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## **Holly Futures**

*(a joint stock company incorporated in the People's Republic of China (the “**PRC**” or “**China**”) with limited liability under the Chinese corporate name 弘業期貨股份有限公司 and carrying on business in Hong Kong as Holly Futures)  
(the “**Company**”)*

**(Stock Code: 3678)**

# **ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

## **INTERIM RESULTS**

The board (the “**Board**”) of directors (“**Directors**”) of the Company is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016 (the “**Reporting Period**”) with comparative figures for the same period in 2015. All amounts set out in this announcement are expressed in Renminbi (“**RMB**”) unless otherwise indicated.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***For the six months ended 30 June 2016 – unaudited**(Expressed in thousands of Renminbi, unless otherwise stated)*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>	3	<b>143,245</b>	151,006
Net investment gains	4	<u><b>3,492</b></u>	<u>26,635</u>
<b>Operating income</b>		<b>146,737</b>	177,641
Other income	5	<b>3,606</b>	2,436
Operating expenses		<u><b>(102,436)</b></u>	<u>(106,411)</u>
<b>Profit from operations</b>		<u><b>47,907</b></u>	<u>73,666</u>
Share of losses of associates		<u><b>(106)</b></u>	<u>(49)</u>
<b>Profit before taxation</b>	6	<u><b>47,801</b></u>	<u>73,617</u>
Income tax expense	7	<u><b>(11,671)</b></u>	<u>(17,641)</u>
<b>Profit for the period</b>		<u><b>36,130</b></u>	<u>55,976</u>
<b>Earnings per share (RMB)</b>	8		
Basic earnings per share		<b>0.0398</b>	0.0823
Diluted earnings per share		<u><b>0.0398</b></u>	<u>0.0823</u>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2016 – unaudited*

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
<b>Profit for the period</b>	<u>36,130</u>	<u>55,976</u>
<b>Other comprehensive income for the period (after tax)</b>		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets:		
Net change in fair value	326	1,927
Reclassified to profit or loss	(558)	721
Exchange differences on translation of financial statements in foreign currencies	<u>1,642</u>	<u>(5)</u>
Total other comprehensive income for the period, net of tax	<u><u>1,410</u></u>	<u><u>2,643</u></u>
<b>Total comprehensive income for the period</b>	<u><u>37,540</u></u>	<u><u>58,619</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	<b>As at 30 June 2016</b>	As at 31 December 2015
<b>Non-current assets</b>			
Property, plant and equipment		<b>9,836</b>	11,922
Goodwill	9	<b>43,322</b>	43,322
Intangible assets		<b>22,884</b>	24,099
Interest in associates		<b>12,669</b>	12,775
Deferred tax assets		<b>1,392</b>	2,552
Other non-current assets		<b>1,282</b>	1,257
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>91,385</b>	95,927
		<hr/> <hr/>	<hr/> <hr/>
<b>Current assets</b>			
Refundable deposits in stock exchange	11	<b>1,264,827</b>	734,597
Other receivables	12	<b>52,299</b>	482,456
Other current assets		<b>4,023</b>	4,428
Available-for-sale financial assets	13	<b>257,308</b>	8,925
Financial assets held under resale agreements	14	<b>10,300</b>	–
Financial assets at fair value through profit or loss	15	<b>18,991</b>	61,372
Derivative financial assets	16	–	294
Cash held on behalf of brokerage clients	17	<b>2,096,140</b>	2,985,146
Cash and bank balances	18	<b>1,300,983</b>	1,155,620
		<hr/>	<hr/>
<b>Total current assets</b>		<b>5,004,871</b>	5,432,838
		<hr/> <hr/>	<hr/> <hr/>

	<i>Note</i>	<b>As at 30 June 2016</b>	As at 31 December 2015
<b>Current liabilities</b>			
Accounts payable to brokerage clients	20	3,239,772	3,663,459
Trade payables		–	199
Other payables	21	187,499	154,096
Financial liabilities at fair value through profit or loss	22	–	34,090
Derivative financial liabilities	16	–	–
Current taxation		<u>1,328</u>	<u>1,101</u>
<b>Total current liabilities</b>		<b><u>3,428,599</u></b>	<b><u>3,852,945</u></b>
<b>NET CURRENT ASSETS</b>		<b><u>1,576,272</u></b>	<b><u>1,579,893</u></b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>1,667,657</u></b>	<b><u>1,675,820</u></b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>76</u>	<u>429</u>
<b>Total non-current liabilities</b>		<b><u>76</u></b>	<b><u>429</u></b>
<b>NET ASSETS</b>		<b><u>1,667,581</u></b>	<b><u>1,675,391</u></b>
<b>Capital and reserves</b>			
Share capital	23(b)	907,000	907,000
Reserves		<u>760,581</u>	<u>768,391</u>
<b>TOTAL EQUITY</b>		<b><u>1,667,581</u></b>	<b><u>1,675,391</u></b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements.

### 2 Changes in accounting policies

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative
- Amendments to HKAS 27, Separate financial statements

None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 3 Revenue

The Group is principally engaged in futures brokerage business, asset management business and commodity trading and risk management business. The amount of each significant category of revenue is as follows:

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2016</b>	<b>2015</b>
Commission and fee income	(a)	<b>92,301</b>	92,644
Interest income	(b)	<b>50,944</b>	58,362
Total		<b><u>143,245</u></b>	<b><u>151,006</u></b>

#### (a) Commission and fee income

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
Commission and fee income		
– Futures brokerage business	<b>68,168</b>	79,977
– Refund from futures exchanges	<b>22,704</b>	10,237
– Asset management business	<b>1,429</b>	470
– Commodity trading and risk management business	<b>–</b>	1,960
Total	<b><u>92,301</u></b>	<b><u>92,644</u></b>

**(b) Interest income**

	Six months ended 30 June	
	2016	2015
Interest income		
– Bank deposits	45,622	47,303
– Futures exchanges	3,007	2,590
– Wealth management products	–	4,707
– Asset management plans	2,280	–
– Resale agreements	35	1,797
– Other interest-bearing financial assets	–	1,965
	<u>–</u>	<u>1,965</u>
Total	<u>50,944</u>	<u>58,362</u>

**4 Net investment gains**

	Six months ended 30 June	
	2016	2015
<b>Net realized gains from:</b>		
Disposal of financial assets at fair value through profit or loss		
– Trading securities	2,563	6,478
– Funds	195	428
– Receivables	224	(192)
Disposal of financial liabilities at fair value through profit or loss		
– Payables	(1,250)	(1,919)
Disposal of derivative financial instruments	(1,777)	15,924
Disposal of available-for-sale financial assets		
– Listed securities	–	3,246
– Wealth management products issued by banks	1,025	800
– Asset management plans	177	–
	<u>177</u>	<u>–</u>
Subtotal	<u>1,157</u>	<u>24,765</u>
<b>Net unrealized fair value changes of:</b>		
Financial assets at fair value through profit or loss		
– Trading securities	(684)	3,844
– Funds	(212)	(656)
Financial assets designated at fair value through profit or loss	(280)	1,486
Financial liabilities designated at fair value through profit or loss	890	318
Derivative financial assets	(1,212)	(2,551)
Derivative financial liabilities	3,780	(717)
	<u>3,780</u>	<u>(717)</u>
Subtotal	<u>2,282</u>	<u>1,724</u>
<b>Dividend income from:</b>		
Financial assets at fair value through profit or loss	30	16
Available-for-sale financial assets	23	130
	<u>23</u>	<u>130</u>
Subtotal	<u>53</u>	<u>146</u>
Total	<u>3,492</u>	<u>26,635</u>

## 5 Other income

	Six months ended 30 June	
	2016	2015
Government grants	192	2,333
Foreign exchange gains	3,414	–
Others	–	103
Total	<u>3,606</u>	<u>2,436</u>

The government grants were received unconditionally by the Group from the local government where they reside.

