



**鲁证期货**  
LUZHENG FUTURES

**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)

2018

INTERIM  
REPORT

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# Corporate Profile

## REGISTERED NAME OF THE COMPANY

魯証期貨股份有限公司

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

40/F, Sunlight Tower,

No. 248 Queen's Road East, Wanchai, Hong Kong

## BOARD OF DIRECTORS

### Executive Directors

Mr. Chen Fang (Chairman of the Board)

Mr. Liang Zhongwei

### Non-executive Directors

Mr. Lv Xiangyou (resigned on 9 August 2018)

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. Liu Yunzhi

Room 102, Unit 3, Building 61

South Juanmen Lane, Lixia District

Jinan, Shandong Province, the PRC

## JOINT COMPANY SECRETARIES

Mr. Meng Tao (resigned on 26 January 2018)

Mr. Liu Yunzhi (appointed on 26 January 2018)

Ms. Ng Wing Shan

## AUDITORS

### PRC Auditor

PricewaterhouseCoopers Zhong Tian LLP

11/F PricewaterhouseCoopers Center

Link Square 2

202 Hu Bin Road

Huangpu District, Shanghai, PRC

### International Auditor

PricewaterhouseCoopers

*Certified Public Accountant*

22/F, Prince's Building

Central, Hong Kong

## LEGAL ADVISERS

### As to Hong Kong law:

Clifford Chance

27/F, Jardine House, One Connaught Place

Central, Hong Kong

## As to PRC law:

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

## PRINCIPAL BANKS

### China Construction Bank

#### (Jinan Shizhong Sub-branch)

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

### Industrial and Commercial Bank of China

#### (Jinan Lixia Sub-branch)

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

### Bank of China (Jinan Branch)

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

### Bank of Communications

#### (Jinan Shizhong Sub-branch)

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

### Agricultural Bank of China

#### (Wanda Plaza Branch)

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

## H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
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183 Queen's Road East  
Wan Chai, Hong Kong

## STOCK CODE

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## INVESTOR ENQUIRIES

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# Financial Highlights

Item	January-June 2018 (Unaudited)	January-June 2017 (Unaudited)	Increase/decrease of the period as compared to that of last year
<b>Operating Results (RMB'000)</b>			
Revenue and other incomes <sup>(1)</sup>	227,848	213,431	6.75%
Profit before income tax	115,053	106,198	8.34%
Profit for the period – Attributable to the Company's Shareholders	88,443	83,029	6.52%
Net cash from operating activities	48,138	36,942	30.31%
<b>Earnings per Share (RMB/Share)</b>			
Basic earnings per Share	0.09	0.08	12.50%
Diluted earnings per Share	0.09	0.08	12.50%
<b>Profitability Indexes</b>			
Weighted average return on net asset <sup>(2)</sup>	4.08%	4.02%	Increased by 0.06 percentage point

Item	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)	Increase/decrease at the end of the period as compared to that of the end of last year
<b>Scale Indexes (RMB'000)</b>			
Total assets	8,608,417	8,828,934	-2.50%
Total liabilities	6,402,917	6,644,231	-3.63%
Accounts payable to brokerage clients	5,648,156	6,098,731	-7.39%
Equity attributable to the Company's Shareholders	2,179,336	2,156,571	1.06%
<b>Total Share Capital (in thousands)</b>	<b>1,001,900</b>	1,001,900	–
Net asset per Share attributable to the Company's Shareholders (RMB/Share)	2.18	2.15	1.40%
Gearing ratio <sup>(3)</sup>	25.50%	19.98%	Increased by 5.52 percentage points

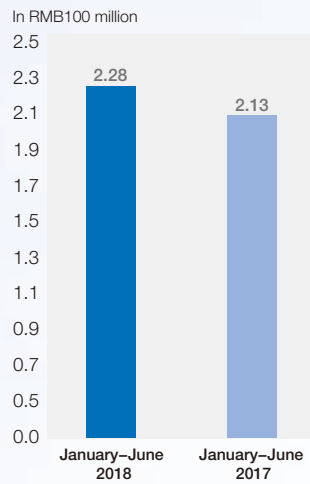
<sup>(1)</sup> Revenue and other incomes = Operating income + Other net gains

