June 2014: same).

39 Subsequent events

On 7 July 2015, the Company issued 250,000,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with the Global Offering, and raised gross proceeds of approximately HK\$830,000 thousand (equivalent to RMB654,679 thousand).

On 24 July 2015, the Company issued 1,900,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with the over-allotment, and raised gross proceeds of approximately HK\$6,308 thousand (equivalent to RMB4,978 thousand).

Definitions

“Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“Company”, “Luzheng Futures” or “we”, “us”, “our”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a joint stock company with limited liability incorporated in the PRC on 10 December 2012
“Connected Transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“CSRC”	the China Securities Regulatory Commission (中國證券監督委員會)
“Directors”	the directors of the Company
“Domestic Shares”	ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares in our ordinary share capital, with a nominal value of RMB1.00 each
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“International Accounting Standards”	International Accounting Standards and its Interpretations
“Latest Practicable Date”	10 September 2015
“Listing”	listing of the H Shares on the Stock Exchange

Definitions

“Listing Date”	7 July 2015
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Luzheng Information”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司)
“Luzheng Trading”	Luzheng Trading Co., Ltd. (魯証經貿有限公司)
“Main Board”	the stock market operated by the Stock Exchange (excluding the option market), which is independent of and operating in parallel with the GEM
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules
“PRC” or “China” or “People’s Republic of China”	the People’s Republic of China which, for the purposes of this report, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus published by the Company on 23 June 2015
“Reporting period”	the period for the six months ended 30 June 2015
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, comprising our Domestic Shares and our H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company