



**LUZHENG FUTURES COMPANY LIMITED**  
**魯証期貨股份有限公司**

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



**2016 Interim Report**



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# Corporate Profile

## REGISTERED CHINESE NAME OF THE COMPANY

魯証期貨股份有限公司

## REGISTERED ENGLISH 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  
Postal code: 250001

## HEAD OFFICE IN THE PRC

15–16/F Securities Tower, No. 86 Jingqi Road  
Shizhong District, Jinan, Shandong Province, PRC  
Postal code: 250001

## 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. Yin Ge  
Mr. Li Chuanyong  
Mr. Liu Feng

### Independent Non-executive Directors

Mr. Gao Zhu  
Mr. Yu Xuehui  
Mr. Wang Chuanshun  
Mr. Li Dapeng

## 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  
Room 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

Tung & Co. Solicitors  
Office 1601, 16th Floor, LHT Tower  
31 Queen's Road  
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 named 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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Fax: +86-531-81678628  
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E-mail: [investor@luzhengqh.com](mailto:investor@luzhengqh.com)

# Financial Highlights

| Item  | January–June<br>2016<br>(Unaudited) | January–June<br>2015<br>(Unaudited) | Increase/decrease<br>of the period as<br>compared to that of<br>last year |
|---|-------------------------------------|-------------------------------------|---|
| <b>Operating Results (RMB'000)</b>                                    |                                     |                                     |   |
| Revenue and other incomes <sup>1</sup>                                | 162,791                             | 182,614                             | (10.86%)  |
| Profit before income tax  | 57,821                              | 55,716                              | 3.78%   |
| Profit for the period — Attributable to<br>the Company's Shareholders | 41,400                              | 42,364                              | (2.28%)   |
| Net cash from operating activities                                    | (46,338)                            | (6,584)                             | (603.80%)   |
| <b>Earnings per Share (RMB/Share)</b>                                 |                                     |                                     |   |
| Basic earnings per Share  | 0.04                                | 0.06                                | (33.33%)  |
| Diluted earnings per Share  | 0.04                                | 0.06                                | (33.33%)  |
| <b>Profitability Indexes</b>  |                                     |                                     |   |
| Weighted average return<br>on net asset <sup>2</sup>                  | 2.09%                               | 3.27%                               | (36.09%)  |

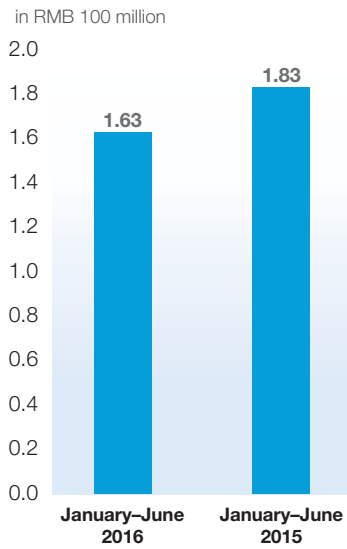
| Item  | As at<br>30 June 2016<br>(Unaudited) | As at<br>31 December 2015<br>(Audited) | Increase/decrease<br>at the end<br>of the period<br>as compared to<br>that of the end<br>of last year |
|---|--------------------------------------|--|---|
| <b>Scale Indexes (RMB'000)</b>  |                                      |  |   |
| Total assets  | 7,736,702                            | 7,433,409                              | 4.08%   |
| Total liabilities   | 5,758,302                            | 5,455,048                              | 5.56%   |
| Accounts payable to brokerage clients   | 5,178,278                            | 5,213,534                              | (0.68%)   |
| Equity attributable to the Company's Shareholders                             | 1,978,400                            | 1,978,361                              | 0.00%   |
| <b>Total Share Capital (in thousands)</b>                                     | <b>1,001,900</b>                     | <b>1,001,900</b>                       | <b>—</b>  |
| Net asset per Share attributable to the Company's<br>Shareholders (RMB/Share) | 1.97                                 | 1.97                                   | 0.00%   |
| Gearing ratio <sup>3</sup>  | 22.67%                               | 10.88%                                 | 11.79%  |

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

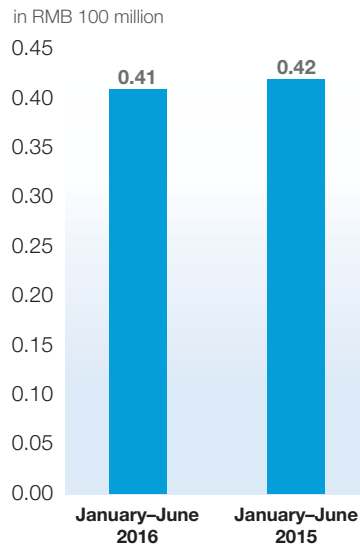
Note 2 Weighted average return on net asset = Profit for the period/Average remaining balance of total equity attributable to the Company's Shareholders as at the beginning and the end of the period

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

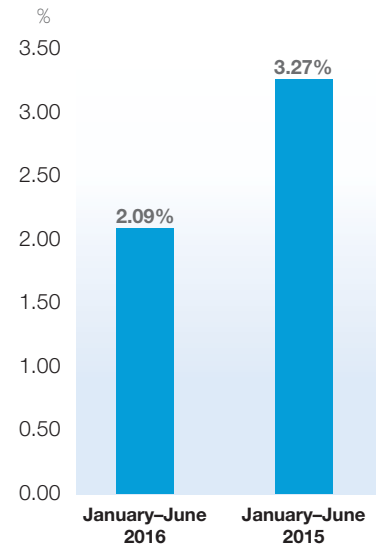
## Revenue and other incomes



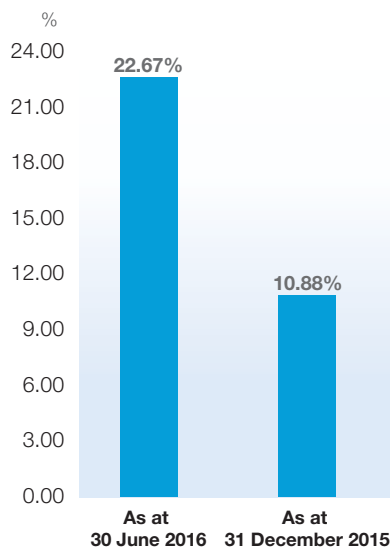
## Profit for the period – Attributable to the Company's Shareholders



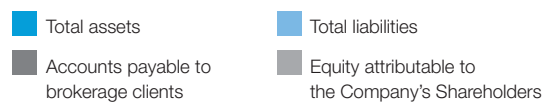
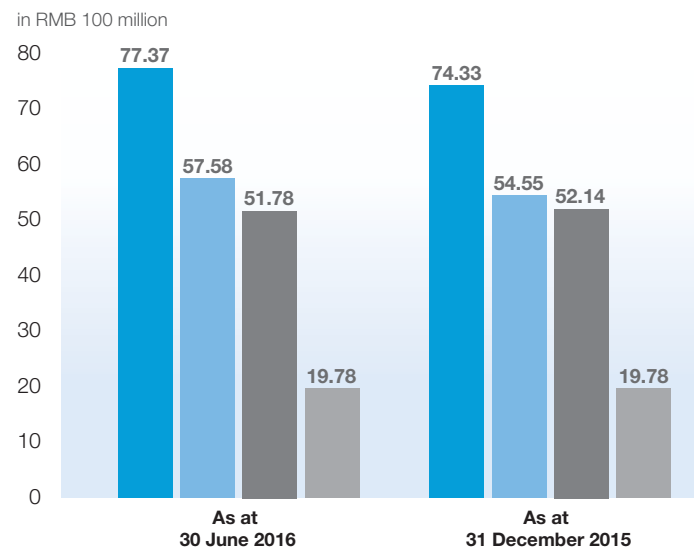
## Weighted average return on net asset



## Gearing ratio



## Scale Indexes



## Financial Highlights

The financial information of the Group for the six months ended 30 June 2016 was extracted from pages 32 to 86 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 2016 were unaudited.

### NET CAPITAL AND RELEVANT CONTROL INDEXES OF THE COMPANY AS AT 30 JUNE 2016

| Name of index   | As at<br>30 June 2016<br>(Unaudited) | Regulatory<br>Standards |
|---|--------------------------------------|-------------------------|
| Net Capital (RMB'000)   | 993,202                              | 15,000                  |
| Ratio between net capital and total risk capital reserves (%) | 309.24%                              | 100.00%                 |
| Ratio between net capital and net asset (%)                   | 52.06%                               | 40.00%                  |
| Ratio between current assets and current liabilities (%)      | 439.06%                              | 100.00%                 |
| Ratio between liabilities and net assets (%)                  | 15.14%                               | 150.00%                 |
| Clearing settlement funds (RMB'000)                           | 126,026                              | 8,000                   |

Note: As at 30 June 2016, net capital of the Company amounted to RMB993 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 Measures on Futures Company's Regulatory Risk Management Index Scheme" (《期貨公司風險監管指標管理辦法》) of the CSRC.

# Management Discussion and Analysis

## MARKET REVIEW

### Scales of Trading and Deposits

In the first half of 2016, the total trading volume in the national futures market was 2.29 billion board lots (all of the followings are per side), representing a year-on-year significant increase of 35.08% with a total turnover of RMB99.3 trillion, representing a year-on-year decrease of 71.91%, of which, the activity of commodity futures increased significantly, the total trading volume of commodity futures was 2.28 billion board lots in the first half of 2016, representing a year-on-year significant increase of 55.1% with a total turnover of RMB90.0 trillion, representing a year-on-year increase of 40.8%. Due to the policy restrictions on stock index futures, the trading scale of financial futures shrunk sharply. The trading volume and turnover of such financial futures were 9.545 million board lots and RMB9.3 trillion, representing a year-on-year decrease of 95.76% and 96.78% respectively. As of 30 June 2016, the deposits in the futures market was approximately RMB397.8 billion, representing a year-on-year decrease of 5.89%.

### Performance of Products

The price trends in the domestic futures market in the first half of 2016 is set out as follows:

#### 1. Performance of agricultural products futures

In the first half of 2016, agricultural products were affected by their own fundamentals, as well as the macro-economy and foreign varieties, etc., especially, the meals, which showed strong performance in market trend; followed by sugar and cotton, the stocks of which were expected to drop from the peak at the end of the coming year, which showed relatively strong performance in market trend; the overall performance of corn and starch futures was relatively weak as influenced by policy reforms and the release of state reserve.

#### 2. Performance of metal futures

In the first half of 2016, with the boost of the national policy of de-inventory and de-overcapacity as well as the full warming-up of the real estate market, the unilaterally downward trend of ferrous metals in the previous years was reversed and an overall sharp rebound was shown. Non-ferrous metals were relatively less affected by the real estate market and performed differentially. There were significant increases in the prices of aluminum, zinc and tin due to the decrease in their supply while copper, nickel and lead remained range-bound with fluctuations.

#### 3. Performance of energy and chemicals futures

In the first half of 2016, there had an upward trend in energy and chemicals futures amid the atmosphere of the devaluation of Renminbi, the rebound of crude oil prices and the oversupply in the entire commodity markets, in particular products such as linear low density polyethylene and polypropylene, etc. enjoyed higher growth while products such as rubber, pure terephthalic acid, methanol and bitumen, etc. had relatively lower increase due to their own relatively weak fundamentals.



# Management Discussion and Analysis

## 4. Performance of financial futures

In the first half of 2016, the stock market continued to fluctuate at the bottom as a result of the increase in the interest rates of the United States, and the sluggish domestic economy. The stock market began to slowly rebound after the plunge arising from the circuit breaker in January 2016. After the stock index futures were put under control, their transactions remained low in a long term. The transactions of stock index futures, however, began to pick up from the bottom when the market adapted to the restriction policy of stock index futures, but still decreased significantly when comparing to the corresponding period of last year.

## Progress on Innovation and Development

The main innovations in futures industry in the first half of 2016 include:

First, the new model of “futures + insurance” agricultural services. The price identification function of the futures markets could provide the basis for the design of agricultural insurance products by insurance companies. Farmers purchased price insurance products of agricultural products through nationwide outlets set up by insurance companies in order to ensure and stabilize the revenue of agricultural production. Insurance companies hedged their risk of losses by purchasing off-market put options provided by risk management subsidiaries of futures companies. Risk management subsidiaries of futures companies further utilized their advantages of professional operation to duplicate put options written through carrying out corresponding transactions in the futures market, thereby transferring and eliminating the risks of market price.

Second, the Dalian Commodity Exchange introduced the innovative system of vehicle boarding delivery for egg futures contracts. Based on the existing warehouses and delivery of warehouses, delivery could be processed from the first to the last trading day of the delivery month. Eggs futures became the only variety of futures with the co-existence of three kinds of delivery. The pricing system of vehicle boarding was more responsive to the characteristics of fresh egg products. Such system not only speeded up the turnover rate of goods, but also effectively reduced the cost of traders involved in the delivery of eggs futures and enhanced their enthusiasm for participation in the futures market.