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

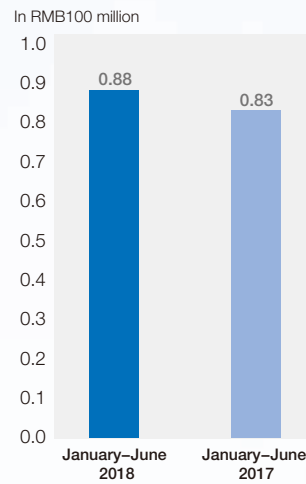
<sup>(3)</sup> Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

# Financial Highlights

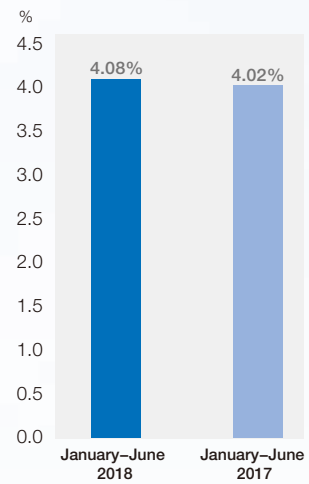
## Revenue and other incomes



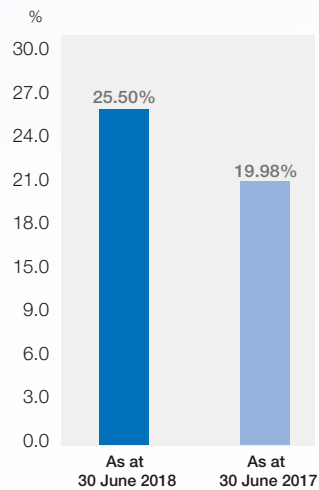
## Profit for the period – Attributable to the Company's Shareholders



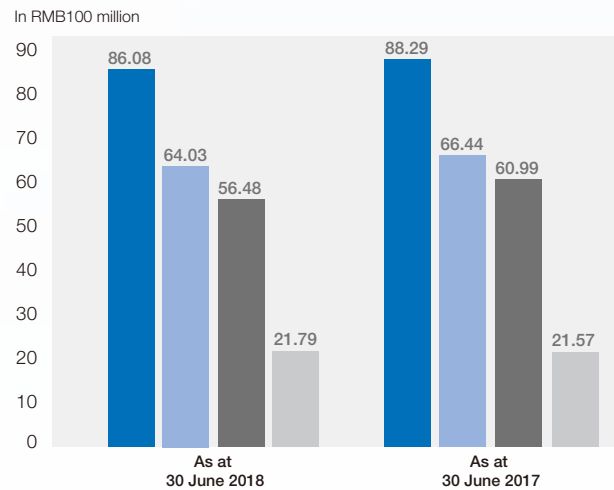
## Weighted average return on net asset



## Gearing ratio



## Scale Indexes



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

## Financial Highlights

The financial information of the Group for the six months ended 30 June 2018 was extracted from pages 31 to 114 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 2018 were unaudited.

### NET CAPITAL AND RELEVANT CONTROL INDEXES OF THE COMPANY AS AT 30 JUNE 2018

Name of index	As at 30 June 2018 (Unaudited)	Regulatory Standards
Net Capital (RMB'000)	<b>1,191,576.06</b>	30,000
Ratio between net capital and total risk capital reserves	<b>641.13%</b>	100.00%
Ratio between net capital and net asset	<b>58.30%</b>	20.00%
Ratio between current assets and current liabilities	<b>755%</b>	100.00%
Ratio between liabilities and net assets	<b>11.70%</b>	150.00%
Clearing settlement funds (RMB'000)	<b>202,950.36</b>	12,000

Note: As at 30 June 2018, net capital of the Company amounted to RMB1,192 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