## 6 Profit before taxation

Profit before taxation is arrived at after charging:

### (a) Staff cost

	Six months ended 30 June	
	2016	2015
Salaries, bonuses and allowances	37,948	32,901
Contributions to pension schemes	5,514	5,371
Other social welfare	13,005	11,934
Total	<u>56,467</u>	<u>50,206</u>

The domestic employees of the Group in the People's Republic of China ("PRC") participate in social plans, including pension, medical, housing, and other welfare benefits, organized and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labor and social welfare authorities. These social security plans are defined contribution plans and contributions to the plans are expensed as incurred.

### (b) Commission expenses

	Six months ended 30 June	
	2016	2015
Commissions paid to brokers	<u>12,045</u>	<u>11,072</u>

Brokers are responsible to introduce customers to the Group. The Group pays commission expenses to the brokers based on a certain percentage of the commission income from these customers on a monthly basis.



(c) **Other items**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
Operating lease charges	<b>10,742</b>	11,693
Office expenses	<b>10,155</b>	11,740
Depreciation and amortisation	<b>3,600</b>	3,968
Business tax and surcharges	<b>3,470</b>	5,456
Investors protection funds	<b>1,068</b>	1,869
Utilities	<b>1,063</b>	1,230
Property management expenses	<b>751</b>	998
Auditors' remuneration	<b>425</b>	414
Repair and maintenance expenses	<b>409</b>	985
Interest expenses	<b>283</b>	1,682
Initial public offering expenses	<b>–</b>	1,587
Other expenses	<b>1,958</b>	3,511
	<hr/>	<hr/>
Total	<b>33,924</b>	45,133
	<hr/> <hr/>	<hr/> <hr/>

**7 Income tax expense**

Taxation in the consolidated statement of profit or loss represents:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
<b>Current tax – PRC corporate income tax</b>		
Provision for the period	<b>10,232</b>	15,322
Over-provision in respect of prior years	<b>926</b>	–
	<hr/>	<hr/>
	<b>11,158</b>	15,322
	<hr/>	<hr/>
<b>Current tax – Hong Kong profits tax</b>		
Provision for the period	<b>–</b>	–
	<hr/>	<hr/>
Subtotal	<b>11,158</b>	15,322
	<hr/>	<hr/>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>513</b>	2,319
	<hr/>	<hr/>
Total	<b>11,671</b>	17,641
	<hr/> <hr/>	<hr/> <hr/>

- (i) According to the PRC Corporate Income Tax (“CIT”) Law that took effect on 1 January 2008, the Company and the Group’s PRC subsidiaries are subject to CIT at the statutory tax rate of 25%. The PRC subsidiary is entitled to enjoy a preferential tax rate of 15% from the year 2015 to 2020 according to relevant regulations in the PRC CIT;
- (ii) Pursuant to the income tax rules and regulations of Hong Kong, the Group’s Hong Kong subsidiary is subject to the Hong Kong profits tax at the rate of 16.5%.

## 8 Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of the Company of RMB36,130 thousands (six months ended 30 June 2015: RMB55,976 thousands) and the weighted average number of 907 million ordinary shares (six months ended 30 June 2015: 680 million).

## 9 Goodwill

	As at 30 June 2016	As at 31 December 2015
<b>Cost:</b>	53,167	53,167
<b>Accumulated impairment losses:</b>		
As at 1 January	(9,845)	(9,845)
Impairment loss for the period/year	—	—
As at 30 June/31 December	(9,845)	(9,845)
<b>Carrying amount:</b>	<b>43,322</b>	<b>43,322</b>

Impairment testing on goodwill.

Goodwill is allocated to the Group's CGU as follows:

	As at 30 June 2016	As at 31 December 2015
Futures brokerage	43,322	43,322

The Group acquired the futures brokerage business together with the relevant assets and liabilities of Huazheng Futures Co., Ltd (華證期貨有限公司) (“**Huazheng Futures**”) in 2013. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

The recoverable amount of the futures brokerage CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using an estimated annual growth rate of 3% based on industry growth forecasts. Management determined the budgeted gross margin based on past performance and its expectation for market development. The cashflows are discounted using a discount rate of 16%. The discount rate used is the CGU's specific weighted average cost of capital, adjusted for the risks of the specific CGU.

As at 31 December 2015, the Group performed its annual goodwill impairment test. No impairment was recognised for the goodwill related to futures brokerage CGU since the value-in-use was greater than its carrying amount.

## 10 Investment in subsidiaries

The following list contains all the subsidiaries of the Group. The class of shares hold is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Issued and fully paid-in capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Holly Capital Management Co., Ltd.* 弘業資本管理有限公司	PRC	RMB150 million	100%	100%	–	Commodity trading and risk management business
Holly Su Futures (Hongkong) Co., Ltd. 弘蘇期貨(香港)有限公司	Hong Kong	HKD100 million <sup>(i)</sup>	100%	100%	–	Futures brokerage business
HOLLY CAPITAL (HONGKONG) CO., LIMITED <sup>(ii)</sup>	Hong Kong	–	100%	–	100%	Commodity trading and risk management business

\* The English translation of the name of the company is for reference only. The official name of the company is in Chinese.

- (i) In April 2016, the Company increased its capital injection to Holly Su Futures (Hongkong) Co., Ltd. (“**Holly Su Futures**”) by HKD75 million.
- (ii) HOLLY CAPITAL (HONGKONG) CO., LIMITED was established by Holly Capital Management Co., Ltd. (“**Holly Capital**”) in May 2016. The registered capital is HKD5 million but the capital has not been paid up as at 30 June 2016.

## 11 Refundable deposits

Refundable deposits arising from futures brokerage business:

	As at 30 June 2016	As at 31 December 2015
Deposits with futures and commodity exchanges		
– Shanghai Futures Exchange	526,881	269,440
– Dalian Commodity Exchange	317,582	174,119
– Zhengzhou Commodity Exchange	206,314	92,241
– China Financial Futures Exchange	157,114	151,276
Other futures brokers	<u>56,936</u>	<u>47,521</u>
Total	<u><u>1,264,827</u></u>	<u><u>734,597</u></u>

**12 Other receivables**

	<b>As at 30 June 2016</b>	As at 31 December 2015
Interest receivables	39,421	25,909
Rental deposits	2,642	3,006
Receivable of proceeds from issuance of international placing shares upon public offering	–	444,994
Others	<u>10,236</u>	<u>8,547</u>
Total	<u><u>52,299</u></u>	<u><u>482,456</u></u>

**13 Available-for-sale financial assets**

	<b>As at 30 June 2016</b>	As at 31 December 2015
<b>At fair value:</b>		
– Listed equity securities	5,559	5,937
Less: Impairment losses for listed equity securities	<u>(338)</u>	<u>(338)</u>
Subtotal	----- 5,221	----- 5,599
– Asset management plan	155,087	2,326
– Trust products	56,000	–
– Wealth management products issued by banks	40,000	–
– Unlisted funds	<u>1,000</u>	<u>1,000</u>
Total	<u><u>257,308</u></u>	<u><u>8,925</u></u>
Analysed as:		
Listed outside Hong Kong	5,221	5,599
Unlisted	<u>252,087</u>	<u>3,326</u>
Total	<u><u>257,308</u></u>	<u><u>8,925</u></u>

As at 30 June 2016 and 31 December 2015, certain of the Group's listed available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss.