## GENERAL OPERATING RESULTS

In the first half of 2016, the Group achieved operating income of RMB161 million and profit for the period of RMB41.40 million, representing a decrease of 11.54% and 2.28% respectively compared with RMB182 million and RMB42.36 million in the corresponding period of last year.

As at 30 June 2016, the Group's total assets amounted to RMB7,737 million, up by 4.08% from RMB7,433 million at the end of 2015. The Group's total liabilities were RMB5,758 million, up by 5.56% from RMB5,455 million at the end of 2015. Net assets attributable to the Company's shareholders were RMB1,978 million, similar to the level of RMB1,978 million as at the end of 2015. The gearing ratio of the Group (total assets and total liabilities less accounts payables to brokerage business clients) was 22.67%, up by 11.79% as compared with that as at the end of 2015. In the first half of 2016, 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, commodity trading and risk management.

### Futures Brokerage Business

In the first half of 2016, all brokerage business indicators of the Company were as follows: the Company recorded brokerage business revenue of RMB129.03 million, decreased by 10.57% year-on-year; the total turnover reached RMB1.05 trillion, decreased by 75% year-on-year. The average daily interests achieved RMB5,731 million, increased by 0.16% year-on-year.

Equity scale reflects the clients' assets scale held by a futures company, which guarantees the brokerage business revenue and provides market foundation for innovative businesses. During the Reporting Period, the client balances of the Company surged continually from RMB5,384 million at the end of 2015 to RMB5,481 million at the end of June 2016, representing an increase of 1.80%.

As part of the business strategy, the Company 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 lower trading frequency. Such clients also have a greater demand for value-added services, such as the futures asset management of commodity trading and risk management, etc. As of 30 June 2016, the services to institutional clients of the Company had further improved, with the average daily interests of institutional clients (including special legal person clients) reaching RMB3,270 million, accounting for 59.66% of the total interests of the Company of RMB5,481 million and representing a year-on-year growth of RMB863 million, representing an increase of 35.85%. In the first half of 2016, the quantity of internet account opening grew continuously. The number of clients accounts opened through internet amounted to 1,882, representing 53% of the total 3,520 new clients of the Company (excluding special legal person and institutional clients) (the “**internet account opening ratio**”), up by 25% compared to 28% in the corresponding period of last year.

### Futures Asset Management Business

During the Reporting Period, the Company's operating income from asset management business was RMB8.109 million, up by RMB2.595 million or 47.06% as compared with RMB5.514 million in the same period of last year. The asset management business accounts for 5.05% of the total operating income, increasing from 3.03% of the same period of last year.

During the Reporting Period, the Company launched the management of 21 new collective asset management schemes, and the initial entrusted equity increased by RMB1,538 million. The number of asset management products managed by the Company has reached 35. As at 30 June 2016, the total amount of assets managed by the Company was RMB1,857 million. Currently, the investment scope of the asset management products of the Company covers commodity futures, financial futures, stocks, fixed income products, securities investment funds and collective asset management plans etc. The successful issue and operation of asset management products have brought clients profits and obtained market recognition. The brand effect of the asset management of the Company began to manifest itself. It is expected that the scale of the Company's futures asset management business will further expand in the second half of 2016.

# Management Discussion and Analysis

During the Reporting Period, the Company closely cooperated with relevant financial institutions and successfully issued the Asset Management Plan of Wantai fund of funds (“FOF”) Phase I, whose scale of management was RMB275 million. Such plan became the leader of FOF in the industry.

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 was devoted to strengthen cooperation with financial institutions such as banks and securities firms, built and improved the development of the information technology system on asset management trading and risk control.

## 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 RMB5.0360 million.

In the first half of 2016, the Group continued to develop the commodities trading and risk management business, which includes warehouse receipt finance, cooperation insurance, 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 on multiple industry chains such as oils and fats, grains and crops, cotton, ferrous metals, non-ferrous metals and chemicals etc., with spot trading turnover of RMB0.49 billion, hence its business scale was further improved. In the first half of 2016, hedging and arbitrage position of the Group amounted to 324.4 thousands board lots in total, with a turnover of RMB16.477 billion. As a result, the market channels of the Group were further expanded and the number of clients was further 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 more than 80 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 oil, soybean meal, white sugar, rebar, iron ores, gold and corn, etc., with a turnover of OTC derivatives trading of RMB15 million, and a nominal amount of RMB810 million.

## Other Innovative Businesses

### 1. Integration of resources, enhancement of efficiency and establishment of operation management headquarters and risk management services department

In order to integrate resources of services effectively, to enhance efficiency of services, to follow the development of the industry and to fulfill the needs of customers, the Company closed departments such as the retailing business department, risk control and settlement department, intermediary business services department, settlement and financing management department and customer service center, etc. and established the operation management headquarters supported by four departments, namely, the agency services department, settlement department, customer services department and e-commerce department in May 2016.

In order to better serve the real economy and to meet the individual needs of industrial clients, the Company established the risk management services department in March 2016 to provide integrated services for the needs of risk management of industrial clients.

## 2. Promotion of establishment of branches and the light sales departments in an orderly manner

The Company promoted the management model of branches in key regions, and set up the first branch of the Company — the branch of Shanghai in the first half of 2016 to concentrate in making use of its edges of locations and resources, reducing the scope of management, strengthening the management and control of the sales departments, and facilitating the synergy of the business; the Company also continued to cut down the scales of the existing sales departments, to virtualize outlets, to actively enrich the strength of first-tier employees, and to reduce mid-office and back-office expenditures of the sales departments while strengthening the support for the development of the market.

## PROSPECTS AND FUTURE PLANS

### Market analysis

The Chinese futures market had a long-term bullish foundation thanks to the economic restructuring and deepening of the reform. The development prospects of the futures industry was still favorable. The launch of the “futures + insurance” business model marked that the futures industry gradually shifted towards a structure based on professional competence, coordinated development of multiple businesses as well as a more diverse business model. The competition of traditional agency businesses intensified, followed by the gradual decline in the proportion of revenue and the gradual increase in the proportion of innovative businesses such as assets management, commodity trading and risk management. With the rapid development of internet account opening, the futures business will continue to deepen the integration with the internet for achieving positive online and offline interactions. Along with the internationalization of the RMB, the marketization of the interest rate and exchange rate markets and the further opening of the domestic capital market, the mainland futures operators will accelerate the pace of development of the international business. The broad development prospects of the futures market proposed more new requirements for the scales of invested capital of futures operators. The capability of replenishment capital has become an important factor affecting the futures operators’ core competitiveness. The futures market will continue the boom of listing as well as mergers and acquisitions.

### Development plan

The Company will firmly grasp the advantage of being a listed company in Hong Kong to strengthen the function of “comprehensive risk management and services for business entities” with an aim to “establish itself as an industry-leading integrated financial services provider focusing on risk management” for further promoting the innovative transformation of the Company.

In the second half of 2016, the Company will focus on strengthening three tasks in the following aspects: firstly, continue to deepen the business transformation, mainly including continually striving for increasing the proportion of asset management and traditional business, actively attempting new financial intermediary businesses and strengthening strict supervision, research and development and practice of risk management in the diverse business environment as well as promoting the pilots of the Company’s branches in an orderly manner; secondly, nurture and strengthen the capacity of various categories of transactions and prudently increase the proportion of such business; thirdly, enhance the comprehensive ability in integrated benchmarking and provide good guidance in the management of business expectations.

## Plans for future investment or capital asset purchase

In order to better serve the clients, provide the design and development of software, maintain and operate trust services and further expand the Company's sources of income, the Company invested RMB10 million to establish a wholly-owned information technology subsidiary, Luzheng Information, in February 2015. According to the requirements of business development of Luzheng Information, the Company plans to further increase the registered capital in Luzheng Information in the second half of 2016. The source of such additional registered capital is from the listing funds raised by the Company.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the profitability of the Company continued to increase. As of 30 June 2016, the equity attributable to the Company's shareholders were RMB1,978 million, and is the same as RMB1,978 million at the end of 2015, which is mainly attributable to the profits achieved and dividends distributed 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 of 30 June 2016, the Group's total assets after deducting accounts payable to brokerage clients reached RMB2,558 million, up by 15.23% as compared with RMB2,220 million at the end of 2015. Among which, cash and bank balance accounted for 36.64%; treasury deposited with the futures exchanges in the PRC (including refundable deposits and settlement reserves) accounted for 29.27%; investment assets (including investments in subsidiaries, associated companies and financial assets, especially investment in financial assets with strong liquidity) accounted for 23.67%; and the property and equipment and intangible assets accounted for 1.88%.

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 22.67%, up by 11.79% as compared to the end of 2015. The Group's degree of operating leverage (the total assets less accounts payables to clients of brokerage business/equities attributable to the Company's Shareholders) was 1.29 times, up by about 15.18% as compared to 1.12 times as at the end of 2015. As of 30 June 2016, the Company's total liabilities were RMB5.758 billion, RMB5.178 billion of which was amounts due to brokerage clients. The total liabilities (net of amounts due to brokerage clients) were RMB580 million, of which subscription fees of futures asset management plans were RMB123 million, combined interests of holders of structured entities were RMB321 million and margin deposits of cooperation insurance clients were RMB41 million. The aforementioned liabilities were due within one year, and the Company has the ability to repay such liabilities. As at 30 June 2016, the total equity attributable to the Company's Shareholders was RMB1.978 billion, of which share capital was RMB1.0019 billion, share premium was RMB650.63 million and retained earnings were RMB172.198 million.

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. For the six months ended 30 June 2016, the Company did not charge any of its assets.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions is not significant. Therefore, the Group considers that its risk of exchange rate changes is immaterial. The Group does not temporarily use any derivative financial instruments to hedge the risk of exchange rate changes.

## MATERIAL FINANCING OF THE COMPANY

### Equity financing

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

### Bond financing

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

## INVESTMENTS DURING THE REPORTING PERIOD

### Use of proceeds

As at 30 June 2016, the listing funds raised by the Company were used in accordance with the purposes set out in the Prospectus, as follows:

Unit: RMB'000

| Name of committed projects   | Change of projects | Invested amount of funds raised during the Reporting Period | Actual accumulated invested amount of funds raised | Percentage | Reason of change and description of processes of change of funds raised |
|--|--------------------|---|--|------------|---|
| Establishment of light sales department and recruitment of personnel | No                 | —   | —  | —          | —   |
| Additional funding for Luzheng Trading                               | No                 | 130,000   | 130,000  | 20.12%     | —   |
| Purchase of information technology infrastructure and software       | No                 | —   | —  | —          | —   |
| Replenishment of working capital                                     | No                 | 64,600  | 64,600   | 10%        | —   |

## Management Discussion and Analysis

In consideration of enhancing the efficiency of capital use, as of 30 June 2016, the Company invested the remaining capital raised into short-term financial products, or deposited in large commercial banks by way of term deposits. The Company planned to use such capital when appropriate in accordance with the agreed net capital raised and purposes set out in the Prospectus.

### **Progress of investments by subsidiaries and joint stock companies**

In accordance with the uses of listing funds raised set out in the Prospectus, the Company contributed RMB100 million and RMB30 million to Luzheng Trading respectively on 4 February 2016 and 1 April 2016.

## **ACQUISITION AND 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, etc. that may affect the Group's financial position and operating results.

## **EMPLOYEES, REMUNERATION POLICIES AND TRAINING**

As at the end of the Reporting Period, the Group had a total of 492 employees.

The Company established a remuneration system with different sequencing management, encouraging linkage with performance assessment, 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 enthusiasm of the staffs and improved the Company's operating results. The remuneration of the employees of the Company consists of four parts including basic salary, performance wage, bonus and benefits. The Company enters into employment contract with each employee to establish employment relationship with them according to applicable laws and regulations of the PRC. The Company provides each employee with various social insurances (pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and housing fund and make prompt and 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 its employees. The Company sticks to the principles of combining knowledge training and practical training, reasonably allocating training resources and continuously increasing training on innovative businesses to improve training results. During the Reporting Period, the Company organized several trainings on OTC derivatives businesses, stocks and options, commodity options, etc. and conducted a knowledge competition on innovative businesses.

## RISK CONTROL

### Major risks affecting the Company's operation and the policies

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

#### 1. Credit Risk

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

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

For credit risks related to the Company's futures brokerage business, the Company conducts risk rating on the Company's clients based on his/her/its assets, professional knowledge on futures, trading experiences, risk appetite and risk tolerance, and provide appropriate services to its clients and implement corresponding risk management measures accordingly. Meanwhile, the Company requires its 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, the Company will close out the position. At the same time, the futures exchanges in the PRC impose the daily price up and down limit, which also effectively limits the risk exposure of the Company's clients and the Company.

#### 2. Market Risk

Market risk refers to the possibility of loss or decrease in the Company's 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 maximize the reduction of market risk, the Company has adopted the following measures:

- (1) establishing a systematic investment mechanism, under which the Company's research team provides investment recommendations and the Company's operation team provides market guidance to its research team;
- (2) the Company's operation team is 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 the Company's 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 the Company's expectations.



# Management Discussion and Analysis

### 3. Liquidity Risk

Liquidity risk refers to the risk of whether the assets can be liquidated to repay debts in a foreseeable period before value depreciation of the assets.