## I. MARKET REVIEW

### (i) Scales of Trading and Deposits

During the Reporting Period, the total trading volume in the national futures market was 1.405 billion board lots (all of the followings are per side), representing a year-on-year decrease of 4.93% with a total turnover of RMB96.10 trillion, representing a year-on-year increase of 11.86%, among which, the total trading volume of commodity futures was 1.394 billion board lots, representing a year-on-year decrease of 4.87% with a total turnover of RMB84.56 trillion, representing a year-on-year increase of 15.35%. The trading volume of stock index futures were 11.384 million board lots, representing a year-on-year decrease of 10.99% with a total turnover of RMB11.54 trillion, representing a year-on-year decrease of 8.42%.

### (ii) Performance of Products

The price trends as shown in the domestic futures market during the Reporting Period are set out as follows:

#### 1. Performance of agricultural products futures

During the Reporting Period, agricultural products futures basically revolved around the two main lines of weather and trade disputes. Apple futures rose sharply due to the cut in production of apples caused by the cold spring, and became the star of the agricultural products market in the first half of 2018. Fat and bean futures were affected by the tariff policies of trade disputes, resulting in a performance of large fluctuations. Corn futures benefited from the destocking policy and witnessed a mild increase. White sugar futures continued to fall due to the oversupply pressure on the domestic and international sugar markets.

#### 2. Performance of metal futures

During the Reporting Period, metal futures fluctuated violently as they were affected by falling demand and environmental protection policies. In terms of ferrous metals, metal futures fell sharply at the beginning of 2018 due to poor demand and risk factors of Sino-US trade disputes. Later, due to the regression of risk factors and the continued promotion of environmental protection policies, ferrous metal futures rebounded and fluctuated widely. In terms of non-ferrous metals, prices of copper and zinc declined due to the recovery of supply after the two-year rise; nickel metals performed strong because of the destocking and the strong demand on domestic and international markets.



# Management Discussion and Analysis

### 3. Performance of energy and chemicals futures

During the Reporting Period, although energy and chemicals futures were uplifted at the cost end due to continuously rising crude oil prices, they as a whole fluctuated within a narrow range due to lower-than-expected demand and capacity expansion. Natural rubber futures had the weakest performance since the strong contradiction between supply and demand of natural rubber was the most prominent. PTA had the strongest performance due to the significant improvement of the overcapacity caused by the market competition in previous years. Other energy and chemicals futures varieties witnessed a narrow range of fluctuations due to insufficient hot spots.

### 4. Performance of financial futures

During the Reporting Period, stock index futures fell after rising. China's economy was under downward pressure and China's macroeconomic expectations were not good. In addition, affected by the large pressure on the capital market under the background of strong supervision, RMB depreciation and fund issue of unicorns, the A-share futures market and spot market formed a weak pattern. Treasury futures showed a sharp rebound, and the central bank's monetary policy was adjusted to be reasonably abundant. This announced that the liquidity tightening that lasted for nearly two years came to an end, the central bank's monetary policy was loosened, and the market interest rate continued to fell.

### (iii) Development of the Industry

Firstly, China's crude oil futures were officially listed on the Shanghai International Energy Exchange Center on 26 March 2018. The listing of China's crude oil futures provides a reference price that can truly reflect the changes in the relationship between supply and demand of crude oil in China and the Asia Pacific region for the world, a tool to hedge, manage risk and maintain stable production and management for various enterprises related to oil and gas and chemicals industries, and a more perfect choice of large-class asset allocation for the global financial market. As of 30 June 2018, the total trading volume in the crude oil futures market was 4.934 million board lots with a total turnover of RMB2.2885 trillion. Crude oil futures became the crude oil futures contracts with the largest trading volume in the Asian market, only after New York and London benchmark markets, among the global top 3 crude oil futures contracts in terms of trading volume.