**14 Financial assets held under resale agreements**

	<b>As at 30 June 2016</b>	As at 31 December 2015
Collateralized by		
– Debt securities	<u><u>10,300</u></u>	<u><u>–</u></u>



## 17 Cash held on behalf of brokerage clients

	As at 30 June 2016	As at 31 December 2015
Cash held on behalf of brokerage clients	<u>2,096,140</u>	<u>2,985,146</u>

The Group maintains segregated deposit accounts with banks to hold clients' monies arising from its normal course of brokerage business. The Group has classified their brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the unaudited consolidated statement of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that they are liable for any loss or misappropriation of their brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction and settlement funds is restricted and governed by relevant deposit regulations issued by the China Securities Regulatory Commission (the "CSRC"). In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 18 Cash and bank balances

	As at 30 June 2016	As at 31 December 2015
Bank deposits with original maturity over 3 months	631,875	670,000
Restricted bank deposits	127,699	123,690
Cash and cash equivalents	<u>541,409</u>	<u>361,930</u>
	<u>1,300,983</u>	<u>1,155,620</u>

As at 30 June 2016 and 31 December 2015, deposits amounting to RMB127,699 thousands and RMB123,690 thousands, respectively, which were collected during the fund raising period of the collective asset management plans, are required to place at designated bank accounts.

## 19 Cash and cash equivalents

### (a) Cash and cash equivalents comprise

	As at 30 June 2016	As at 31 December 2015
Deposits with banks and other financial institutions	541,404	361,915
Cash on hand	<u>5</u>	<u>15</u>
	<u>541,409</u>	<u>361,930</u>

Cash and cash equivalents exclude bank deposits with original maturity of more than three months and restricted bank deposits collected for asset management plans.

**20 Accounts payable to brokerage clients**

	<b>As at 30 June 2016</b>	As at 31 December 2015
Clients' deposits for brokerage business	<u><b>3,239,772</b></u>	<u>3,663,459</u>

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are held at banks and at exchanges by the Group.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of these businesses.

**21 Other payables**

	<b>As at 30 June 2016</b>	As at 31 December 2015
Funds collected from investors of collective asset management plans	<b>119,503</b>	52,140
Dividends payable	<b>45,350</b>	–
Employee benefits payables	<b>7,799</b>	17,860
IPO service fees payables	<b>7,300</b>	23,057
Commission payable to brokers	<b>4,725</b>	2,481
Payable to investors protection funds	<b>617</b>	419
Business tax and surcharges payables	<b>58</b>	2,130
Amount due to National Council for Social Security Fund of the PRC	–	46,184
Interest expenses payables	–	5,815
Others	<u><b>2,147</b></u>	<u>4,010</u>
Total	<u><b>187,499</b></u>	<u>154,096</u>

**22 Financial liabilities at fair value through profit or loss**

	<b>As at 30 June 2016</b>	As at 31 December 2015
Financial liabilities designated at fair value through profit or loss		
– Payables	<u>–</u>	<u>34,090</u>

Payables held by the Group have been designated at fair value through profit or loss because these payables are managed, evaluated and reported internally on a fair value basis in accordance with its documented investment strategy.

## 23 Share capital and reserves

### (a) Dividends

#### (i) Dividends payable to equity shareholders of the Company attributable to the interim period

	As at 30 June 2016	As at 31 December 2015
Final dividend proposed after the end of the Reporting Period	<u>–</u>	<u>45,350</u>

The final dividend proposed after the end of the Reporting Period has not been recognised as a liability at the end of the Reporting Period.

#### (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June 2016	2015
Final dividend in respect of the previous financial year, approved and paid during the interim period	<u>–</u>	<u>–</u>

### (b) Share capital

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	As at 30 June 2016	As at 31 December 2015
Number of shares registered, issued and fully paid (at RMB1 per share)		
At 1 January	907,000	680,000
Issuance of shares upon public offering	<u>–</u>	<u>227,000</u>
At 30 June/31 December	<u>907,000</u>	<u>907,000</u>

On 30 December 2015, the Company was listed on the Main Board of the Hong Kong Stock Exchange, pursuant to which 227,000 thousands ordinary shares of RMB1.00 each were issued at the price of HKD2.43 per share by the Company. The gross proceeds from the issue of these shares amounted HKD551,610 thousands (equivalent to approximately RMB461,880 thousands). The premium arising from the issuance of shares upon public offering amounted RMB185,943 thousands was recorded in capital reserve.

### (c) Capital reserve

Capital reserve mainly includes share premium arising from investors' capital injection and the issuance of shares at prices in excess of par value.



## MANAGEMENT DISCUSSION AND ANALYSIS

### I. Market Review

During the first half of 2016, in view of complex and changing domestic and foreign political and economic environment, China implemented effective macro-economic policies to maintain the stable and progressing development momentum of the overall economy. During the first half of 2016, the growth of gross domestic production in China was 6.7% and the overall economy saw L-shaped growth as expected. While the “quantity” remaining stable, the “quality” of the economy improved: there was continuous enhancement in the industrial production structure and investment structure; the growth of high technology industry and advanced equipment manufacturing industry accelerated with higher proportions; the investment in the high technology industry as well as science, education, culture and healthcare sectors grew rapidly; and the service sector became the largest growth driver.

During the period of first half of 2016, commodity, equity and real estate prices underwent significant fluctuations despite the relatively stable economic development in general, which were attributable to the changes in the fundamentals of the assets and their expected impacts as well as the price fluctuations occurred while adjusting allocation among each asset class in view of the sufficient money supply and increased liquidity. Such phenomenon especially stood out in the commodity market during the first half of 2016. There was a shape rise of the commodity prices in general for the first half of 2016 with obvious divergent price increases of different commodities. Industrial products including iron ores and deformed steel bars presented strong growth with ferrous metal taking the lead, showing a trend of stronger industrial products and weaker agricultural products. As at the end of June 2016, the accumulated trading volume in the domestic futures market was about 2.291 billion lots with an accumulated turnover of approximately RMB99.34 trillion calculated as one side of a trade, representing an increase of 35.08% and a decrease of 71.91% respectively as compared to 1.696 billion lots with RMB353.68 trillion for the same period of last year. Total assets of futures companies and futures client balance amounted to RMB497.897 billion and RMB400.319 billion respectively, representing decreases of 0.42% and 5.3% as compared to the same period in 2015. Net assets amounted to RMB83.248 billion, representing an increase of 23.03% as compared to the same period in 2015.

#### *Conditions of products*

The price movements of the domestic futures market for the first half of 2016 were as follows:

#### *Condition of agricultural product futures*

As at the end of June 2016, the trading volume of agricultural product futures was 705 million lots, representing an increase of 46.52% as compared to 481 million lots for the same period of last year, with a turnover of RMB25.00 trillion, representing an increase of 44.03% as compared to RMB17.36 trillion for the same period last year, mainly attributable to the liquidity easing in China, leading to large capital inflows to the agricultural product market with strong attraction to capital as a result of the prolonged price decrease of agricultural products such that the prices of some products, such as white sugar and cotton, are even lower than the production costs. Besides capital factors, the agricultural product market was also affected by the weather. The El Nino phenomenon this year caused droughts in the origins of many commodities. The yields of some agricultural products fell more drastically than expected. The domestic and foreign markets had the same resonance, elevating the prices of agricultural products.

### ***Condition of industrial product futures***

As at the end of June 2016, the trading volume of industrial product futures was 1.576 billion lots, representing an increase of 59.24% as compared to 990 million lots for the same period of last year, with a turnover of RMB65.02 trillion, representing an increase of 39.56% as compared to RMB4.659 billion for the same period of last year. The industrial product market was subject to relatively larger fluctuations in general for the first half of 2016. In respect of the macro-economic aspect, it was attributable to the sufficient capital with lower commodity prices, causing an influx of capital to the commodity market in view of asset shortage. In respect of industries, the demand and supply of many products were changing after the prolonged decrease over the past few years. Taking Renminbi depreciation as an example. The increase in import costs encouraged the general growth of the commodity market. During the first half of 2016, the phased improvement made in the real estate and infrastructure markets obviously facilitated the commodity market. However, the changes in the end demand diversified in the industrial product market in the long run. It will be difficult to sustain the rising trend as a result of sufficient capital and supply-side reform, leading to an increasingly apparent divergent market. During the first half of 2016, the ferrous metal sector experienced booms and busts, just like a roller coaster ride. Supporting by their unique fundamentals, the non-ferrous metal and chemical sectors enjoyed strong growth. The industrial product market tends to be more volatile.