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, such as significant business expansion and large assets acquisition, which could affect the risk control indexes; and (4) selected those commodities that are more actively traded for the Company's commodity trading and risk management business, or selected the contracts with the largest or second-largest open interest within similar futures contracts in futures trading.

### 4. 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 due to the futures company's business activities or employee's conduct which violates the relevant 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 means such as compliance review, compliance training, compliance consultation and internal audit, etc.

### 5. 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 its net commission and fee income of the Company's futures brokerage business as risk reserve fund each month.

## Risk management measures adopted or to be adopted by the Company

### 1. 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 Supervisory Committee; 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.

### **2. Consistently improving the corporate governance structure**

The Company consistently normalizes the operation of the general meeting to ensure that all shareholders of the Company, especially minority shareholders, can enjoy equal positions and protect the interest of minority shareholders of the Company. 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 Supervisory Committee on the Board of Directors and management.

### **3. 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 risks awareness of all employees, foster an excellent risks management culture and ensure the realization of the overall target of the Company in risk management.

### **4. 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.

### **5. 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 “know 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

The Company is committed to enhancing corporate governance standard and regarded it as an indispensable part to creating values for Shareholders. The Company has established an effectively balanced and independently operated modern corporate governance structure which comprises a number of bodies including general meetings, the Board of Directors, Supervisory Committee 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 its own corporate governance practices.

## 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, 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 by relevant employees. 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 during the Reporting Period. The Company has made specific inquiries to relevant employees about their compliance with the guidelines on transactions of the Company's securities, and the Company did not 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 30 June 2016, the Company appointed a total of four independent non-executive Directors, including Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng.

## AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the Listing Rules. The primary responsibilities of the Audit Committee are reviewing and supervising the Company's financial reporting procedures, including making proposals on appointing, re-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 of the Company; reviewing the financial information of the Company and its disclosure; reviewing and supervising the effective implementation of the financial reporting system, internal control system and risk management system of the Company; evaluating and discussing the relevant 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; reviewing and supervising the Company's Connected Transactions and commenting on the suitability of such Connected Transactions; and other matters that the Board of Directors has authorized it to deal with.

The Audit Committee consists of five Directors: Mr. Wang Chuanshun (independent non-executive Director), Mr. Gao Zhu (independent non-executive Director), Mr. Li Dapeng (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.

On 23 August 2016, the Audit Committee reviewed and confirmed the announcement of interim results for the six months ended 30 June 2016, the 2016 interim report and the unaudited interim financial statements for the six months ended 30 June 2016 prepared in accordance with IAS 34 "Interim Financial Reporting" of the Group.

## 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

## SUBSEQUENT EVENTS

During the Reporting Period, there is no other major subsequent event of the Company.

## SHARE CAPITAL

As of 30 June 2016, 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 announcement of the interim results of the Group for the six months ended 30 June 2016 were published on the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website (<http://www.luzhengqh.com>) on 23 August 2016.

## INTERIM DIVIDEND

The Board of Directors did not recommend the distribution of any interim dividend for the six months ended 30 June 2016.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2016, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2016, 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 at 30 June 2016, 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 |
|--|-----------------|------------------------------------|-----------------------------|---|--|
| Zhongtai Securities Co., Ltd. (formerly named as Qilu Securities Co., Ltd.) <sup>(1)</sup> | Domestic Shares | Beneficial owner                   | 632,176,078 (long position) | 63.10%  | 87.22%   |
| Laiwu Steel Group Co., Ltd. <sup>(1),(2)</sup>   | Domestic Shares | Interest of controlled corporation | 632,176,078 (long position) | 63.10%  | 87.22%   |
| Shandong Steel Group Co., Ltd. <sup>(2)</sup>  | Domestic Shares | Interest of controlled corporation | 632,176,078 (long position) | 63.10%  | 87.22%   |
| Farallon Capital Management, L.L.C.  | H Shares        | Investment manager                 | 38,792,967 (long position)  | 3.87%   | 14.00%   |
| 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 <sup>(3)</sup>                                       | H Shares       | Beneficial owner                   | 28,022,000<br>(long position) | 2.80%   | 10.11%   |
| CM International Capital Limited (中國國際資本有限公司) <sup>(3)</sup>                          | H Shares       | Interest of controlled corporation | 28,022,000<br>(long position) | 2.80%   | 10.11%   |
| China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) <sup>(3)</sup>                   | H Shares       | Interest of controlled corporation | 28,022,000<br>(long position) | 2.80%   | 10.11%   |
| CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) <sup>(4)</sup> | H Shares       | Beneficial owner                   | 18,681,000<br>(long position) | 1.86%   | 6.74%  |
| Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市珪盛鑫諮詢有限公司) <sup>(4)</sup>               | H Shares       | Interest of controlled corporation | 18,681,000<br>(long position) | 1.86%   | 6.74%  |
| CITIC Capital Advisory Limited <sup>(4)</sup>   | H Shares       | Interest of controlled corporation | 18,681,000<br>(long position) | 1.86%   | 6.74%  |
| CITIC Capital Finance (Cayman) Limited <sup>(4)</sup>                                 | H Shares       | Interest of controlled corporation | 18,681,000<br>(long position) | 1.86%   | 6.74%  |
| CITIC Capital Global Services Holdings Limited <sup>(4)</sup>                         | H Shares       | Interest of controlled corporation | 18,681,000<br>(long position) | 1.86%   | 6.74%  |
| CITIC Capital Holdings Limited <sup>(4)</sup>   | H Shares       | Interest of controlled corporation | 18,681,000<br>(long position) | 1.86%   | 6.74%  |

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 30 June 2016.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.91% of the equity interest in Zhongtai Securities Co., Ltd. (formerly named as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (formerly named as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. (formerly named as 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 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel Group Co., Ltd. for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 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 (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) 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 (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司), 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 (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2016, 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 Reporting Period.



### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

On 22 March 2016, Mr. Yu Dongxin resigned as the deputy general manager of the Company due to work reason, with effect from the same day.

During the seventh meeting of the second session of staff representative meeting of the Company, Mr. Liang Zhongwei was elected as the staff representative Director of the second session of the Board of Directors of the Company.

On 16 June 2016, after the Shareholders elected non-staff representative Directors at the 2015 annual general meeting of the Company (the “AGM”), together with Mr. Liang Zhongwei, the aforesaid staff representative Director, the Company formed the second session of the Board of Directors, in which the members include: (i) Mr. Chen Fang and Mr. Liang Zhongwei as the executive Directors; (ii) Mr. Lu Xiangyou, Mr. Yin Ge, Mr. Li Chuanyong and Mr. Liu Feng as the non-executive Directors; and (iii) Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun and Mr. Li Dapeng as the independent non-executive Directors. Mr. Wei Wei, the member of the first session of the Board of Directors of the Company, resign as the independent non-executive Director of the Company due to work reason. Before Mr. Li Dapeng obtained the qualification from China Futures Association, Mr. Wei Wei continued to perform his duties as a Director. On 23 June 2016, Mr. Li Dapeng obtained the qualification from China Futures Association, and was formally appointed as the independent non-executive Director of the Company and Mr. Wei Wei resigned as the independent non-executive Director of the Company with effect from the same day.

During the seventh meeting of the second session of staff representative meeting of the Company, Mr. Yu Dongxin and Mr. Wang Hairan were appointed as the staff representative Supervisors of the second session of the Supervisory Committee of the Company.

On 16 June 2016, after the Shareholders elected non-staff representative Supervisors during the AGM, together with Mr. Yu Dongxin and Mr. Wang Hairan, the aforesaid staff representative Supervisors, the Company formed the second session of the Supervisory Committee, in which the members include: (i) Mr. An Tie and Ms. Ding Mei as the Supervisors; (ii) Mr. Hu Yuyue and Mr. Mu Yong as the independent Supervisors; and (iii) Mr. Yu Dongxin and Mr. Wang Hairan as the staff representative Supervisors.

On 16 June 2016, Mr. Zhang Yunwei retired as the non-executive Director of the Company; Mr. Zhang Shouhe retired as the Supervisor of the Company; and Mr. Li Xisheng retired as the staff representative Supervisor of the Company.

### CHANGES OF INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE COMPANY

During the Reporting Period, there is no change to the information about the Directors, Supervisors and chief executives of the Company which are required to be disclosed under Rule 13.51B of the Listing Rules.

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

|   | Notes | Six months ended 30 June |                     |
|---|-------|--------------------------|---------------------|
|   |       | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Commission and fee income                     | 5     | 184,402                  | 358,905             |
| Commission and fee expense                    | 5     | (133,230)                | (280,261)           |
| <b>Net commission and fee income</b>          |       | <b>51,172</b>            | <b>78,644</b>       |
| Interest income                               | 6     | 84,960                   | 73,738              |
| Interest expense                              | 6     | (9,536)                  | (9,313)             |
| <b>Net interest income</b>                    |       | <b>75,424</b>            | <b>64,425</b>       |
| Gain/(loss) on physical commodities trading   | 7     | 6,434                    | (95)                |
| Net investment (losses)/gains                 | 8     | (1,958)                  | 17,868              |
| Other income                                  |       | 29,500                   | 20,921              |
| <b>Operating income</b>                       |       | <b>160,572</b>           | <b>181,763</b>      |
| Staff costs                                   | 9     | (44,881)                 | (44,641)            |
| Commission to brokerage agents                |       | (9,281)                  | (14,727)            |
| Introducing broker commission                 |       | (4,012)                  | (10,353)            |
| Depreciation and amortization                 |       | (4,419)                  | (3,969)             |
| Impairment losses                             |       | (122)                    | (139)               |
| Other operating expenses                      | 10    | (40,417)                 | (51,845)            |
| <b>Operating expenses</b>                     |       | <b>(103,132)</b>         | <b>(125,674)</b>    |
| <b>Operating profit</b>                       |       | <b>57,440</b>            | <b>56,089</b>       |
| Share of losses of investment in an associate | 15    | (1,838)                  | (1,224)             |
| Other gains, net                              |       | 2,219                    | 851                 |
| <b>Profit before income tax</b>               |       | <b>57,821</b>            | <b>55,716</b>       |
| Income tax expense                            | 11    | (16,421)                 | (13,352)            |
| <b>Profit for the period</b>                  |       | <b>41,400</b>            | <b>42,364</b>       |

## Condensed Consolidated Statement of Comprehensive Income (continued)

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

|   | Notes | Six months ended 30 June |                     |
|---|-------|--------------------------|---------------------|
|   |       | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| <b>Other comprehensive income</b>   |       |                          |                     |
| Items that may be reclassified subsequently to profit or loss:  |       |                          |                     |
| Available-for-sale financial assets   |       |                          |                     |
| – Changes in fair value   |       | 2,289                    | 9,649               |
| – Income tax effect on changes in fair value  |       | (572)                    | (2,412)             |
| – Amounts reclassified to profit or loss upon disposal or impairment  |       | (540)                    | (2,890)             |
| Currency translation differences  |       | 544                      | –                   |
| <b>Other comprehensive income for the period, net of tax</b>  |       | <b>1,721</b>             | <b>4,347</b>        |
| <b>Total comprehensive income</b>   |       | <b>43,121</b>            | <b>46,711</b>       |
| Profit attributable to:   |       |                          |                     |
| – Shareholders of the Company   |       | 41,400                   | 42,364              |
| – Non-controlling interests   |       | –                        | –                   |
|   |       | <b>41,400</b>            | <b>42,364</b>       |
| Total comprehensive income attributable to:   |       |                          |                     |
| – Shareholders of the Company   |       | 43,121                   | 46,711              |
| – Non-controlling interests   |       | –                        | –                   |
|   |       | <b>43,121</b>            | <b>46,711</b>       |
| <b>Earnings per share attributable to shareholders of the Company<br/>for the period (expressed in RMB per share)</b> |       |                          |                     |
| <b>Basic/Diluted</b>  | 13    | <b>0.04</b>              | 0.06                |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

|   | Notes | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|-------|--------------------------------|----------------------------------|
| <b>Assets</b>   |       |                                |                                  |
| <b>Non-current assets</b>                             |       |                                |                                  |
| Property and equipment                                | 14    | 42,625                         | 45,125                           |
| Intangible assets                                     |       | 5,598                          | 6,157                            |
| Investment in an associate                            | 15    | 29,572                         | 5,811                            |
| Other non-current assets                              |       | 2,451                          | 3,137                            |
| Available-for-sale financial assets                   | 17    | 98,186                         | 134,310                          |
| Deferred income tax assets                            | 18    | 2,360                          | 1,983                            |
| Refundable deposits                                   | 19    | 20,138                         | 20,138                           |
| <b>Total non-current assets</b>                       |       | <b>200,930</b>                 | 216,661                          |
| <b>Current assets</b>                                 |       |                                |                                  |
| Physical commodities                                  |       | 3                              | 3,640                            |
| Other current assets                                  | 20    | 65,914                         | 30,889                           |
| Available-for-sale financial assets                   | 17    | 445,276                        | 303,354                          |
| Derivative financial assets                           | 21    | 396                            | 1,151                            |
| Financial assets at fair value through profit or loss | 22    | 129,089                        | 22,857                           |
| Financial assets held under resale agreements         | 23    | 30,717                         | —                                |
| Deposits with exchange-clearing organizations         | 24    | 2,300,066                      | 2,661,676                        |
| Bank balances held for clients                        | 25    | 3,626,937                      | 2,996,241                        |
| Cash and bank balances                                | 26    | 937,374                        | 1,196,940                        |
| <b>Total current assets</b>                           |       | <b>7,535,772</b>               | 7,216,748                        |
| <b>Total assets</b>                                   |       | <b>7,736,702</b>               | 7,433,409                        |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