Secondly, China's futures market entered a new milestone in internationalization. In the first half of 2018, Shanghai crude oil futures and iron ore futures introduced overseas investors, and supported and encouraged more qualified overseas investors to participate in China's commodity futures trading, providing exploration for the internationalization of China's futures market. The opening pace of China's futures market is accelerating.

## II. GENERAL OPERATING RESULTS

During the Reporting Period, on the basis that the Group had significant increase in the market share of its traditional businesses, transactional businesses such as the risk management business have achieved gradual growth and the Group's capability in capital management has also had improvement. The Group achieved operating income of RMB225.327 million and profit for the period of RMB86.475 million, representing an increase of 4.42% and 5.32% respectively as compared with RMB215.791 million and RMB82.108 million in the corresponding period of last year. Such increase is mainly attributable to the following factors: (1) the revenue of Luzheng Trading, for the six months ended 30 June 2018 increased substantially as compared with the same period of last year; and (2) the interest income of the Company increased year-on-year as a result of the centralized management of funds and the upward trend of interest rate in the industry.

As at 30 June 2018, the Group's total assets amounted to RMB8,608 million, decreasing by 2.50% from RMB8,829 million as at the end of 2017. The Group's total liabilities were RMB6,403 million, decreasing by 3.63% from RMB6,644 million as at the end of 2017. Net assets attributable to the Company's shareholders were RMB2,179 million, increasing by 1.02% from RMB2,157 million as at the end of 2017. The gearing ratio of the Group (total assets and total liabilities less accounts payable to brokerage clients) was 25.5%, increasing by 5.52 percentage points as compared with that as at the end of 2017. During the Reporting Period, the Group held quality assets and maintained a good financial position.

## III. ANALYSIS OF PRINCIPAL BUSINESS

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

During the Reporting Period, the Group started from "integration of brokerage business and other businesses, integration of business development and compliance risk control, and integration of management work and CPC construction work" according to the latest developments in industry supervision and combined with the latest situation of industry development, to further enhance professional ability, improve business performance, and promote various tasks for the realization of the Group's annual development goals.

# Management Discussion and Analysis

## (i) Futures and Options Brokerage Business

During the Reporting Period, the Group recorded brokerage business revenue of RMB142.037 million, representing a decrease of 10.76% year-on-year; the total turnover reached RMB4.1 trillion, representing an increase of 106.40% year-on-year. The average daily interests achieved RMB6,374 million, including the futures interests of RMB6,224 million, and the stock option interests of RMB150 million, representing an increase of 7.61% year-on-year; the market share in trading amounts of futures was 2.13%, representing an increase of 0.97% year-on-year.

Equity scale reflects the clients' assets scale held by a futures company, which guarantees revenue for the brokerage business and provides market foundation for innovative businesses. During the Reporting Period, the client interests of the Company decreased from RMB6,253 million as at the end of 2017 to RMB5,959 million as at the end of June 2018, representing a decrease of 4.70%.

During the Reporting Period, the Company continued exploring corporate clients and professional investors. Although they have generally lower trading frequency, corporate clients and professional investors maintain a higher level of account balance compared to retail clients, and they have greater personalized demand for value-added services which mainly focus on commodity trading and risk management. As the Company strived to keep providing high quality services to institutional clients, as at 30 June 2018, the interests of institutional clients (including special legal person clients) reached RMB3,353 million, accounting for 56.27% of the total interests of the Company of RMB5,959 million, a slight decrease compared with those in the same period last year.

The Company kept focusing on marketing and promoting account opening on the Internet. During the Reporting Period, quantity of accounts opened on the Internet kept increasing. The number of client accounts opened on the Internet amounted to 2,120, representing 97% of the total 2,192 new clients of the Company (excluding special legal person and institutional clients) (the “**Internet account opening ratio**”), increasing by 10 percentage points as compared to the Internet account opening ratio of 87% in the corresponding period of last year.

During the Reporting Period, the Company facilitated the development of futures and options brokerage business by implementing effective measures in the optimization of branches, preparation of new varieties and new businesses, promotion of business synergies, strengthening of internal control management and improvement of support capabilities in the middle and back office.