### ***Condition of financial futures***

As at the end of June 2016, the trading volume of financial futures was 9.54 million lots, representing a decrease of 95.76% as compared to 224 million lots for the same period of last year, with a turnover of RMB9.32 trillion, representing a decrease of 96.78% as compared to RMB289.73 trillion for the same period of last year, mainly attributable to the increase in the overall trading volume of stock index futures as a result of the stock market boom in 2015. Compared to the stock market of last year, the stock market was mediocre this year. Moreover, there were significant increases in the margin deposits and handling fees of stock index futures as a result of the stock market crash since the second half of 2015, which constrained the opening and holding of positions, causing a substantial decline in market activities.

## **II. Overall Business Conditions**

Against the backdrop of the increasingly competitive futures industry and diminishing marginal utility of traditional brokerage business, the Company strengthened its traditional brokerage business and developed new drivers of profit growth including asset management, international business and risk management with the focus on improving development quality and corporate efficiency so as to facilitate the transition of the Company from a traditional brokerage company to a financial group conglomerate. As at 30 June 2016, the Group had total assets amounting to RMB5,096 million, net assets attributable to the Company amounting to RMB1,668 million and net profit attributable to the Company amounting to RMB36.13 million. The Group's total revenue amounted to RMB147 million, in which operating income and net investment gain amounted to RMB143 million and RMB4 million, accounting for 97.28% and 2.72% of total revenue, respectively. The profit decrease was mainly attributable to the decreases in investment gain from financial assets, revenue from financial futures brokerage business and revenue from risk management business. The key financial indicators such as total assets and net assets of the Group were at historically higher level.

### **III. Analysis of Principal Business**

The Group is mainly engaged in futures brokerage business, asset management business, commodity trading and risk management business and financial assets investment, mainly including securities, funds, wealth management products issued by banks, and asset management plans. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

#### ***(I) Futures brokerage business***

The futures brokerage business of the Company includes providing brokerage service in respect of the commodity futures and financial futures available at all futures exchanges listing in the PRC and receiving certain percentage of handling fees from clients. As of 30 June 2016, the Company had 43 branches, which mainly located at the municipalities, Jiangsu province and other economically developed cities in the PRC.

For the first half of 2016, the futures brokerage business of the Company maintained at a fairly good level. The Company's client balance amounted to RMB3.24 billion as at the end of June 2016, representing a decrease of 12% as compared to RMB3.663 billion for the end of 2015. The turnover from brokerage of the Company amounted to RMB1.78 trillion with a decline smaller than the national decline for approximately 30 percentage points. The Company's market share increased to 0.9%, hitting a record high since 2013. The turnover from commodity futures brokerage amounted to RMB1.7 trillion, representing year-on-year growth of 61.83% as compared to RMB1.05 trillion for the same period in 2015. The turnover from financial futures brokerage amounted to RMB0.08 trillion, representing a year-on-year decrease of 96.1% as compared to RMB2.07 trillion for the same period in 2015, which was basically in line with the decrease across the country. The decrease was due to the restrictions imposed on stock index and futures by regulatory authorities and China Financial Futures Exchange, causing a huge drop in turnover of financial futures in the whole market in China. The trading volume of the Company was 43 million lots, representing year-on-year growth of 60.47% as compared to 27 million lots for the same period in 2015. As at the end of June 2016, the handling fee rate for commodity futures of the Company was 0.5 bps, representing a year-on-year decrease of 19.49% as compared to 0.62 bps for the same period in 2015. The handling fee rate for financial futures was 0.06 bps, representing a year-on-year decrease of 42.54% as compared to 0.11 bps for the same period in 2015. Despite the increase in market share and trading volume of turnover, the significant decrease in proportion of financial futures caused the decreases in overall turnover. The decrease in trading volume of financial futures was due to financial market volatility. The handling fees of the Group from futures brokerage business amounted RMB91 million, representing a slight increase of 1% as compared to RMB90 million for the same period in 2015.

#### ***(II) Asset management business***

As at 30 June 2016, AUM of the Company amounted to RMB611 million, representing an increase of 188% as compared to RMB212 million at the end of 2015. The client balance for futures amounted to RMB404 million, representing an increase of 117% as compared to the end of 2015. The asset management business achieved a fee income of RMB1.43 million, representing growth of 209% as compared to RMB0.47 million for the same period of last year. There were 42 trading asset management accounts in aggregate, which increased by 19 as compared to the end of 2015. All accounts were operated smoothly.

During the first half of 2016, there were some highlights of the Company's asset management business. Firstly, the Company fully capitalised on its branch network and established a pool of investment consultants so as to facilitate the development of asset management business for investment advisory. Secondly, the Company fully utilised its advantages in self-development, focused on developing its own investment and trading team and initiated to launch a number of self-developed products. Thirdly, the Company commenced the business cooperation with bank channels for agglomeration economies and influence expansion.

### ***(III) Commodity trading and risk management business***

In 2016, due to the continued downturn in the real economy, the commodity trading and risk management business encountered a number of difficulties and challenges. As of the end of June 2016, Holly Capital Management Co., Ltd. (“**Holly Capital**”) achieved total profit of RMB3.21 million, representing a decrease of 81.35% as compared to RMB17.1946 million for the same period in 2015. The decrease was mainly because the Company tightened the risk control measures in face of unstable market conditions. Fewer potential projects appeared to be suitable for the Group to execute and fewer potential projects passed through the Group’s internal risk assessment procedures. In addition, given economic volatility, the Group placed more emphasis on risk control at the cost of forgoing certain business opportunities which were considered as relatively risky.

In order to further strengthen the foundation and scale of Holly Capital, the Company contributed capital of RMB90 million into Holly Capital on 21 July 2016, and thus Holly Capital increased its registered capital to RMB240 million and set up a Hong Kong wholly-owned subsidiary to be responsible for the expansion of cross-border transaction and cross-border financing business. In pursuit of enhancement in risk control and risk management system, Holly Capital rationalised its business models including basis trading and warehouse receipts services while focusing on the key elements and matters needing attention of risk management for each business model so as to strengthen its risk resistance in a practical way.

### ***(IV) Financial assets investment***

With an aim of optimising its capital operation, the Company invested in a variety of financial assets including securities, wealth management products issued by banks, trusts and asset management plans so as to make effective capital allocation, facilitate the development of principal business and improve profitability while putting risks under control.

As of the end of June 2016, the Group’s gains from financial assets investment amounted to RMB3.12 million, representing a decrease of 78.2% as compared to RMB14.29 million for the same period in 2015, which was mainly subject to the volatile and slumping stock market in the PRC under the influence of the macro economy, causing the Group to reduce investment in the securities market and reduce trading frequency.

## **IV. Other Innovative Business**

### ***(I) Enhanced profitability of international business***

As of the end of June 2016, Holly Su Futures (Hongkong) Co., Limited (“**Holly Su Futures**”), the wholly-owned subsidiary of the Company in Hong Kong, achieved client balance and handling fee income amounting to HK\$175 million and HK\$2.99 million respectively for the end of June 2016, up 53% and 28% as compared to the end of 2015 and the same period of 2015 respectively. In order to expand its business scale and scope, Holly Su Futures increased its registered capital to HK\$100 million. It is also making an application for a securities trading license in Hong Kong and has set up an asset management subsidiary for the application for an asset management license in Hong Kong.