|   | Notes | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|-------|--------------------------------|----------------------------------|
| <b>Equity and liabilities</b>                                   |       |                                |                                  |
| <b>Equity attributable to shareholders of the Company</b>       |       |                                |                                  |
| Share capital   | 27    | 1,001,900                      | 1,001,900                        |
| Share premium   | 28    | 650,630                        | 650,630                          |
| Other reserves  | 28    | 153,672                        | 148,266                          |
| Retained earnings   |       | 172,198                        | 177,565                          |
| <b>Total equity attributable to shareholders of the Company</b> |       | <b>1,978,400</b>               | <b>1,978,361</b>                 |
| Non-controlling interests                                       |       | —                              | —                                |
| <b>Total equity</b>   |       | <b>1,978,400</b>               | <b>1,978,361</b>                 |
| <b>Liabilities</b>  |       |                                |                                  |
| <b>Non-current liabilities</b>                                  |       |                                |                                  |
| Deferred income tax liabilities                                 | 18    | 1,908                          | 14                               |
| Other non-current liabilities                                   |       | 2,490                          | 2,599                            |
| <b>Total non-current liabilities</b>                            |       | <b>4,398</b>                   | <b>2,613</b>                     |
| <b>Current liabilities</b>                                      |       |                                |                                  |
| Other current liabilities                                       | 29    | 198,230                        | 41,530                           |
| Current income tax liabilities                                  |       | 12,460                         | 7,298                            |
| Derivative financial liabilities                                | 21    | 2,607                          | 1,927                            |
| Financial liabilities at fair value through profit or loss      | 30    | 362,329                        | 188,146                          |
| Accounts payable to brokerage clients                           |       | 5,178,278                      | 5,213,534                        |
| <b>Total current liabilities</b>                                |       | <b>5,753,904</b>               | <b>5,452,435</b>                 |
| <b>Total liabilities</b>  |       | <b>5,758,302</b>               | <b>5,455,048</b>                 |
| <b>Total equity and liabilities</b>                             |       | <b>7,736,702</b>               | <b>7,433,409</b>                 |

# Condensed Consolidated Statements of Changes in Equity

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| (Unaudited)                                      | Attributable to shareholders of the Company |                            |                             |                   | Total equity     |
|--|---|----------------------------|-----------------------------|-------------------|------------------|
|  | Share capital<br>(Note 27)                  | Share premium<br>(Note 28) | Other Reserves<br>(Note 28) | Retained earnings |                  |
| <b>Balance at 1 January 2016</b>                 | <b>1,001,900</b>                            | <b>650,630</b>             | <b>148,266</b>              | <b>177,565</b>    | <b>1,978,361</b> |
| Profit for the period                            | —   | —                          | —                           | 41,400            | 41,400           |
| Other comprehensive income for the period        | —   | —                          | 1,721                       | —                 | 1,721            |
| <b>Total comprehensive income for the period</b> | <b>—</b>                                    | <b>—</b>                   | <b>1,721</b>                | <b>41,400</b>     | <b>43,121</b>    |
| Net appropriation to reserves                    | —   | —                          | 3,685                       | (3,685)           | —                |
| Dividends recognized as distribution             | —   | —                          | —                           | (43,082)          | (43,082)         |
| <b>Balance at 30 June 2016</b>                   | <b>1,001,900</b>                            | <b>650,630</b>             | <b>153,672</b>              | <b>172,198</b>    | <b>1,978,400</b> |
| <b>Balance at 1 January 2015</b>                 | <b>750,000</b>                              | <b>290,292</b>             | <b>122,525</b>              | <b>109,562</b>    | <b>1,272,379</b> |
| Profit for the period                            | —   | —                          | —                           | 42,364            | 42,364           |
| Other comprehensive income for the period        | —   | —                          | 4,347                       | —                 | 4,347            |
| <b>Total comprehensive income</b>                | <b>—</b>                                    | <b>—</b>                   | <b>4,347</b>                | <b>42,364</b>     | <b>46,711</b>    |
| Net appropriation to reserves                    | —   | —                          | 4,604                       | (4,604)           | —                |
| <b>Balance at 30 June 2015</b>                   | <b>750,000</b>                              | <b>290,292</b>             | <b>131,476</b>              | <b>147,322</b>    | <b>1,319,090</b> |

# Condensed Consolidated Statements of Cash Flows

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| <b>Cash flows from operating activities</b>  |                          |                     |
| <b>Profit before income tax</b>  | <b>57,821</b>            | 55,716              |
| Adjustments for:   |                          |                     |
| Depreciation and amortization  | 4,419                    | 3,969               |
| Impairment losses  | 122                      | 139                 |
| Net losses on disposal of property and equipment and intangible assets   | 35                       | 2                   |
| Foreign exchange losses  | 97                       | —                   |
| Realized gains from disposal of available-for-sale financial assets  | (1,782)                  | (5,041)             |
| Dividends and interest income from available-for-sale financial assets and term deposits                         | (5,698)                  | (13,060)            |
| Share of losses of investment in an associate  | 1,838                    | 1,224               |
|  | <b>56,852</b>            | 42,949              |
| <b>Net increase in operating assets:</b>   |                          |                     |
| Net increase in bank balances held for clients   | (630,696)                | (2,686,276)         |
| Net decrease/(increase) in clients' deposits   | 452,327                  | (1,302,222)         |
| Net (increase)/decrease in financial assets at fair value through profit or loss and derivative financial assets | (105,479)                | 1,357               |
| Net increase in other assets   | (35,638)                 | (35,974)            |
| Net increase in financial assets held under resale agreements  | (30,717)                 | (35,237)            |
| Net decrease in physical commodities   | 3,637                    | 4,056               |
|  | <b>(346,566)</b>         | (4,054,296)         |
| <b>Net increase in operating liabilities:</b>  |                          |                     |
| Net (decrease)/increase in accounts payable to brokerage clients   | (35,256)                 | 3,972,630           |
| Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities  | 174,863                  | 19,983              |
| Net increase in other liabilities  | 113,512                  | 29,851              |
|  | <b>253,119</b>           | 4,022,464           |
| <b>Income tax paid</b>   | <b>(9,743)</b>           | (17,701)            |
| <b>Net cash outflow from operating activities</b>  | <b>(46,338)</b>          | (6,584)             |

## Condensed Consolidated Statements of Cash Flows (continued)

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| <b>Cash flows from investing activities</b>  |                          |                     |
| Payment for investment in an associate   | (25,600)                 | —                   |
| Dividends and interest received from available-for-sale financial assets and term deposits   | 5,698                    | 13,060              |
| Purchases of property and equipment, intangible assets and other long-term assets            | (228)                    | (2,451)             |
| Proceeds on disposal of property and equipment, intangible assets and other long-term assets | 11                       | 1,135               |
| Payment for purchases of available-for-sale financial assets and term deposits               | (370,000)                | (288,667)           |
| Proceeds on maturity and disposal of available-for-sale financial assets and term deposits   | 197,705                  | 398,585             |
| <b>Net cash (outflow)/inflow from investing activities</b>                                   | <b>(192,414)</b>         | <b>121,662</b>      |
| <b>Cash flows from financing activities</b>  |                          |                     |
| Proceeds from bank borrowings  | —                        | 28,800              |
| <b>Net cash inflow from financing activities</b>   | <b>—</b>                 | <b>28,800</b>       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                                  | <b>(238,752)</b>         | <b>143,878</b>      |
| <b>Cash and cash equivalents at beginning of period</b>                                      | <b>558,656</b>           | <b>367,428</b>      |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                          | <b>(97)</b>              | <b>—</b>            |
| <b>Cash and cash equivalents at end of period (Note 31)</b>                                  | <b>319,807</b>           | <b>511,306</b>      |



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(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” or “China”) 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 to 魯証期貨股份有限公司 accordingly.

The Company completed its initial public offering on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) in 7 July 2015. The share capital of the Company was increased to RMB1,001.90 million. The Company holds the futures business licence No. 31190000 and business licence No. 370000018085761. The registered address of the Company is Floors 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province.

The Company and its subsidiaries (together, 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

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with IAS 34, “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (the “IFRS”).

### 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

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016.

### (a) Amendments to IFRSs effective for the financial year ending 31 December 2016 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.

### (b) Impact of standards issued but not yet applied by the Group

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 3 Accounting policies (continued)

### (b) Impact of standards issued but not yet applied by the Group (continued)

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 at the same time. The Group is yet to assess IFRS 16's impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the 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 2015.

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

For the six months ended 30 June 2016

(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.

Based on their judgment, the directors of the Company have assessed the combination of the three elements listed above and concluded that the SEs with the following features are controlled by the Group and should be included for consolidation:

A classified asset management scheme comprises two unit classes where the external investors hold the lower risk units that generate an expected rate of return, while the Group holds the entirety of the higher risk units that enjoy the residue interests of the asset management scheme. The holder of the higher risk units provides credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. 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 holdings within the operating period of the scheme. It is concluded that the Group is a principal of the schemes with the above features since inception.

A non-classified asset management scheme comprises a single unit class where the Group holds a part of the units. 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. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 5 Net commission and fee income

|  | Six months ended 30 June |                |
|--|--------------------------|----------------|
|  | 2016                     | 2015           |
|  | (Unaudited)              | (Unaudited)    |
| <b>Commission and fee income</b>   |                          |                |
| Futures brokerage service  | 174,706                  | 307,285        |
| Settlement and clearing service income from other futures firms            | 2,822                    | 45,953         |
| Asset management service   | 6,851                    | 5,387          |
| Investment consultancy   | 23                       | 280            |
|  | <b>184,402</b>           | <b>358,905</b> |
| <b>Commission and fee expense</b>  |                          |                |
| Trading and clearing fees to exchange-clearing organizations               | 130,408                  | 234,308        |
| Settlement and clearing service expense to exchange-clearing organizations | 2,822                    | 45,953         |
|  | <b>133,230</b>           | <b>280,261</b> |

## 6 Net interest income

|   | Six months ended 30 June |               |
|---|--------------------------|---------------|
|   | 2016                     | 2015          |
|   | (Unaudited)              | (Unaudited)   |
| <b>Interest income</b>  |                          |               |
| Interest income from deposits with banks                                    | 78,942                   | 61,378        |
| Interest income from deposits with exchange-clearing organizations          | 6,018                    | 12,133        |
| Other interest income   | —                        | 227           |
|   | <b>84,960</b>            | <b>73,738</b> |
| <b>Interest expense</b>   |                          |               |
| Interest expense on settlement and clearing services to other futures firms | 1,174                    | 719           |
| Interest expense to other brokerage clients                                 | 8,362                    | 8,594         |
|   | <b>9,536</b>             | <b>9,313</b>  |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 7 Gain/(loss) on physical commodities trading

|                    | Six months ended 30 June |                     |
|--------------------|--------------------------|---------------------|
|                    | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Sales proceeds     | 266,751                  | 65,571              |
| Costs of purchases | (260,317)                | (65,666)            |
|                    | <b>6,434</b>             | (95)                |

A subsidiary of the Company 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 (losses)/gains

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Net realized gains from disposal of available-for-sale financial assets                    | 1,782                    | 5,041               |
| Dividends and interest income from available-for-sale financial assets                     | 5,698                    | 13,060              |
| Net realized losses from disposal of financial assets at fair value through profit or loss | (1,297)                  | (2,102)             |
| Dividends from financial assets at fair value through profit or loss                       | —                        | 65                  |
| Net realized (losses)/gains from derivative financial instruments                          | (14,974)                 | 1,033               |
| Unrealized fair value change of financial instruments at fair value through profit or loss |                          |                     |
| — Financial assets at fair value through profit or loss                                    | 1,172                    | 84                  |
| — Derivative financial instruments   | 4,811                    | 931                 |
| — Financial liabilities at fair value through profit or loss                               | 850                      | (244)               |
|  | <b>(1,958)</b>           | 17,868              |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 9 Staff costs

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2016                     | 2015        |
|   | (Unaudited)              | (Unaudited) |
| Salaries and bonus                              | 34,202                   | 34,645      |
| Pension   | 4,263                    | 3,854       |
| Other social security                           | 4,736                    | 4,449       |
| Labour union funds and employee education funds | 1,552                    | 1,561       |
| Other welfare                                   | 128                      | 132         |
|   | <b>44,881</b>            | 44,641      |

## 10 Other operating expenses

|                                     | Six months ended 30 June |             |
|-------------------------------------|--------------------------|-------------|
|                                     | 2016                     | 2015        |
|                                     | (Unaudited)              | (Unaudited) |
| Office expenses                     | 9,574                    | 9,698       |
| Marketing and distribution expenses | 6,668                    | 6,091       |
| Rentals                             | 5,764                    | 6,408       |
| Consulting expenses                 | 4,928                    | 7,576       |
| Information system maintenance fees | 4,381                    | 2,181       |
| Business tax and surcharges         | 3,209                    | 6,451       |
| Property maintenance fee            | 1,770                    | 1,857       |
| Futures Investors Protection Fund   | 1,144                    | 4,643       |
| Professional service expenses       | 817                      | 755         |
| Listing expenses                    | —                        | 4,102       |
| Other expenses                      | 2,162                    | 2,083       |
|                                     | <b>40,417</b>            | 51,845      |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 11 Income tax expense

|                        | Six months ended 30 June |             |
|------------------------|--------------------------|-------------|
|                        | 2016                     | 2015        |
|                        | (Unaudited)              | (Unaudited) |
| Current tax            | 15,246                   | 10,390      |
| Deferred tax (Note 18) | 1,175                    | 2,962       |
|                        | <b>16,421</b>            | 13,352      |

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.

Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate applicable to profits in the respective countries. The major reconciliation items are as follows:

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2016                     | 2015        |
|  | (Unaudited)              | (Unaudited) |
| Profit before income tax   | 57,821                   | 55,716      |
| Tax calculated at tax rates applicable to profits in the respective area       | 15,407                   | 13,929      |
| Items deducted for tax purposes but not subtracted to arrive at taxable income | —                        | (1,162)     |
| Items not deductible for tax purposes  | 1,014                    | 585         |
|  | <b>16,421</b>            | 13,352      |

## 12 Dividends

A dividend of RMB43,082 thousand in respect of the year ended 31 December 2015 of the Company was declared and recognised during the period of six months ended 30 June 2016 (30 June 2015: nil).

The board of directors has proposed not to declare any interim dividends in respect of the six months period ended 30 June 2016.



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 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 |                     |
|---|--------------------------|---------------------|
|   | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Profit attributable to shareholders of the Company (in RMB thousands) | <b>41,400</b>            | 42,364              |
| Weighted average number of ordinary shares in issue (in thousands)    | <b>1,001,900</b>         | 750,000             |
| Basic earnings per share (in RMB)                                     | <b>0.04</b>              | 0.06                |

### 13.2 Diluted earnings per share

For the six months ended 30 June 2016, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share (for the six months ended 30 June 2015: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 14 Property and equipment

| (Unaudited)                     | Buildings | Motor vehicles | Electronics and other equipment | Total    |
|---------------------------------|-----------|----------------|---------------------------------|----------|
| <b>Cost</b>                     |           |                |                                 |          |
| 1 January 2016                  | 40,073    | 9,661          | 29,482                          | 79,216   |
| Additions                       | —         | —              | 228                             | 228      |
| Disposals                       | —         | —              | (1,120)                         | (1,120)  |
| 30 June 2016                    | 40,073    | 9,661          | 28,590                          | 78,324   |
| <b>Accumulated depreciation</b> |           |                |                                 |          |
| 1 January 2016                  | (6,343)   | (6,300)        | (21,448)                        | (34,091) |
| Additions                       | (649)     | (454)          | (1,579)                         | (2,682)  |
| Disposals                       | —         | —              | 1,074                           | 1,074    |
| 30 June 2016                    | (6,992)   | (6,754)        | (21,953)                        | (35,699) |
| <b>Carrying amount</b>          |           |                |                                 |          |
| 30 June 2016                    | 33,081    | 2,907          | 6,637                           | 42,625   |

| (Unaudited)                     | Buildings | Motor vehicles | Electronics and other equipment | Total    |
|---------------------------------|-----------|----------------|---------------------------------|----------|
| <b>Cost</b>                     |           |                |                                 |          |
| 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   |
| <b>Accumulated depreciation</b> |           |                |                                 |          |
| 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) |
| <b>Carrying amount</b>          |           |                |                                 |          |
| 30 June 2015                    | 34,378    | 2,017          | 4,687                           | 41,082   |

All buildings of the Group are located outside Hong Kong.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 15 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") for the year ended 31 December 2014. 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 on May 2015, the Group's equity holding in Rizhao BOT was diluted from 49% to 29.5%. The Group made payment of RMB25.60 million for the capital increase in April 2016.

The registered capital of Rizhao BOT is RMB120 million as at 30 June 2016. The Group holds 29.5% of its equity and 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<br>ended<br>30 June 2016<br>(Unaudited) |
|--------------------------------|--|
| At 1 January                   | 5,811  |
| Capital injection              | 25,600   |
| Share of losses for the period | (1,839)  |
| At 30 June                     | 29,572   |

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 16 Investments in subsidiaries and consolidated structured entities

### 16.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specially stated, the Group's interests in these subsidiaries were all ordinary shares, and the percentage of ownership held by the Group represented the voting rights of the Group.

| Name of subsidiary  | Country/place of incorporation and operation | Date of incorporation | Type of legal entity | Nominal value of issued and fully paid share capital/ registered capital | Interest held | Directly/ Indirectly | Principal activities                                     |
|---|--|-----------------------|----------------------|--|---------------|----------------------|--|
| Luzheng Economic and Trade Co., Ltd.<br>(魯証經貿有限公司)<br>("Luzheng Trading")           | Shenzhen, the PRC                            | 24 April 2013         | Limited company      | RMB250,000,000/<br>RMB250,000,000  | 100%          | Directly             | Commodity trading,<br>Derivatives trading                |
| Luzheng Information Technology Co., Ltd.<br>(魯証信息技術有限公司)<br>("Luzheng Information") | Jinan, the PRC                               | 15 February 2015      | Limited company      | RMB10,000,000/<br>RMB50,000,000  | 100%          | Directly             | Information technology services,<br>software development |
| Zhongtai Hui Rong (Hong Kong) Co., Ltd.<br>(中泰滙融(香港)有限公司)<br>("Zhongtai Hui Rong")  | Hong Kong                                    | 21 November 2013      | Limited company      | HKD47,754,468.62/<br>HKD118,820,000                                      | 100%          | Indirectly           | Commodity trading,<br>Derivatives trading                |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 16 Investments in subsidiaries and consolidated structured entities (continued)

### 16.2 Consolidated structured entities

As at 30 June 2016, net assets of consolidated structured entities (the “SEs”), the Group’s initial investment and maximum exposure arising from its investments in consolidated SEs are:

|   | Net assets     | Initial investment | Maximum exposure |
|---|----------------|--------------------|------------------|
| Investments in consolidated SEs by the Group: |                |                    |                  |
| Huiquan Wenchen No. 2                         | 29,212         | 10,000             | 7,960            |
| Huiquan Wenchen No. 3                         | 58,954         | 7,000              | 6,881            |
| Huiquan Wenchen No. 6                         | 59,994         | 28,000             | 28,000           |
| Huiquan Wenchen No. 8                         | 30,144         | 11,700             | 11,372           |
| Huiquan Wenchen Wenjian No. 1                 | 32,431         | 18,100             | 19,186           |
| SPDB FOF                                      | 60,298         | 6,000              | 5,969            |
| Huiquan Qingchunbao                           | 159,278        | 15,000             | 14,684           |
| Huiquan Wantai FOF No. 1                      | 160,333        | 159,490            | 159,267          |
| Huiquan Wantai Ruanshangpin                   | 9,997          | 9,000              | 8,997            |
| Quanshun Yinxi                                | 19,986         | 19,000             | 18,987           |
| Quanshun Huaan                                | 19,993         | 19,000             | 18,994           |
| Quanshun Heihuang                             | 19,991         | 19,000             | 18,992           |
| Quanshun Hongkai                              | 19,998         | 19,000             | 18,998           |
|   | <b>680,609</b> | <b>340,290</b>     | <b>338,287</b>   |

All of the above consolidated SEs are collective asset management schemes where the Company has been involved as manager.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 17 Available-for-sale financial assets

|                                     | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|-------------------------------------|--------------------------------|----------------------------------|
| <b>Non-current – Unlisted</b>       |                                |                                  |
| <b>At fair value</b>                |                                |                                  |
| Trust schemes                       | 86,545                         | 132,910                          |
| Collective asset management schemes | 10,241                         | –                                |
| <b>At cost</b>                      |                                |                                  |
| Investments in exchange memberships | 1,400                          | 1,400                            |
|                                     | <b>98,186</b>                  | 134,310                          |
| <b>Current – Unlisted</b>           |                                |                                  |
| <b>At fair value</b>                |                                |                                  |
| Trust schemes                       | 52,060                         | –                                |
| Collective asset management schemes | 393,216                        | 303,354                          |
|                                     | <b>445,276</b>                 | 303,354                          |
|                                     | <b>543,462</b>                 | 437,664                          |

As at 30 June 2016, no securities of the Group were placed as collateral (31 December 2015: same).

## 18 Deferred income tax assets and liabilities

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

|   | Six months<br>ended<br>30 June 2016<br>(Unaudited) | Six months<br>ended<br>30 June 2015<br>(Unaudited) |
|---|--|--|
| Balance at beginning of period                                  | 1,969  | 3,767  |
| Income statement charge (Note 11)                               | (1,125)  | (2,962)  |
| Tax charge relating to components of other comprehensive income | (392)  | 924  |
| Balance at end of period  | <b>452</b>   | 1,729  |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 18 Deferred income tax assets and liabilities (continued)

### (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 tax Loss | Interest payable | Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments | Others | Total   |
|---|--|--|---------------------|------------------|--|--------|---------|
| <b>(Unaudited)</b>  |  |  |                     |                  |  |        |         |
| <b>As at 1 January 2016</b>                                     | 1,566  | –  | 1,277               | 1,397            | 376  | 186    | 4,802   |
| Income statement charge   | –  | –  | 302                 | (1,033)          | (376)  | 468    | (639)   |
| Tax charge relating to components of other comprehensive income | –  | –  | –                   | –                | –  | –      | –       |
| <b>As at 30 June 2016</b>                                       | 1,566  | –  | 1,579               | 364              | –  | 654    | 4,163   |
| <b>(Unaudited)</b>  |  |  |                     |                  |  |        |         |
| <b>As at 1 January 2015</b>                                     | 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)   |
| <b>As at 30 June 2015</b>                                       | 1,185  | (33)   | –                   | –                | –  | 3,251  | 4,403   |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 18 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<br>fair value of<br>available-for-sale<br>financial assets | Interest<br>receivable from<br>deposits | Changes in fair<br>value of financial<br>instruments at<br>fair value through<br>profit or loss and<br>derivative financial<br>instruments | Others       | Total        |
|--|---|---|--|--------------|--------------|
| <b>(Unaudited)</b>   |   |   |  |              |              |
| <b>As at 1 January 2016</b>  | 931   | 1,307                                   | –  | 595          | 2,833        |
| Income statement charge  | –   | 964                                     | 102  | (580)        | 486          |
| Tax charge relating to components of<br>other comprehensive income | 392   | –                                       | –  | –            | 392          |
| <b>As at 30 June 2016</b>  | <b>1,323</b>  | <b>2,271</b>                            | <b>102</b>   | <b>15</b>    | <b>3,711</b> |
| <b>(Unaudited)</b>   |   |   |  |              |              |
| <b>As at 1 January 2015</b>  | 1,285   | –                                       | –  | 1,032        | 2,317        |
| Income statement charge  | –   | –                                       | –  | 1,642        | 1,642        |
| Tax charge relating to components of<br>other comprehensive income | (1,285)   | –                                       | –  | –            | (1,285)      |
| <b>As at 30 June 2015</b>  | <b>–</b>  | <b>–</b>                                | <b>–</b>   | <b>2,674</b> | <b>2,674</b> |



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 18 Deferred income tax assets and liabilities (continued)

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

|                                 | 30 June<br>2016<br>(Unaudited) | 30 June<br>2015<br>(Unaudited) |
|---------------------------------|--------------------------------|--------------------------------|
| Deferred income tax assets      | (1,803)                        | (2,574)                        |
| Deferred income tax liabilities | (1,803)                        | (2,574)                        |

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

|                                 | 30 June<br>2016<br>(Unaudited) | 30 June<br>2015<br>(Unaudited) |
|---------------------------------|--------------------------------|--------------------------------|
| Deferred income tax assets      | 2,360                          | 1,829                          |
| Deferred income tax liabilities | 1,908                          | 100                            |

## 19 Refundable deposits

|  | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|--|--------------------------------|----------------------------------|
| Security deposit placed with the China Financial Futures Exchange (the "CFFE") | 20,138                         | 20,138                           |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 20 Other current assets

|  | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|--|--------------------------------|----------------------------------|
| Deposit for physical commodity trading | 23,505                         | 3,547                            |
| Deposit for derivative trading         | 18,632                         | 11,164                           |
| Interest receivable from deposits      | 9,104                          | 5,226                            |
| Prepayments                            | 8,703                          | 7,293                            |
| Accounts receivable <sup>(1)</sup>     | 725                            | 771                              |
| Other receivables                      | 5,245                          | 2,888                            |
|  | <b>65,914</b>                  | <b>30,889</b>                    |

(1) **Accounts receivable**

The aging analysis of accounts receivable is as follows

|              | 30 June 2016 |                         | 31 December 2015 |                         |
|--------------|--------------|-------------------------|------------------|-------------------------|
|              | Amount       | Impairment<br>allowance | Amount           | Impairment<br>allowance |
| Up to 1 year | 725          | —                       | 771              | —                       |

## 21 Derivative financial instruments

|                                  | 30 June 2016<br>(Unaudited) |              | 31 December 2015<br>(Audited) |              |
|----------------------------------|-----------------------------|--------------|-------------------------------|--------------|
|                                  | Assets                      | Liabilities  | Assets                        | Liabilities  |
| Futures contracts <sup>(1)</sup> | —                           | —            | —                             | —            |
| Options <sup>(2)</sup>           | 396                         | 2,607        | 1,151                         | 1,927        |
|                                  | <b>396</b>                  | <b>2,607</b> | <b>1,151</b>                  | <b>1,927</b> |

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

### 21 Derivative financial instruments (continued)

(1) **Futures contracts**

|                               | 30 June 2016<br>(Unaudited) |            | 31 December 2015<br>(Audited) |            |
|-------------------------------|-----------------------------|------------|-------------------------------|------------|
|                               | Contractual value           | Fair value | Contractual value             | Fair value |
| Commodities futures           | 771,413                     | (1,477)    | 300,271                       | (599)      |
| Stock index futures           | —                           | —          | 1,439                         | (3)        |
| Less: Cash paid as settlement |                             | 1,477      |                               | 602        |
| Net position                  |                             | —          |                               | —          |

(2) **Options**

The intrinsic value of the outstanding options as at 30 June 2016 amounted to RMB679 thousand (31 December 2015: RMB1,068 thousand), of which the underlying assets were commodities futures contracts (31 December 2015: same).