## (ii) Futures Asset Management Business

During the Reporting Period, the Group's operating income from asset management business was RMB3.50 million, decreasing by RMB6.796 million or 66.01% as compared with RMB10.296 million in the same period of last year. The asset management business accounts for 1.55% of the total operating income, decreasing from 4.77% of the same period of last year.

During the Reporting Period, the Company launched the management of three new asset management schemes (two collective asset management schemes and one private asset management scheme), and the initial entrusted equity increased by RMB639 million. As such, the number of asset management products managed by the Company has reached 13 (10 collective asset management schemes and 3 private asset management schemes). As at 30 June 2018, the total amount of assets managed by the Company was RMB2,170 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 schemes, 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.

During the Reporting Period, the Company closely cooperated with relevant financial institutions and successfully completed and expanded the issue and operation scales of the asset management schemes of Fund of Funds ("FOF") Series, whose scale of management was RMB1,735 million, and maintained the leader of FOF in the industry.

During the Reporting Period, the Company strengthened the building of asset management teams and continued to introduce transactional talents, which effectively reinforced the investment team of the Company; improved the construction of risk control and system process. Meanwhile, the Company continued to strengthen cooperation with financial institutions such as banks and securities firms.

## (iii) Commodity Trading and Risk Management Business

During the Reporting Period, the Group's profit before income tax from commodities trading and risk management business was RMB22.365 million, representing a year-on-year growth of RMB12.362 million.

During the Reporting Period, the Group continued to develop the commodities trading and risk management business through Luzheng Trading, which includes warehouse receipt services, hedging cooperation business, commodity trading, over-the-counter ("OTC") derivatives trading and option market maker business, primarily engaged in inventory management and risk management of commodity prices for clients.

## Management Discussion and Analysis

In terms of commodity trading, the Group actively conducted commodity trading in multiple industry chains, including a wide range of products on multiple industry chains such as grains, oils and fats, ferrous metals, etc., with spot trading turnover of RMB1.273 billion. During the Reporting Period, hedging and arbitrage position of the Group amounted to 786.7 thousands board lots in total, with a turnover of RMB31.300 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 business, the Group entered into master agreements with more than 200 enterprises and institutions for its OTC derivatives business, which further expanded its business scope and diversified its business. The master agreements covered products including rebar, hot rolled coils, iron ores, soybean and corn, etc., achieved a nominal amount of RMB16.8 billion.

## IV. PROSPECTS AND FUTURE PLANS

### (i) Market Analysis

The development of China's economy has stepped into a new normal, and the industrial transformation and upgrade have become imminent. Domestic economy development and industrial upgrade as well as cooperation and competition of international trade have put forward higher demand on developing multi-level, diversified and multi-type financial services.

The listing of China's traded options and the rapid development of OTC options would help to improve the price identification function of the futures market and provide a new risk management tool for serving agriculture, rural areas and farmers and other real economies by futures. Meanwhile, it would also facilitate the innovative development of the business of futures companies and continuously enhance the ability of futures market to serve the real economy.

The "futures + insurance" business model is an approach featuring Win-Win to explore a new direction of development for increasing the income of farmers, keeping stable operation of rural cooperatives and acquiring reasonable profit by financial institutions. The "Central Document No. 1" has included market development and innovative services of agricultural derivatives, which indicates that the further development of agricultural derivatives market and full display of its role will be one of the driving factors for China to promote the agricultural supply-side structural reform and facilitate agricultural modernization construction under the new environment of development. Taking futures price as the pricing basis for agricultural insurance could resolve the difficulties in pricing insurance products, enhance the scientificity and reasonableness as well as practically safeguard farmers' income.

## Management Discussion and Analysis

The development of innovative businesses such as OTC options, assets management and risk management marked the futures industry has gradually shifted towards a structure based on professional competence, coordinated development of multiple businesses as well as a more diversified 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.