### ***(II) Good start of options business***

Since the commencement of stock options brokerage business in April 2016, 34 stock options accounts were opened by the Group as of 30 June 2016. With the progressing over-the-counter options business, the Company continued to improve its calculations in pricing and risk management. The Company explored a new model of “insurance + futures” to serve agriculture, rural areas and farmers and completed the product design and hedging solutions with renowned insurance companies. It also filed its “insurance + futures” over-the-counter options project with Dalian Commodity Exchange and entered into over-the-counter options cooperation agreements with a number of financial institutions.

### ***(III) New journey of funds sales***

After obtaining approval for the funds sales business at the end of 2015, the Company commenced system deployment, regulatory testing, funds companies testing and other work by stages and entered into funds distribution agreements with a number of funds companies, aiming at launching funds distribution products in 2016.

## **V. Outlook and Plans**

In the second half of 2016, the Company will continue with its approach of prudent progress in adapting to the economic new normal. It will spare no effort in pushing forward with its various tasks based on deeper organisational and mechanism reforms, transformation and upgrades, stronger risk prevention and internal management.

### ***(I) Deeper Business Reforms to Boost Market Competitiveness***

Traditional brokerage will adopt an approach of meticulous operation. It will shift from extensive to intensive, and from providing intermediary services to value added services. Pursuing professionalism of practitioners, precision in client management and revenue maximisation, it will embrace new businesses such as investment consultation, asset management and risk management in enhancing service quality to enlarge assets under management and consolidate its market share. Marketing will follow the hedging policy which aims to uncover clients' in-depth needs upon full understanding of basic ones. As for interacting with and making use of platforms such as real trading contests, information of needs and trading habits of clients will be gathered to form a basis for the transformation, upgrades, strategy building and development of traditional business.

Asset management will set its aim at up-scaling. Leveraging its quality derivatives, the business line will upscale its asset management through product-based cooperation to develop new points of profit growth. According to market demand for diversity, it will develop innovative services and provide standardised products and services to general clients while providing high-end clients with customised ones, so as to satisfy both corporate entities and investors' needs of risk management and asset allocation. It will strengthen cooperation with fellow financial institutions in devising bond- and share-related products incorporating derivatives, as well as accelerate the building of its active management team by constructing a training system and enhancing risk control. Further, in view of the rigorous regulation and stronger downward pressure on the economy, project evaluation and management of investment advisers will be further tightened to prevent risk.

Risk management will be further professionalised. Firstly, Holly Capital will allocate resources to internal improvements including development of teams and sophisticated business growth models to boost corporate core competitiveness. At the same time, a risk control model maximising breadth and width will be put into practice as part of the risk control system to control risk exposure and thus help increasing the profitability and risk resistance of Holly Capital. Secondly, the option-related business will develop its client groups, explore trading patterns of derivatives dealers, provide customised risk management services to corporate entities based on over-the-counter options such as quotations and specific product design and strive to roll out products of mini-options and multi-leg options, with a view to bringing its number of new option accounts and trading volume to the forefront of the futures industry.

Financial assets investment will make effective moves to initiate block asset allocation through stronger and comprehensive prospective analysis of the macro-economy and a grasp of cyclical patterns of economic development. It will elevate gains on assets of the Company by seizing opportunities in the securities market arising at the phase switching, while continuing with analysis of forms and methods and execution of plans relating to investments of its own funds for the purposes of expanding its principal businesses such as asset management.

## ***(II) Focusing on Internationalisation and Application of Internet to Enhance Sustainability***

The international business layout will be optimised. Firstly, Holly Su Futures will strive for business innovations basing on the market of Hong Kong by applying licenses for dealing in securities and asset management in Hong Kong in order to participate in the Shanghai-Hong Kong Stock Connect and the forthcoming Shenzhen-Hong Kong Stock Connect. Secondly, the client base and developed operations will be extended to overseas where talents and successful experience will be introduced into its China base for localised application. Thirdly, thorough preparations will be made for oil futures so as to offer Chinese clients access to global energy trading as well as to develop clients overseas. Fourthly, it is to follow the policy of focusing on Hong Kong while expanding into Europe and America in the course of its overseas expansion and to study the feasibility of setting up foreign subsidiaries in Europe, America and other places to underpin the international layout.

The implementation of the internet finance strategy will pick up speed. Seizing chances brought by the Internet Plus, the Company will improve client experience and service standard and endeavour to create a profit mode which emphasises developing and integrating online and offline elements. The client base expansion model centring around sales points will turn to base on online service platforms. The beta-test of the mobile app Holly Touch (弘運通) will be carried out with utmost care. The big data technology based on the internet will be put into good use in providing clients with an integrated full range of financial service solutions and in further developing innovative financial products. Moreover, multi-faceted cooperation with other sectors will be sought to further internet finance.

## ***(III) Further optimised organisation and mechanisms for business transformation and innovation***

Operational models of setting up branches in certain regions will be explored to facilitate their growth in a short time. The Company will encourage characterised development, under which the branches will have to make use of their own operational strengths to decide their specific development paths. They will also be instructed to play a role in spurring the rapid growth of local and surrounding operational units, especially those making a loss.

The “In Weal and Woe” (一幫一、一起紅) event will be held continuously to encourage learning from the best practices and experience. Loss-making departments will adopt operating cost control measures which are effective in light of their specific circumstances, while light sales department will be directed to pursue “professionalism” and “boutique” models in their development.

Subsidiaries will be further strengthened. Holly Capital and Holly Su Futures will optimise their management model and enhance the efficiency of decision making. Securing compliance, subsidiaries will develop their business growth models in order to gain further expansion and strength.

#### ***(IV) Refined Management for Steady Operation***

Advanced management experience in the financial sector will be drawn on in improving systems and further optimising the refined management model and standardised operation, which will in turn secure and facilitate transformation and innovative development.

Better human resources management will be implemented. The training system will be improved through targeting programs, inspections and staff interactions, with a view to elevating the strategic qualities and management capability of operational and management personnel, the expertise and innovative ability of professionals and the level of operation and services of skilled workers. Aiming to make sound the recruitment and task assigning systems, the advantage of owning a national post-doctoral program will be put into play to attract and train senior personnel and those for innovation and international development. The appraisal system and training measures will be improved to bring out chances of career development so that the competent will be retained by good prospects and remuneration.

Financial management will be enhanced. In order to achieve the goal of “cost reduction”, multiple measures will be studied and launched to exercise further control over operating expenses and financing cost. Mechanisms of using and managing internal funds and proceeds will be optimised so as to increase efficiency of capital allocation and prevent liquidity risk.

Research and development ability will be increased. A platform of research and development resources sharing will be established to create appropriate atmosphere to materialise the idea of “research for value”. The mindset for studies will be shifted to place emphasis on sell-side research which thinks like a buyer in order to develop a big research system which will shape a development framework catering for both the sell side and the buy side and therefore increase the core competitiveness of the Company. As for professional consulting for clients, online face to face interaction will be launched and columns of online experts will be upgraded.

Information technology (IT) systems will be further established. Adhering to the strategy to apply the latest IT, the Company will make an effort to conceive a middle-to-long term plan for the IT systems which will ride on trends in the industry and needs of the Company’s transformation and innovation. Leveraging such IT systems, the optimisation and overhaul of business processes will be facilitated to create an efficient service system offering good communication and organisation and high sensitivity.

#### **Plans for further investments or acquiring capital assets**

On 15 June 2016, the second session of the Board of the Company held its sixth meeting, at which it was passed the resolution on capital increase of Holly Capital Management Co., Ltd.. Accordingly, the Company injected RMB90.00 million into Holly Capital on 21 July 2016 for further development of its commodity trading and risk management businesses. The contribution was funded by, among other things, the proceeds from the offering of H shares of the Company (“**H Shares**”). The Company’s own funds made up the any shortfall.