### 22 Financial assets at fair value through profit or loss

|  | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|--|--------------------------------|----------------------------------|
| Investment held for trading                                      |                                |                                  |
| Listed equity securities   | 5,383                          | 19,909                           |
| Listed open-ended funds  | —                              | 2,948                            |
| Financial assets designated at fair value through profit or loss |                                |                                  |
| Unlisted collective asset management schemes                     | 123,706                        | —                                |
|  | <b>129,089</b>                 | 22,857                           |

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

### 23 Financial assets held under resale agreements

|                                     | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|-------------------------------------|--------------------------------|----------------------------------|
| Analysed by asset type:             |                                |                                  |
| – Warehouse receipts <sup>(1)</sup> | 23,017                         | –                                |
| – Debt securities                   | 7,700                          | –                                |
|                                     | <b>30,717</b>                  | –                                |

(1) The Group received warehouse receipts as collateral. As at 30 June 2016, the Group has accepted collateral with a fair value of RMB33,905 thousand (31 December 2015: nil).

### 24 Deposits with exchange-clearing organizations

|  | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|--|--------------------------------|----------------------------------|
| Clients' margin deposits                   | 1,945,783                      | 1,608,898                        |
| Clients' unrestricted deposits             | 88,850                         | 878,062                          |
| Proprietary clearing settlement funds      | 265,433                        | 174,716                          |
|  | <b>2,300,066</b>               | 2,661,676                        |
| <b>Represented by</b>                      |                                |                                  |
| Deposits with Dalian Commodity Exchange    | 412,797                        | 493,302                          |
| Deposits with Shanghai Future Exchange     | 555,082                        | 571,918                          |
| Deposits with Zhengzhou Commodity Exchange | 264,940                        | 184,407                          |
| Deposits with CFFE                         | 1,067,247                      | 1,412,049                        |
|  | <b>2,300,066</b>               | 2,661,676                        |

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

### 25 Bank balances held for clients

The Company maintains separate accounts with banks and authorized institutions for clients' monies arising from the normal course of business. The monies mainly consist of individuals, asset management customers and other non-fully licenced futures firms. The Company records these monies as bank balances held for clients or deposits with exchange-clearing organizations under current assets, and recognizes them as due to clients given that the Company is held liable for any loss or misappropriation of these monies. Bank balances held for clients for transaction and settlement purposes are subject to regulatory oversight by authorized depository institutions, primarily large state-owned commercial banks and joint stock commercial banks in the PRC, pursuant to CSRC regulations.

### 26 Cash and bank balances

|   | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Cash  | 202                            | 81                               |
| Term deposit with banks                     | 875,000                        | 834,000                          |
| Demand deposit with banks                   | 33,967                         | 325,277                          |
| Deposit with securities and futures brokers | 28,205                         | 37,582                           |
|   | <b>937,374</b>                 | 1,196,940                        |

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

### 27 Share capital

All shares issued by the Company are fully paid ordinary 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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Registered, issued and fully paid share capital | <b>1,001,900</b>               | 1,001,900                        |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 28 Share premium and reserves

|  | Share premium  | Surplus reserve | Other risk reserves <sup>(1)</sup> | Available-for-sale financial assets revaluation reserve <sup>(2)</sup> | Currency translation differences | Total          |
|--|----------------|-----------------|------------------------------------|--|----------------------------------|----------------|
| <b>(Unaudited)</b>                               |                |                 |                                    |  |                                  |                |
| <b>As at 1 January 2016</b>                      | <b>650,630</b> | <b>22,963</b>   | <b>122,273</b>                     | <b>2,796</b>   | <b>234</b>                       | <b>798,896</b> |
| Amounts recognized in other comprehensive income | —              | —               | —                                  | 1,177  | —                                | 1,177          |
| Appropriation to futures risk reserve            | —              | —               | 3,697                              | —  | —                                | 3,697          |
| Utilization of futures risk reserve              | —              | —               | (12)                               | —  | —                                | (12)           |
| Currency translation differences                 | —              | —               | —                                  | —  | 544                              | 544            |
| <b>As at 30 June 2016</b>                        | <b>650,630</b> | <b>22,963</b>   | <b>125,958</b>                     | <b>3,973</b>   | <b>778</b>                       | <b>804,302</b> |
| <b>(Unaudited)</b>                               |                |                 |                                    |  |                                  |                |
| <b>As at 1 January 2015</b>                      | <b>290,292</b> | <b>14,263</b>   | <b>105,393</b>                     | <b>2,869</b>   | <b>—</b>                         | <b>412,817</b> |
| 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)          |
| <b>As at 30 June 2015</b>                        | <b>290,292</b> | <b>14,263</b>   | <b>109,998</b>                     | <b>7,215</b>   | <b>—</b>                         | <b>421,768</b> |

**(1) Other risk reserves**

Other risk reserves include general risk reserve and futures risk reserve. General risk reserve is appropriated at end of each year based on 10% of annual profit net of the previous years' losses. Futures risk reserve is appropriated based on 5% of the commission and fee income from futures brokerage and clearing service net of relevant expenses payable to futures exchanges, for the purpose of covering potential losses from futures brokerage service.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 28 Share premium and reserves (continued)

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

| (Unaudited)  | Six months ended 30 June 2016 |                   |                      |
|--|-------------------------------|-------------------|----------------------|
|  | Pre-tax amount                | Income tax effect | After-tax net amount |
| Balance at beginning of period   | 3,728                         | (932)             | 2,796                |
| Changes in fair value of available-for-sale financial assets                           | 2,289                         | (572)             | 1,717                |
| Amounts reclassified to losses upon disposal<br>of available-for-sale financial assets | (720)                         | 180               | (540)                |
| Balance at end of period   | 5,297                         | (1,324)           | 3,973                |

| (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 profits upon disposal<br>of available-for-sale financial assets | (3,855)                       | 964               | (2,891)              |
| Balance at end of period  | 9,619                         | (2,404)           | 7,215                |

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

### 29 Other current liabilities

|   | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Amount collected on behalf of futures asset management schemes <sup>(1)</sup> | 123,000                        | —                                |
| Dividends payable (Note 12)   | 43,082                         | —                                |
| Salaries, bonus, allowance and benefits payables                              | 15,480                         | 24,587                           |
| Introducing broker commission payable   | 4,721                          | 710                              |
| Commission payable to brokerage agents  | 2,547                          | 1,926                            |
| Margin deposits received on options   | 1,874                          | 1,420                            |
| Interest payable  | 1,459                          | 5,589                            |
| Advance for physical commodity trading  | 1,078                          | 1,050                            |
| Payable to Futures Investors Protection Fund                                  | 622                            | 544                              |
| Other payables  | 4,367                          | 5,704                            |
|   | <b>198,230</b>                 | <b>41,530</b>                    |

(1) The amount is deposited in the Company's bank account on behalf of several futures asset management schemes in initial fund raising period.

### 30 Financial liabilities at fair value through profit or loss

|   | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Interests of holders of consolidated SEs            | 321,080                        | 144,470                          |
| Payable to clients for cooperative hedging business | 41,249                         | 43,676                           |
|   | <b>362,329</b>                 | <b>188,146</b>                   |



## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

### 31 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<br>2016<br>(Unaudited) | 30 June<br>2015<br>(Unaudited) |
|--|--------------------------------|--------------------------------|
| Cash and bank balances (Note 26)   | 937,374                        | 928,633                        |
| Proprietary deposit with exchange-clearing organizations (Note 24)               | 265,433                        | 179,775                        |
| Less:  |                                |                                |
| Term deposit with original maturity over three months                            | (875,000)                      | (589,102)                      |
| Minimum clearing settlement funds required by<br>exchange-clearing organizations | (8,000)                        | (8,000)                        |
|  | <b>319,807</b>                 | 511,306                        |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 32 Commitments and contingent liabilities

### (1) Capital commitments

As at 30 June 2016, the Group were not involved in any material capital commitments.

### (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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---------------|--------------------------------|----------------------------------|
| Within 1 year | 8,367                          | 9,249                            |
| 1 to 3 years  | 6,660                          | 8,069                            |
| Over 3 years  | 10,515                         | 11,646                           |
|               | <b>25,542</b>                  | 28,964                           |

### (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 2016, 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 2015: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 33 Related party transactions

### 33.1 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 2016:

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 33 Related party transactions (continued)

### 33.1 Related parties (continued)

| Significant related legal entities                          | The relationship with the Group   |
|---|-----------------------------------|
| Laiwu Xintai Copper Industry Co., Ltd.<br>("Xintai Copper") | 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   |

### 33.2 Related party transactions and balances

#### 33.2.1 The Company's direct controlling shareholder – Zhongtai Securities

##### *Transactions during the period*

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Income from providing futures brokerage service  | 88                       | 3,077               |
| Commission for stocks trading  | 3                        | —                   |
| Proceeds from disposal of collective asset management schemes managed by Zhongtai Securities |                          |                     |
| — Qilu Huiquan B   | —                        | 8,782               |
| Introducing broker commission  | 4,012                    | 10,353              |
| Rental expense   | 322                      | 95                  |
| Interest expense   | 230                      | —                   |
| Consulting fee   | —                        | 76                  |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 33 Related party transactions (continued)

### 33.2 Related party transactions and balances (continued)

#### 33.2.1 The Company's direct controlling shareholder — Zhongtai Securities (continued)

##### Balances at the end of the year/period

|   | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Accounts payable to brokerage clients   | 28,561                         | 30,964                           |
| Demand deposit with Zhongtai Securities | 681                            | 5,391                            |
| Other current liabilities               |                                |                                  |
| — Introducing broker commission payable | 4,679                          | 710                              |
| — Other payable                         | 109                            | 43                               |
| Other receivable                        |                                |                                  |
| — Prepayment rentals                    | —                              | 108                              |

#### 33.2.2 Related parties other than the Company's direct controlling shareholder

##### Transactions during the period

|   | Six months ended 30 June |                     |
|---|--------------------------|---------------------|
|   | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Income from providing futures brokerage service         |                          |                     |
| — Wanjia Funds  | —                        | 8                   |
| — Jinan Steel   | —                        | 2                   |
| — Zhongtai International                                | —                        | 12                  |
| Interest income from bank deposit                       |                          |                     |
| — Laishang Bank   | 6,230                    | 788                 |
| Sponsor fee   |                          |                     |
| — Zhongtai International Capital                        | —                        | 2,366               |
| Consulting Fee  |                          |                     |
| — Qilu Asset Management                                 | —                        | 810                 |
| — Zhongtai International Capital                        | 190                      | —                   |
| Cost of purchase of collective asset management schemes |                          |                     |
| — Qilu Jinquan Huijin                                   | 350                      | —                   |
| — Wengu 21 Days   | 1,900                    | —                   |
| Proceeds from disposal of fund managed by Wanjia Funds  |                          |                     |
| — Wanjia Funds-Luzheng Futures-Tongxin                  | 36                       | 29,013              |
| — Qilu Jinquan Huijin                                   | 350                      | —                   |
| — Wengu 21 Days   | 30,895                   | —                   |
| Cost of purchase of physical commodities                |                          |                     |
| — Laigang Trade   | 5,084                    | —                   |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 33 Related party transactions (continued)

### 33.2 Related party transactions and balances (continued)

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

*Balance at the end of year/period*

|   | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited)       |
|---|--------------------------------|--|
| Accounts payable to brokerage clients                                   | 3,494                          | 28,440                                 |
| Cash and bank balance   |                                |  |
| — Laishang Bank   | 420,008                        | 279,780                                |
| Consulting Fee payable  |                                |  |
| — Qilu Asset Management   | 13                             | 6                                      |
| Collective asset management schemes<br>managed by Qilu Asset Management |                                |  |
| — Wengu 21 Days   | 60,086                         | 93,851                                 |
|   |                                | Available-for-sale<br>financial assets |
| — Jintaishan No.1 & No.2  | 16,344                         | 18,605                                 |
|   |                                | Available-for-sale<br>financial assets |
| Other payable   |                                |  |
| — Rizhao BOT  | 722                            | 90                                     |
| Collective asset management scheme<br>managed by Wanjia Funds           |                                |  |
| — Wanjia Funds-Luzheng Futures-Tongxin                                  | —                              | 40                                     |
|   |                                | Available-for-sale<br>financial assets |
| Advance payment for purchase<br>of physical commodities                 |                                |  |
| — Laigang Trade   | 251                            | —                                      |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 33 Related party transactions (continued)

### 33.2 Related party transactions and balances (continued)

#### 33.2.3 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, supervisory committee and other members of the senior management.

|                             | Six months ended 30 June |                     |
|-----------------------------|--------------------------|---------------------|
|                             | 2016<br>(Unaudited)      | 2015<br>(Unaudited) |
| Key management compensation | 1,150                    | 1,233               |

There is no loan or advance to key management during the six months ended 30 June 2016 and 30 June 2015.