Along with the internationalization of Renminbi, the marketization of the interest rate and exchange rate and the further opening of the domestic capital market, the mainland futures operators will accelerate the pace of development of the international business. The development prospects of the futures market proposed new requirements on 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.

### (ii) Development Plan

The Group will firmly grasp the existing edges with the first duty of “serving real economy” aiming to “establish itself as an industry-leading integrated financial services provider focusing on risk management” and further promote the rapid development and transformation of the Group.

In the second half of 2018, the Group will further enhance its efforts in the following five aspects: firstly, completing work on time and in volume according to the work plan and work tasks specified at the beginning of 2018; secondly, promoting the transformation of brokerage business by raising awareness and strengthening learning; thirdly, establishing the core objective of serving the real economy, strictly preventing and controlling risks, and enabling asset management business to return to the origin of futures; fourthly, establishing a large risk control system to improve the level of risk prevention and control and improve the construction of compliance risk control system; fifthly, strengthening the integration of CPC construction and business operations, and playing the role of the pioneering model and fighting fortress of grassroots party organizations.

### V. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the profitability of the Group continued to enhance. As of 30 June 2018, the equity attributable to the Company's shareholders were RMB2,179 million, increasing by 1.02% from RMB2,157 million as at the end of 2017, which is mainly attributable to the profits achieved and dividends distributed during the Reporting Period.

During the Reporting Period, the Group's asset scale decreased slightly and maintained sound asset quality and liquidity. As of 30 June 2018, the Group's total assets after deducting accounts payable to brokerage clients reached RMB2,960 million, increasing by 8.42% as compared with RMB2,730 million as at the end of 2017, among which, cash and bank balance accounted for 22.70%; treasury deposited with the China Futures Exchange accounted for 18.34%; investment assets (including investments in associates and financial assets, especially investment in financial assets with strong liquidity) accounted for 42.6%; and the property and equipment and intangible assets accounted for 2.02%.

The total gearing ratio of the Group 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 payable to brokerage clients) was 25.5%, increasing by 5.52 percentage points as compared with that as at the end of 2017. The Group's degree of operating leverage (the total assets less accounts payable to brokerage clients/equities attributable to the Company's shareholders) was 1.36 times, increasing by approximately 7.09% as compared to 1.27 times as at the end of 2017. As of 30 June 2018, the Group's total liabilities were RMB6,403 million, among which, RMB5,648 million was accounts payable to brokerage clients. The remaining liabilities (net of accounts payable to brokerage clients) were RMB755 million, of which interests of holders of consolidated structured entities were RMB325 million, dividends payable were RMB67 million and advance for physical commodity trading was RMB12 million. The Group has the sufficient ability to repay the aforementioned liabilities. During the Reporting Period, the aging analysis of accounts payable was not applicable to the Group. As at 30 June 2018, the total equity attributable to the Company's shareholders was RMB2.179 billion, of which share capital was RMB1.00190 billion, share premium was RMB651 million and retained earnings were RMB312 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.

## Management Discussion and Analysis

Given the available financial resources, including cash flow from operating activities, the Group's working capital is able to meet the capital demand for its business development. During the Reporting Period, 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 total liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in Renminbi, 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 use any derivative financial instruments to hedge the risk of exchange rate changes for now.

### VI. MATERIAL FINANCING OF THE COMPANY

#### (i) Equity Financing

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

#### (ii) Bond Financing

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



## VII. INVESTMENTS DURING THE REPORTING PERIOD

### (i) Use of Proceeds

The funds raised by the Company were used according to “Future Plans and Use of Proceeds” of the Prospectus before the announcement of the Company dated 13 April 2018, 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 (%)
To establish “light branches” and recruit personnel	No	0	1,137.719	0.18%
To contribute additional capital to Luzheng Trading	No	50,000	230,000	35.58%
To invest information technology	No	0	28,733.025	4.44%
To supplement working capital	No	0	64,600	9.99%

The Board of the Company approved the following resolutions on 13 April 2018: 35% of the first net proceeds raised in “Future Plans and Use of Proceeds” of the Prospectus were changed to “be used for working capital and general corporate purposes”; 15% of the third net proceeds were changed to “contribute additional capital to Luzheng Trading for expanding commodity trading and risk management business so as to achieve economies of scale and improve profitability of such business”.