## **VI. Liquidity, Financial Resources and Capital Structure**

### ***(I) Profitability Analysis***

During the Reporting Period, the Company seized the opportunities of the industry innovation and development and gradually enhanced its comprehensive strength. The agency trading volume of its traditional commodity futures brokerage business under the control on stock index and futures grew steadily. Its subsidiaries' investment business achieved good returns while its assets management business achieved faster growth. The overall operation kept on developing steadily with sound profitability. The Group achieved total operating income of RMB147 million, a decrease of 17% from RMB178 million for the same period of 2015. The net profit attributable to shareholders of the Company amounted to RMB36.13 million, a decrease of 35% from RMB55.98 million for the same period of 2015. The earnings per share amounted to RMB0.0398 and the weighted average return on net assets was 2.16%, a decrease of 2.26 percentage points compared to the same period of last year.

### ***(II) Asset Structure and Asset Quality***

As at 30 June 2016, the total assets of the Group amounted to RMB5,096 million, representing a decrease of 8% as compared with RMB5,529 million at the end of 2015; the total liabilities amounted to RMB3,429 million, representing a decrease of 11% as compared with RMB3,853 million at the end of 2015; and the net assets attributable to the shares of the Company decreased by 0.54% as compared with RMB1,676 million at the end of 2015 to RMB1,667 million.

The asset structure remained stable while the quality and liquidity of assets were well maintained. As at 30 June 2016, the total assets of the Company consisted of: current assets of RMB5,004 million, accounting for 98.19% of the total assets, decreased by 7.9% as compared to RMB5,433 million at the end of 2015. Current assets mainly included cash held on behalf of clients of RMB2,096 million (accounting for 41.13%), cash and bank balances of RMB1,301 million (accounting for 25.53%), refundable deposits of RMB1,265 million (accounting for 24.82%), assets for financial investment of RMB286 million (accounting for 5.61%), other receivables of RMB52 million (accounting for 1.02%) and other current assets of RMB4 million (accounting for 0.08%). There was no indicator for material impairment of the assets of the Group in the first half of 2016.

As at 30 June 2016, the liabilities deducting deposits payable to clients amounted to RMB189 million, representing a decrease of 0.53% as compared with RMB190 million at the end of 2015. The gearing ratio of the Group was 10%, which remained stable as compared to the end of 2015 (Note: Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)). The operating leverage was 1.11 times, which remained stable as compared to the end of 2015 (Note: Operating leverage = (Total assets – Accounts payable to brokerage clients)/Equity attributable to the Shareholders of the Company).

### ***(III) Liquidity Level Management***

The Company places great emphasis on liquidity management based on the principle of “being comprehensive, prudent and predictability” while focusing on the organic combination of the security, liquidity and profitability of capital. The liquidity monitor index of the Company in each month throughout the first half of 2016 complied with the regulatory requirements of the China Securities Regulatory Commission (the “CSRC”).



#### ***(IV) Currency risk***

Except for the proceeds from issuance of H Shares upon public offering by the Company and cash at bank, there is no material currency risk for the Group as the majority of the business activities are within mainland China and settle in RMB. The currency giving rise to this risk is primarily Hong Kong dollars. As most of the proceeds from issuance of H Shares upon public offering by the Company are converted into and used as RMB by the Company after the Reporting Period and the remaining proceeds will be used according to business needs after the Reporting Period, the currency risk is assessed to be low.

#### ***(V) Cash Flows***

The net increase in cash and cash equivalents of the Group amounted to RMB178 million in the first half of 2016.

Net cash generated from operating activities of the Group amounted to RMB13 million in the first half of 2016, representing a year-on-year decrease of RMB224 million as compared with RMB237 million for the same period in 2015; net cash generated from investing activities amounted to RMB-219 million in the first half of 2016, representing a year-on-year increase of RMB37 million as compared with RMB-256 million for the same period in 2015; net cash generated from financing activities amounted to RMB383 million in first half of 2016, representing a year-on-year increase of RMB385 million as compared with RMB-2 million for the same period in 2015; net increase in cash and cash equivalents amounted to RMB178 million in first half of 2016, representing a year-on-year increase of RMB200 million as compared with RMB-22 million for the same period in 2015.

### **VII. Material Financing of the Company**

#### ***(I) Equity financing***

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

#### ***(II) Bond financing***

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

### **VIII. Investments during the Reporting Period**

#### ***(I) Use of proceeds***

As approved by CSRC Zheng Jian Xu Ke [2015] No. 1963, the Company was listed on the Main Board of Hong Kong Stock Exchange on 30 December 2015 and it issued 249,700,000 H Shares (including 227,000,000 H Shares offered by the Company and 22,700,000 H Shares offered by the selling shareholders) under the global offering, with an offer price of HK\$2.43 per share, raising total proceeds of approximately HK\$607 million.

According to the use of proceeds from global offering as set out in the H Shares prospectus dated 16 December 2015 (the “**Prospectus**”) of the Company, the Company intended to use the proceeds for the following purposes: developing the Hong Kong and global futures business and asset management business; developing the commodity trading and risk management business; developing and strengthening the existing futures brokerage business; purchasing information technology equipment and software; and as general working capital of the Group.

The Company remitted the proceeds to the PRC after deducting issuing expenses, social security transferred payment, and expenses for developing the Hong Kong and global futures business, and translated them into RMB.

***(II) Use of raised proceeds in projects intended to be financed***

As of 30 June 2016, the aforementioned proceeds were utilised for the purposes set out in the Prospectus as follows:

Title of the project intended to be financed	Whether there were changes in the project	The amount of proceeds to be invested during the Reporting Period (HK\$)	The accumulated amount of proceeds actually invested (HK\$)	Percentage (%)
Developing the Hong Kong and global futures business	No	75,000,000.00	75,000,000.00	13.99%
Developing asset management business	No	109,512,827.22	109,512,827.22	20.43%
Developing the commodity trading and risk management business	No	–	–	N/A
Developing and strengthening the existing futures brokerage business	No	–	–	N/A
Purchasing IT equipment and software	No	1,173,715.54	1,173,715.54	0.22%
General working capital of the Company	No	37,240,865.70	37,240,865.70	6.95%

In order to enhance the efficiency of the utilisation of the proceeds, as of 30 June 2016, the Company's remaining proceeds were invested on short-term financial products or deposited into large commercial banks as fixed deposits. The Company intends to utilise the net proceeds in the amount and usages as prescribed in the Prospectus in due course in the second half of 2016 and 2017.

***(III) Progress of investments by subsidiaries and joint stock companies***

*Investments during the Reporting Period*

The Company convened the twenty-fifth meeting of the first session of the Board and the third meeting of the second session of the Board on 10 August 2015 and 15 February 2016 respectively, for the consideration and approval of the resolutions in relation to the establishment of a fund management company by external investments of Holly Futures Co., Ltd. and the change of the shareholders of the Holly Fund Management Co., Ltd. The Company is planning to utilise its own funds amounting to RMB42.0 million to establish the Holly Fund Management Co., Ltd. (“**Holly Fund**”) with Jiangsu Yuanjin Investment Group Co., Ltd., Mr. Zhang Yuebo and Jiangsu Coast Development Group Co., Ltd. The proposed total investment in Holly Fund amounts to RMB120 million and the Company is the first major shareholder, holding 35% of its equity interest. The fund management company is currently preparing.

The Company convened the third meeting of the second session of the Board on 15 February 2016 for the consideration and approval of the resolution in relation to the establishment of a wholly-owned subsidiary in Hong Kong by Holly Capital Management Co., Ltd., HOLLY CAPITAL (HONGKONG) CO., LIMITED was established on 10 May 2016 with a registered capital of HK\$5 million.

The Company convened the forth meeting of the second session of the Board on 11 March 2016 for the consideration and approval of the resolution in relation to the application made by Holly Su Futures (Hongkong) Co., Ltd. for SFC Type 1, Type 3 and Type 9 licenses, and increase in capital. The Company contributed capital of HK\$75 million to Holly Su Futures in April 2016. The registered capital of Holly Su Futures was HK\$100 million after capital injection.