## 34 Segment analysis

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

- Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- Commodity trading and risk management: including physical commodity trading, futures trading and derivatives trading;
- 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 2016 and 2015.

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.

The Group mainly operates in Shandong Province, the PRC.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 34 Segment analysis (continued)

| (Unaudited)                                   | Six months ended 30 June 2016 |                                       |                          |                         |                  | Elimination | Total            |
|---|-------------------------------|---------------------------------------|--------------------------|-------------------------|------------------|-------------|------------------|
|   | Futures brokerage             | Commodity trading and risk management | Futures asset management | Headquarters and others |                  |             |                  |
| Net commission and fee income                 |                               |                                       |                          |                         |                  |             |                  |
| – external                                    | 46,391                        | –                                     | 4,781                    | –                       | –                | –           | 51,172           |
| – internal                                    | 156                           | –                                     | –                        | –                       | (156)            | –           | –                |
| Net interest income                           |                               |                                       |                          |                         |                  |             |                  |
| – external                                    | 55,226                        | 855                                   | 4,238                    | 15,105                  | –                | –           | 75,424           |
| Gain on physical commodities trading          |                               |                                       |                          |                         |                  |             |                  |
| – external                                    | –                             | 6,434                                 | –                        | –                       | –                | –           | 6,434            |
| Net investment (losses)/gains                 |                               |                                       |                          |                         |                  |             |                  |
| – external                                    | –                             | (9,589)                               | (910)                    | 8,541                   | –                | –           | (1,958)          |
| – internal                                    | –                             | (154)                                 | –                        | (2)                     | 156              | –           | –                |
| Other income                                  |                               |                                       |                          |                         |                  |             |                  |
| – external                                    | 27,409                        | 1,211                                 | –                        | 880                     | –                | –           | 29,500           |
| <b>Total operating income</b>                 | <b>129,026</b>                | <b>(1,089)</b>                        | <b>8,109</b>             | <b>24,526</b>           | <b>–</b>         | <b>–</b>    | <b>160,572</b>   |
| <b>Total operating expenses</b>               | <b>(58,392)</b>               | <b>(4,056)</b>                        | <b>(5,760)</b>           | <b>(34,924)</b>         | <b>–</b>         | <b>–</b>    | <b>(103,132)</b> |
| Share of losses of investment in an associate | –                             | (1,838)                               | –                        | –                       | –                | –           | (1,838)          |
| Other gains, net                              | –                             | 1,947                                 | –                        | 272                     | –                | –           | 2,219            |
| <b>Profit/(Loss) before income tax</b>        | <b>70,634</b>                 | <b>(5,036)</b>                        | <b>2,349</b>             | <b>(10,126)</b>         | <b>–</b>         | <b>–</b>    | <b>57,821</b>    |
| <b>Total assets</b>                           | <b>5,677,811</b>              | <b>361,089</b>                        | <b>255,362</b>           | <b>1,918,691</b>        | <b>(476,251)</b> | <b>–</b>    | <b>7,736,702</b> |
| <b>Total liabilities</b>                      | <b>5,545,035</b>              | <b>78,677</b>                         | <b>253,510</b>           | <b>57,531</b>           | <b>(176,451)</b> | <b>–</b>    | <b>5,758,302</b> |
| <b>Supplemental information</b>               |                               |                                       |                          |                         |                  |             |                  |
| Depreciation and amortization                 | 1,022                         | 89                                    | 30                       | 3,278                   | –                | –           | 4,419            |
| Impairment provision                          | –                             | –                                     | –                        | 122                     | –                | –           | 122              |
| Capital expenditure                           | 359                           | –                                     | –                        | 359                     | –                | –           | 718              |



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 34 Segment analysis (continued)

| (Unaudited)                                   | Six months ended 30 June 2015 |                                       |                          |                         |                  | Elimination | Total            |
|---|-------------------------------|---------------------------------------|--------------------------|-------------------------|------------------|-------------|------------------|
|   | Futures brokerage             | Commodity trading and risk management | Futures asset management | Headquarters and others |                  |             |                  |
| 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           |
| <b>Total operating income</b>                 | <b>144,282</b>                | <b>7,697</b>                          | <b>5,514</b>             | <b>24,477</b>           | <b>(207)</b>     |             | <b>181,763</b>   |
| <b>Total operating expenses</b>               | <b>(67,420)</b>               | <b>(7,239)</b>                        | <b>(5,056)</b>           | <b>(46,152)</b>         | <b>193</b>       |             | <b>(125,674)</b> |
| Share of losses of investment in an associate | –                             | (1,224)                               | –                        | –                       | –                |             | (1,224)          |
| Other gains, net                              | 796                           | 55                                    | –                        | –                       | –                |             | 851              |
| <b>Profit/(Loss) before income tax</b>        | <b>77,658</b>                 | <b>(711)</b>                          | <b>458</b>               | <b>(21,675)</b>         | <b>(14)</b>      |             | <b>55,716</b>    |
| <b>Total assets</b>                           | <b>8,415,437</b>              | <b>147,836</b>                        | <b>8,340</b>             | <b>1,208,296</b>        | <b>(160,925)</b> |             | <b>9,618,984</b> |
| <b>Total liabilities</b>                      | <b>8,263,423</b>              | <b>28,412</b>                         | <b>6,926</b>             | <b>32,098</b>           | <b>(30,965)</b>  |             | <b>8,299,894</b> |
| <b>Supplemental information</b>               |                               |                                       |                          |                         |                  |             |                  |
| 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

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management

### 35.1 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 senior 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

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.1 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 audit 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 the business departments and branches of the Company***

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

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.1 Risk management policies and structure (continued)

#### (3) Policies and structure for Luzheng Trading

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.

### 35.2 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 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.

In terms of the Group's investment in 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.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.2 Credit risk (continued)

The Group's bank balances, bank balances held for 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 30 June 2016, the fair values of such collateral were RMB33,905 thousand(31 December 2015: RMB52,003 thousand).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.2 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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Refundable deposits                           | 20,138                         | 20,138                           |
| Other current assets                          | 34,599                         | 20,049                           |
| Available-for-sale financial assets           | 138,605                        | 132,910                          |
| Financial assets held under resale agreements | 30,717                         | —                                |
| Deposits with exchange-clearing organizations | 2,300,066                      | 2,661,676                        |
| Bank balances held for clients                | 3,626,937                      | 2,996,241                        |
| Bank balances                                 | 937,172                        | 1,196,859                        |
|   | <b>7,088,234</b>               | <b>7,027,873</b>                 |

#### (2) Credit risk from brokerage service

| Client Risk Ratio | 30 June 2016<br>(Unaudited)   |                           | 31 December 2015<br>(Audited) |                           |
|-------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|
|                   | Minimum<br>margin<br>required | Total client<br>interests | Minimum<br>margin<br>required | Total client<br>interests |
| Below 80%         | 1,385,879                     | 4,241,937                 | 1,333,947                     | 4,876,665                 |
| 80%–100%          | 739,168                       | 828,369                   | 302,976                       | 333,283                   |
| Above 100%        | 86,086                        | 77,703                    | 3,972                         | 3,586                     |
|                   | <b>2,211,133</b>              | <b>5,148,009</b>          | 1,640,895                     | 5,213,534                 |
| Coverage ratio    |                               | <b>233%</b>               |                               | 318%                      |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 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.

#### 35.3.1 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, derivatives and collective asset management schemes. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

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.

Price risk in connection with futures contracts arising from the Group's cooperative hedging business is mostly offset by the financial liabilities payable to clients for that business, as the investment gain or loss on those derivatives are largely borne by clients.

As at 30 June 2016, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, derivatives, listed equity securities, interests of holders of consolidated SEs, payable to clients for cooperative hedging business.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 Market risk (continued)

#### 35.3.1 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 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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|--------------------------|--------------------------------|----------------------------------|
| Profit before income tax |                                |                                  |
| Increase by 5%           | 35,688                         | 10,007                           |
| Decrease by 5%           | (35,819)                       | (10,007)                         |

|  | 30 June<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|--|--------------------------------|----------------------------------|
| Other comprehensive income before income tax |                                |                                  |
| Increase by 5%                               | 20,173                         | 15,168                           |
| Decrease by 5%                               | (20,173)                       | (15,168)                         |



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 Market risk (continued)

#### **35.3.2 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 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 subsidiaries monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 Market risk (continued)

#### 35.3.2 Interest rate risk (continued)

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

| (Unaudited)   | Within<br>1 month | 1–3<br>months | 3 months to<br>1 year | 1 year to<br>5 years | Non-interest<br>bearing | Total            |
|---|-------------------|---------------|-----------------------|----------------------|-------------------------|------------------|
| <b>As at 30 June 2016</b>                                     |                   |               |                       |                      |                         |                  |
| Refundable deposits   | 20,138            | –             | –                     | –                    | –                       | 20,138           |
| Other current assets  | –                 | –             | –                     | –                    | 34,599                  | 34,599           |
| Available-for-sale financial assets                           | –                 | –             | 52,060                | 86,545               | 404,857                 | 543,462          |
| Derivative financial assets                                   | –                 | –             | –                     | –                    | 396                     | 396              |
| Financial assets at fair value<br>through profit or loss      | –                 | –             | –                     | –                    | 129,089                 | 129,089          |
| Financial assets held under resale<br>agreements              | 7,700             | 23,017        | –                     | –                    | –                       | 30,717           |
| Deposits with exchange-clearing<br>organizations              | 354,283           | –             | –                     | –                    | 1,945,783               | 2,300,066        |
| Bank balances held for clients                                | 3,626,937         | –             | –                     | –                    | –                       | 3,626,937        |
| Cash and bank balances  | 62,172            | –             | 595,000               | 280,000              | 202                     | 937,374          |
|   | 4,071,230         | 23,017        | 647,060               | 366,545              | 2,514,926               | 7,622,778        |
| Other current liabilities                                     | (123,000)         | –             | –                     | –                    | (63,091)                | (186,091)        |
| Accounts payable to<br>brokerage clients                      | (1,103,447)       | –             | –                     | –                    | (4,074,831)             | (5,178,278)      |
| Derivative financial liabilities                              | –                 | –             | –                     | –                    | (2,607)                 | (2,607)          |
| Financial liabilities at fair value<br>through profit or loss | –                 | –             | –                     | –                    | (362,329)               | (362,329)        |
| Other non-current liabilities                                 | –                 | –             | –                     | –                    | (2,490)                 | (2,490)          |
|   | (1,226,447)       | –             | –                     | –                    | (4,505,348)             | (5,731,795)      |
| <b>Interest rate sensitivity gap</b>                          | <b>2,844,783</b>  | <b>23,017</b> | <b>647,060</b>        | <b>366,545</b>       | <b>(1,990,422)</b>      | <b>1,890,983</b> |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 Market risk (continued)

#### 35.3.2 Interest rate risk (continued)

| (Audited)   | Within<br>1 month | 1-3<br>months | 3 months to<br>1 year | 1 year to<br>3 years | Non-interest<br>bearing | Total       |
|---|-------------------|---------------|-----------------------|----------------------|-------------------------|-------------|
| <b>As at 31 December 2015</b>                                 |                   |               |                       |                      |                         |             |
| Refundable deposits   | 20,138            | —             | —                     | —                    | —                       | 20,138      |
| Other current assets  | —                 | —             | —                     | —                    | 20,049                  | 20,049      |
| Available-for-sale financial assets                           | —                 | —             | —                     | 132,910              | 304,754                 | 437,664     |
| Derivative financial assets                                   | —                 | —             | —                     | —                    | 1,151                   | 1,151       |
| Financial assets at fair value<br>through profit or loss      | —                 | —             | —                     | —                    | 22,857                  | 22,857      |
| Deposits with exchange-clearing<br>organizations              | 1,052,778         | —             | —                     | —                    | 1,608,898               | 2,661,676   |
| Bank balances held for clients                                | 2,996,241         | —             | —                     | —                    | —                       | 2,996,241   |
| Cash and bank balances  | 391,940           | —             | 805,000               | —                    | —                       | 1,196,940   |
|   | 4,461,097         | —             | 805,000               | 132,910              | 1,957,709               | 7,356,716   |
| Other non-current liabilities                                 | —                 | —             | —                     | —                    | (2,599)                 | (2,599)     |
| Other current liabilities                                     | —                 | —             | —                     | —                    | (16,319)                | (16,319)    |
| Accounts payable to<br>brokerage clients                      | (1,506,927)       | —             | —                     | —                    | (3,706,607)             | (5,213,534) |
| Derivative financial liabilities                              | —                 | —             | —                     | —                    | (1,927)                 | (1,927)     |
| Financial liabilities at fair value<br>through profit or loss | —                 | —             | —                     | —                    | (188,146)               | (188,146)   |
|   | (1,506,927)       | —             | —                     | —                    | (3,915,598)             | (5,422,525) |
| <b>Interest rate sensitivity gap</b>                          | 2,954,170         | —             | 805,000               | 132,910              | (1,957,889)             | 1,934,191   |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016  
(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 Market risk (continued)

#### 35.3.2 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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---------------------|--------------------------------|----------------------------------|
| Net interest income |                                |                                  |
| Increases by 50bps  | 14,940                         | 15,794                           |
| Decreases by 50bps  | (14,940)                       | (15,794)                         |

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 deposits 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

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.3 Market risk (continued)

#### 35.3.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, with only insignificant revenue from foreign currency transactions. The Group considers that its currency risk is immaterial.