The Company convened the sixth meeting of the second session of the Board on 15 June 2016 for the consideration and approval of the resolution in relation to the establishment of asset management subsidiary in Hong Kong by Holly Su Futures (Hongkong) Co., Ltd., Holly Su Futures contributed capital of HK\$20 million to incorporate Holly Su Asset Management Co., Ltd. on 7 July 2016.

The Company convened the sixth meeting of the second session of the Board on 15 June 2016 for the consideration and approval of the resolution in relation to the capital increase of Holly Capital Management Co., Ltd.. On 21 July 2016, the Company contributed capital of RMB90 million to Holly Capital for further developing the commodity trading and risk management businesses. The source of the capital increase was the proceeds from H Shares offering, and the rest was own funds of the Company.

#### **IX. 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 Group'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 Group's financial position and operating results.

#### **X. Employees, Remuneration Policies and Training**

As at the end of the Reporting Period, the Group had a total of 657 employees.

The remuneration of the Company's employees is composed of basic salaries, allowances, performance bonuses and welfare. Basic salaries are a relatively fixed part of the remuneration and are the basic income of employees. As a supplement to basic salaries, allowances include those for special posts and professionals. Performance bonuses are distributed according to the results of performance evaluation in favour of the front-line employees with outstanding performance.

The Company provided employees with statutory welfare such as social insurance and housing provident fund according to relevant national provisions. Moreover, it offered employees enterprise annuity, supplementary medical insurance and other benefits to enhance their welfare.

In order to constantly improve the professional ability and quality of the Company's executives, the Company formulated corresponding training programs for all business lines and made various training plans for employees at all levels. The Company provided operation and management personnel with training programs centred on enhancing their understanding of the development of the futures industry, management theories and skills, strategic thinking ability, operation management ability, etc.; and offered training programs focused on improving business knowledge, product development and marketing skills and service abilities to employees of various business lines and departments. Moreover, it encouraged employees to study by themselves, take professional qualification examinations, etc. in order to educate themselves and update their professional knowledge. Especially, it rewarded employees who had obtained qualifications for futures investment analysis, fund practitioner and futures practitioner in Hong Kong.

## **XI. Risk Management**

The risks the Company faces in its business activities mainly include operation risk, compliance risk, market risk, credit risk and investment risk. In the first half of 2016, the Company adopted effective measures to deal with the risks proactively, thereby safeguarding the safety and high efficiency of the business activities.

### ***(I) Operation Risk***

Operation risk refers to the risks resulting from improper operation in transactional processes and is one of the major risks of futures companies, such as:

1. **System Disaster Risk.** Currently, the trading mode of futures companies is generally centralised electronic trading and the impact of the trading environment on business has become greater and greater and if any disastrous incidents such as fire, flooding, earthquake and blackouts occur, all preventive measures based on local back-ups cannot warrant the completeness and continuity of the trading data, especially when the engine room of a futures company is damaged by fire, flooding, earthquake, lightning or thunders. It is disastrous to a futures company. The Company has increased its input on the construction of the trading disaster back-up system to elevate its own risk resistance capability to a new level.
2. **Hacking and virus risks.** In the era of network economy, most futures brokerage companies have provided online trading services which account for a greater and greater share of their business. Therefore, developing online trading vigorously and at the same time preventing hacking and the spread of virus have always been the subject of futures companies. At the corporate level, though hacking and the spread of virus can be prevented effectively, this kind of problems may still exist on the part of the customers. Customers may have disputes with futures companies in trading due to hackers' attacks on or infection of virus of their own computers.

In order to strengthen the preventive measures to deal with the operation risk, the Company has increased its input on technology to construct type three engine room of the industry and set up the disaster back-up system in different places and in the same city while strengthening daily technical operation and maintenance work to prevent the operation risk effectively.

### ***(II) Compliance Risk***

Compliance risk refers to any legal sanctions, prosecutions, litigation claims, penalties, financial loss as well as damage to the reputation of the Company as a result of the failure to comply with the rules and regulations, the requirements of supervisory authorities or agencies, the self-discipline code of conduct, or any guidelines concerning the futures business of the Company. The major compliance risk concerns (i) the employees of the Company and (ii) introducing brokers.

The compliance risk posed by employees includes managing customers' assets, opening accounts and trading on behalf of customers without their consent or authorisation. The risk largely stems from the low integrity level of individual staff members who cannot resist the temptation of the market, resulting in those staff members managing customers' finance in violation of rules and regulations, or opening accounts on their own accord to trade. Compliance risk is one of the major market risks. Through improving technical risk control measures can futures companies play the role of risk escape channel and at the same time curb compliance risk partially.

Currently, the Company is screening and shielding the trading terminals of the personnel's computers through technical measures and has effectively prevented staff members from accepting customers' instructions in the business premises to manage their assets on their behalf improperly and from opening accounts on their own accord to trade. Against the compliance risk posed by staff members, the Company has begun the strengthening of the internal system and established the mechanism of accountability. Through joint problem shooting by related departments, the risk of staff members opening accounts to trade will be eliminated at source and at the same time, through strengthening the training and education of staff members, their compliance awareness will become stronger, which will avoid the occurrence of such risk. The Company reiterates the importance of compliance by providing regular seminars and training to employees.

In relation to introducing brokers, the Company's compliance risk comes from: (i) introducing brokers concealing their identity of introducing brokers and representing to related customers that they are the employees of the Company and do something in violation of the rules and regulations and (ii) introducing brokers infringing customers' interests, accepting instructions from customers privately to manage their finance and engaging in futures trading without customers' consent in order to earn more commission from futures trading.

In respect of the introductory brokerage business, the Company has strictly monitored the account opening procedures, strengthened the management of futures brokerage contracts to eliminate all account openings in violation of the rules and regulations. Furthermore, investors will be informed of their rights and interests through re-visits and their signed confirmation of the Company's bills. At the same time, the risk posed by the intermediary business will be avoided through the continuous strengthening of the management and risk education of the intermediaries and the strict enforcement of related rules and regulations and the intermediary management system.

### ***(III) Market Risk***

Market risk refers to the possibility of loss or decrease in income resulting from keen competition in the investment industry or change in the market such as changes in interest rates or economic cycle.

There are three reasons as to why the futures market is a high risk market. Firstly, owing to centralised dealings and continuous price fluctuations, it is possible for price fluctuations that build up over a long period to occur in the futures market in a very short period of time, meaning that a sudden and major fluctuation in the prices can trigger an enormous market risk. Secondly, the margin system of the futures market makes futures a highly leveraged financial derivative product. Margin is not only the first essential element in the management of market risk, but also a cause triggering market risk. Thirdly, the futures market allows speculators to enter, thus increasing further uncertainty and risk in the market.

Since there is a large number of futures companies, the price war of handling charges has become fierce year after year for traditional brokerage business whose development prospect is not optimistic. Meanwhile, investors enter the futures market without adequate investment experience and skills nor good risk control capability but simply emphasise speculative trading and neglect risk control, or have to be forced to terminate trading as a result of their own factors being influenced by the economic environment. The combined effect of various factors has resulted in futures companies facing the material risk of customers incurring losses in trading.

To address this kind of risk, the risk control department of the Company, through close tracking of the market trend, has monitored market fluctuations, reasonably adjusted investors' margin standards, strengthened the monitoring of risk indicators such as the change to position holding and the level of margin, adopted actions to liquidate the customers' position through raising the amount of margin timely and regulated investors' trading behaviour according to relevant rules and regulations. The Company has also exerted greater force on monitoring the daily trading, especially the unusual trading behaviour of less favoured commodities and contracts, discovered, reported and dealt with straddling buy and sell positions in time and strengthened the education of customers to remind investors to take risk management well so as to prevent the inherent risks to them as a result of their failure to understand the related rules and weak risk prevention consciousness.

#### ***(IV) Credit Risk***

When futures brokerage companies engage in futures trading on behalf of their customers, they would incur losses if their customers are unable or refuse to fulfil their contractual obligations. There are two kinds of credit risk from customers. The first one is the inability of corporate customers to fulfil their contractual obligations due to change of legal persons, change in ownership, poor business performance and other force majeure events. The second kind of credit risk comes from the turbulence in the futures market, resulting in great price fluctuations and also in some customers not being able to fulfil their contractual obligations.

In order to control credit risk, the Company will control the account opening process strictly. The Company will assess the identity and creditworthiness of each new customer, and the adequacy of the funds that they will be using in the futures trading. The Company will also conduct necessary training and examinations to ensure that the customers understand the risks involved in future trading adequately and will provide them with training on transaction skills so as to reduce the likelihood of a massive loss.

#### ***(V) Investment Risk***

Investment risk refers to the risk of loss or decrease in the investment income of the Company resulting from the investment on developing the business of the Company. Specifically, it refers to the following risks:

1. Investment target risk: It refers to the uncertainties in the growth and development of the investment target, including but not limited to technical risk, operation risk and financial risk;
2. Investment analysis risk: It refers to the risk of loss resulting from incorrect or incomplete due diligence conducted in an investment project;
3. Investment decision-making risk: It refers to the risk of loss resulting from an imperfect decision-making process and bias before any decision-making;
4. Project management risk: It refers to the risk resulting from insufficient supervision or improper management after investment and failure to discover and exercise control of the problems in an investment project in a timely manner; and
5. Project exit risk: It refers to the risk resulting from exit from an investment project with losses or inability to exit from an investment project.

The Company will formulate comprehensive procedures for approval and supervision of investment projects through authorities such as the Investment Decision Committee, general manager meetings, Board meetings, general meetings, in order to minimise investment risk. The Company will take reasonable steps in carrying out investment and enter into comprehensive investment agreement to protect the legal rights of the Company.

## **XII. Constructing the Risk Management System of Company**

The objective of risk management of the Company is to implement a comprehensive risk management system to ensure the business operation of the Company complies with the relevant rules and regulations, and limit the risk related to the business operation to a tolerable level, thereby maximising the corporate value of the Company.

### ***(I) Risk Management Principles***

The Company values the importance of the risk management system, which is established to achieve the following business goal:

1. Preventing operation, compliance and market risks;
2. Ensuring the safety and integrity of the assets of the Company' customers and the Company's own assets;
3. Ensuring the reliability, completeness and timeliness of the business records, financial records and other information of the Company; and
4. Enhancing the operation efficiency and the efficiency in future business development of the Company.

The risk management and internal control system of the Company has been designed based on the following principles:

1. **Comprehensiveness:** The Company has developed a comprehensive and unified risk management system which covers the entire process of the Company's business and the various processes of different departments and individual employees permeating through decision-making, execution, supervision and evaluation. Each department and individual employee must have a clearly defined role and responsibility in the risk management process.
2. **Sustainability:** The Company takes the initiative in actively setting risk management objectives and implementing risk management measures with proper supervision and evaluation on a sustainable basis.
3. **Independency:** The Audit and Legal Department operates independently from other departments in inspecting, assessing and monitoring various risks applicable to the Company on a regular basis.
4. **Effectiveness:** Risk management should be in proportion to the scale of the Company's business, scope of business as well as actual circumstances and unite with the efficacy of actual delivered results, so as to realise the risk management objectives of the Company in a cost and time efficient manner.

The Company has established an internal structure and designed the business process for the purpose of segregating the powers of decision-making department, execution department and inspection and evaluation department and implemented check and balance among these departments.

## ***(II) Risk Management System***

The organisation structure of risk management of the Company is illustrated below:



There are four management levels in risk management of the Company, namely, the Board, the Risk Management Committee, the Chief Risk Officer and the officers responsible for risk management of each business department.

The Board is responsible for setting the strategic objectives of risk management, fulfilling the values of risk management, appointing and removing the Chief Risk Officer, evaluating and approving risk management policies, ensuring the implementation of risk management systems and providing feedback on the effectiveness of risk management systems.

The Risk Management Committee of the Company is responsible for: (i) reviewing the risk management strategies of the Company, including the goals, risk tolerance and plans for managing and resolving material risks; (ii) analysing and evaluating the risk profiles and the overall risk management of the Company; (iii) making suggestions and proposals in enhancing risk management of the Company; and (iv) supervising the implementation of the risk control system in the aspects of application of fund, marketing, operation and compliance. As at the end of the Reporting Period, the Risk Management Committee of the Company has four members with an average of approximately six years of experience in the futures industry, and all of them have master or higher degrees and one of them is a senior accountant. The Risk Management Committee of the Company is led by Mr. Li Xindan, who is one of the independent non-executive Directors.

The Chief Risk Officer of the Company is responsible for ensuring the effective implementation of the internal policies of the Company and compliance with the business policy of the Company; evaluating and advising on the risks and compliance by the management of the Company in and as regards the major decisions making and main business activities of the Company; inspecting and investigating possible regulatory violations and risk concerns in the operation of the Company, reporting to the Board, the Shareholders and the regulatory authority independently on any non-compliance and enhancing the risk management of the Company through training, inspection and supervision. Mr. Jia Guorong is the Chief Risk Officer and has approximately 16 years of experience in the financial industry.



Officers in each business department responsible for risk management shall be responsible for implementing the risk management policies.

### **Interim Dividend**

The Board does not recommend to distribute the interim dividend for the six months ended 30 June 2016.

### **Purchase, Sale and Redemption of Listed Securities**

During the Reporting Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

### **Compliance with the Requirements of Corporate Governance Code**

During the Reporting Period, the Company had complied with all code provisions in the Corporate Governance Code of Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”), and had adopted most of the recommended best practices set out in the Corporate Governance Code.

### **Compliance with Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules concerning the securities transactions by Directors and Supervisors. The Company has also made specific inquiries to all the Directors and Supervisors for the compliance with Model Code. All Directors and Supervisors confirmed that they completely observed the Model Code during the Reporting Period.

The Company has adopted the Model Code for supervising the unpublished price-sensitive information of the Company or its securities that is likely possessed by its employees. During the Reporting Period, the Company did not find any employee’s violation of the Model Code.

The Board will examine the Company’s corporate governance and its implementation from time to time to meet the requirements of the Listing Rules and protect the interest of the shareholders.

### **Audit committee and review of interim results**

The audit committee of the Company (“**Audit Committee**”) comprises three members, including two independent non-executive Directors, namely Mr. Lam Kai Yeung (chairman) and Mr. Zhang Hongfa, as well as a non-executive Director Mr. Xue Binghai. The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the financial reporting process and the internal control of the Group. Apart from these, the primary duties of the Audit Committee are to recommend on the appointment, re-appointment and dismissal of the external auditor to the Board, review the financial reports and the financial report of the Company and advice on the internal control.

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and the unaudited consolidated interim financial statements for the six months ended 30 June 2016 with the management of the Company and the external auditor.

## **Publication of information on the Hong Kong Stock Exchange website**

This announcement is published on the websites of the Company (www.ftol.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2016 will be dispatched to shareholders of the Company and available on the above websites in due course.

By order of the Board  
**Mr. Zhou Yong**  
*Chairman*

Nanjing, China  
25 August 2016

*As at the date of this announcement, the Board consists of Mr. Zhou Yong and Ms. Zhou Jianqiu as executive Directors; Mr. Xue Binghai, Mr. Zhang Ke and Mr. Sun Changyu as non-executive Directors; and Mr. Li Xindan, Mr. Zhang Hongfa and Mr. Lam Kai Yeung as independent non-executive Directors.*