### 35.4 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.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.4 Liquidity risk (continued)

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 2016, the Group held cash and cash equivalents of approximately RMB320 million that are expected to readily generate cash inflows for managing liquidity risk (31 December 2015: RMB559 million).

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 clients.

| (Unaudited)   | On demand | Within<br>1 month | 1-3 months | 3 months to<br>1 year | Above<br>1 year | Total     |
|---|-----------|-------------------|------------|-----------------------|-----------------|-----------|
| <b>As at 30 June 2016</b>                                     |           |                   |            |                       |                 |           |
| <b>Non-derivative cash flow</b>                               |           |                   |            |                       |                 |           |
| Other current liabilities                                     | 12,741    | 166,082           | 2,547      | 4,721                 | —               | 186,091   |
| Other non-current liabilities                                 | —         | —                 | —          | —                     | 2,490           | 2,490     |
| Accounts payable to brokerage clients                         | 5,178,278 | —                 | —          | —                     | —               | 5,178,278 |
| Financial liabilities at fair value<br>through profit or loss | —         | —                 | 13,163     | 293,770               | 55,396          | 362,329   |
|   | 5,191,019 | 166,082           | 15,710     | 298,491               | 57,886          | 5,729,188 |
| <b>Derivative cash flow</b>                                   |           |                   |            |                       |                 |           |
| Derivative financial instruments settled<br>on a gross basis  |           |                   |            |                       |                 |           |
| (a) total inflow  | —         | 670               | 807        | —                     | —               | 1,477     |
| (b) total outflow   | —         | —                 | (1,262)    | —                     | —               | (1,262)   |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.4 Liquidity risk (continued)

| (Audited)                                | On demand | Within<br>1 month | 1–3 months | 3 months to<br>1 year | Above<br>1 year | Total     |
|--|-----------|-------------------|------------|-----------------------|-----------------|-----------|
| <b>As at 31 December 2015</b>            |           |                   |            |                       |                 |           |
| <b>Non-derivative cash flow</b>          |           |                   |            |                       |                 |           |
| Accounts payable to                      |           |                   |            |                       |                 |           |
| brokerage clients                        | 5,213,534 | —                 | —          | —                     | —               | 5,213,534 |
| Other current liabilities                | 12,046    | 3,563             | —          | 710                   | —               | 16,319    |
| Financial liabilities at fair value      |           |                   |            |                       |                 |           |
| through profit or loss                   | —         | —                 | —          | 188,146               | —               | 188,146   |
| Other non-current liabilities            | —         | —                 | —          | —                     | 2,599           | 2,599     |
|  | 5,225,580 | 3,563             | —          | 188,856               | 2,599           | 5,420,598 |
| <b>Derivative cash flow</b>              |           |                   |            |                       |                 |           |
| Derivative financial instruments settled |           |                   |            |                       |                 |           |
| on a gross basis                         |           |                   |            |                       |                 |           |
| (a) total inflow                         | 1,141     | —                 | —          | —                     | —               | 1,141     |
| (b) total outflow                        | (1,062)   | —                 | —          | —                     | —               | (1,062)   |

### 35.5 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

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 35 Financial risk management (continued)

### 35.5 Capital management (continued)

According to the <Administrative Measures on 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

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## 36 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.

### 36.1 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 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.

### 36.2 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

For the six months ended 30 June 2016  
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### 36 Fair value of financial assets and liabilities (continued)

#### 36.2 Financial instruments measured at fair value (continued)

The following table presents the financial assets and liabilities that are measured as at fair value as at 30 June 2016 and 31 December 2015.

| (Unaudited)  | Level 1 | Level 2   | Level 3 | Total     |
|--|---------|-----------|---------|-----------|
| <b>As at 30 June 2016</b>                                  |         |           |         |           |
| Financial assets at fair value through profit or loss      |         |           |         |           |
| — Listed equity securities                                 | 5,383   | —         | —       | 5,383     |
| — Collective asset management schemes                      | —       | 123,706   | —       | 123,706   |
| Derivative financial assets                                |         |           |         |           |
| — Options  | —       | 396       | —       | 396       |
| Available-for-sale financial assets                        |         |           |         |           |
| — Collective asset management schemes <sup>(1)</sup>       | —       | 403,457   | —       | 403,457   |
| — Trust schemes <sup>(2)</sup>                             | —       | —         | 138,605 | 138,605   |
|  | 5,383   | 527,559   | 138,605 | 671,547   |
| Financial liabilities at fair value through profit or loss | —       | (362,329) | —       | (362,329) |
| Derivative financial liabilities                           |         |           |         |           |
| — Options  | (419)   | (2,188)   | —       | (2,607)   |
|  | (419)   | (364,517) | —       | (364,936) |

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 36 Fair value of financial assets and liabilities (continued)

### 36.2 Financial instruments measured at fair value (continued)

| (Audited)                             | Level 1 | Level 2   | Level 3 | Total     |
|---------------------------------------|---------|-----------|---------|-----------|
| As at 31 December 2015                |         |           |         |           |
| Financial assets at fair value        |         |           |         |           |
| through profit or loss                |         |           |         |           |
| — Listed equity securities            | 19,910  | —         | —       | 19,910    |
| — Listed open-ended funds             | 2,948   | —         | —       | 2,948     |
| Derivative financial assets           |         |           |         |           |
| — Options                             | —       | 1,151     | —       | 1,151     |
| Available-for-sale financial assets   |         |           |         |           |
| — Collective asset management schemes | —       | 303,354   | —       | 303,354   |
| — Trust schemes                       | —       | —         | 132,910 | 132,910   |
|                                       | 22,858  | 304,505   | 132,910 | 460,273   |
| Financial liabilities at fair value   |         |           |         |           |
| through profit or loss                |         |           |         |           |
| — Options                             | —       | (188,146) | —       | (188,146) |
| Derivative financial liabilities      |         |           |         |           |
| — Options                             | —       | (1,927)   | —       | (1,927)   |
|                                       | —       | (190,073) | —       | (190,073) |

(1) As at 30 June 2016, collective asset management schemes that are classified as level 2 in fair value hierarchy are issued and managed by the Company, Qilu Asset Management 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 35.3.1.

(2) As at 30 June 2016, trust schemes that are classified as level 3 in fair value hierarchy are issued by Shandong International Trust Corporation (山東省國際信託有限公司), with the underlying investments mainly in loans and receivables. Such trust schemes typically generate an expected rate of return to their investors, achieved 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. Fair value of the trust schemes is determined using discounted cash flows that are estimated based on expected future cash flows of the trust schemes discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 35.2(1) and 35.3.2.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 36 Fair value of financial assets and liabilities (continued)

### 36.2 Financial instruments measured at fair value (continued)

For the six months ended 30 June 2016, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2015: 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.

#### (c) Valuation methods for specific investments

As at 30 June 2016, the Group's valuation methods for specific investments are as follows:

- (1) For 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 schemes and trust schemes, fair value is determined based on the net asset value as at the reporting date.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

## 36 Fair value of financial assets and liabilities (continued)

### 36.2 Financial instruments measured at fair value (continued)

#### (d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the period/year ended 30 June 2016 and 31 December 2015.

| (Unaudited)   | Available-<br>for-sale<br>financial assets |
|---|--|
| Balance at 1 January 2016   | 132,910                                    |
| Increase  | 5,695                                      |
| Decrease  | —  |
| <b>Balance at 30 June 2016</b>  | <b>138,605</b>                             |
| Total gains or losses for the year included in profit or loss for assets held at end of period under “Net investment gains” | 5,695                                      |
| Change in unrealized gains or losses for the period included in profit or loss for assets held at end of period             | —  |
| (Audited)   | Available-<br>for-sale<br>financial assets |
| Balance at 1 January 2015   | 262,018                                    |
| Increase  | 132,910                                    |
| Decrease  | (262,018)                                  |
| <b>Balance at 31 December 2015</b>  | <b>132,910</b>                             |
| Total gains or losses for the year included in profit or loss for assets held at end of year under “Net investment gains”   | 3,539                                      |
| 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

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(All amounts in RMB'000 unless otherwise stated)

### 37 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

| As at 30 June 2016                  |  |  |   |                            |  |
|-------------------------------------|--|--|---|----------------------------|--|
|                                     | Gross amounts<br>of recognized<br>financial assets | Gross amounts<br>of recognized<br>financial<br>liabilities | Net amounts<br>of financial<br>assets/<br>(liabilities) | Cash paid as<br>settlement | Net amount<br>of financial<br>assets/<br>(liabilities)<br>presented in<br>the statements<br>of financial<br>position |
| Derivative financial<br>instruments |  |  |   |                            |  |
| — Futures                           | —  | (1,477)  | (1,477)   | 1,477                      | —  |

| As at 31 December 2015              |  |  |   |                            |  |
|-------------------------------------|--|--|---|----------------------------|--|
|                                     | Gross amounts<br>of recognized<br>financial assets | Gross amounts<br>of recognized<br>financial<br>liabilities | Net amounts<br>of financial<br>assets/<br>(liabilities) | Cash paid as<br>settlement | Net amount<br>of financial<br>assets/<br>(liabilities)<br>presented in<br>the statements<br>of financial<br>position |
| Derivative financial<br>instruments |  |  |   |                            |  |
| — Futures                           | —  | (870)  | (870)   | 870                        | —  |

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing organizations for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2016

(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 2016, 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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) |
|---|--------------------------------|----------------------------------|
| Available-for-sale financial assets                   | 542,062                        | 436,264                          |
| Financial assets at fair value through profit or loss | 123,706                        | 2,948                            |
|   | <b>665,768</b>                 | 439,212                          |

For the period ended 30 June 2016, the income from these unconsolidated SEs held by the Group was as follows:

|                      | Six months ended 30 June<br>2016<br>(Unaudited) | 2015<br>(Unaudited) |
|----------------------|---|---------------------|
| Net investment gains | 8,327   | 5,041               |

As at 30 June 2016, 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 2015: same).

# Definitions

|                                 |   |
|---------------------------------|---|
| “Audit Committee”               | the audit committee of the Board of Directors   |
| “Board of Directors” or “Board” | the board of directors of the Company   |
| “Company”                       | 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 Listing Rules   |
| “CSRC”                          | the China Securities Regulatory Commission (中國證券監督管理委員會)  |
| “Directors”                     | the directors of the Company  |
| “Domestic Shares”               | the issued ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed in Renminbi and credited as fully paid |
| “Group”                         | the Company and its subsidiaries  |
| “H Shares”                      | the overseas listed foreign ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board         |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the PRC  |
| “HKD”                           | Hong Kong dollars, the lawful currency of Hong Kong   |
| “IAS”                           | International Accounting Standards issued by the International Accounting Standards Board and its Interpretations   |
| “Listing”                       | listing of the H Shares on the Stock Exchange   |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Stock Exchange   |



## Definitions

|   |  |
|---|--|
| “Luzheng Information”                               | Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 15 February 2015 |
| “Luzheng Trading”                                   | Luzheng Trading Co., Ltd. (魯証經貿有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 24 April 2013                     |
| “Main Board”  | the Main Board of the Stock Exchange   |
| “Model Code”  | the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules  |
| “PRC” or “China” or<br>“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 of the Company dated 23 June 2015   |
| “Reporting Period”                                  | the period for the six months ended 30 June 2016   |
| “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 the Domestic Shares and the 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   |
| “Supervisory Committee”                             | the supervisory committee of the Company   |