## Management Discussion and Analysis

As at the Reporting Period, the funds raised by the Company were used according to “Future Plans and Use of Proceeds” of the Prospectus and the announcement of the Company dated 13 April 2018, 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 (%)
To establish “light branches” and recruit personnel	Yes	0	1,137.719	0.18%
To contribute additional capital to Luzheng Trading	No	50,000	230,000	35.58%
To invest information technology	Yes	0	28,733.025	4.44%
To supplement working capital	No	7,272.247	71,872.247	11.12%

For the purpose of enhancing the efficiency of capital use, as of 30 June 2018, 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 net capital raised and purposes approved by the Board.

### (ii) Progress of Investments in Subsidiaries and Joint Stock Companies

In accordance with the use of listing funds raised, the Company made a capital contribution of RMB50 million to Luzheng Trading on 12 March 2018.

### **VIII.ACQUISITION AND DISPOSAL OF MATERIAL ASSETS, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES**

During the Reporting Period, there was neither acquisition, disposal 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.

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

As at the end of the Reporting Period, the Company had a total of 452 employees. For the six months ended 30 June 2018, the cost of employees of the Company amounted to approximately RMB59.023 million, details of which are set out in Note 10 to the interim condensed financial information of this report.

The Group 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 continuously improved the Group's operating results. The remuneration of the employees of the Group consists of four parts including basic salary, performance wage, bonus and benefits. The Group 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 makes prompt and full payments of the above social insurances and housing fund according to the PRC laws and regulations.

The Group has designed specific training programs for all business lines and strengthened training programs to provide regular and continual training for its employees. The Group 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 Group organized a series of trainings on crude oil futures, iron ore futures, stock options, over-the-counter derivatives business, asset management business, risk management subsidiary business, marketing skills improvement, and company systems.

## X. RISK MANAGEMENT

### (i) Major Risks Affecting the Group's Operation and the Responsive Measures

Major risks affecting the Group's operation include credit risk, market risk, liquidity risk, compliance risk, operational risk and reputational 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 Group'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 Group's commodity trading and risk management business, the Group has established a client credit evaluation system and assessed the creditworthiness of the Group's existing and prospective clients based on the Group's onsite investigation and independent third-party investigation, and adjusts the credit ratings of the Group's clients on a continuous basis. The Group 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 provides appropriate services to its clients and implements corresponding risk management measures accordingly. Meanwhile, the Company requires its clients to maintain higher margin deposits than those required by the China Futures Exchange. 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. The Company paid attention to the clients' risk level of their margin deposits through the Company's self-developed risk management system and thus could effectively focus on high-risk clients. 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.

# Management Discussion and Analysis

## 2. Market Risk

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

To maximize the reduction of market risk, the Group has adopted the following measures:

- (1) establishing a systematic investment mechanism, under which the Group's research team provides investment recommendations and the Group's operation team provides market guidance to the research team;
- (2) requiring the Group's operation team to submit an application to the Group'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 Group'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 Group's expectations.

## 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 Group (1) strengthens the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management; (2) has established a risk evaluation and monitor system on net capital; (3) conducts comprehensive or special stress tests on the risk control indexes on a regular or ad hoc basis and conducts 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) selects those commodities that are more actively traded for commodity trading and risk management business, or selects the contracts with the largest or second-largest open interest within similar futures contracts in futures trading.

# Management Discussion and Analysis

## 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 Group (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 service charge income of futures brokerage business as risk reserve fund each month.

## 6. Reputational Risk

Reputational risk refers to the risk that the Company's operations, management and other actions or external events result in a negative evaluation of the Company by the stakeholders. It is possible to involve the Company in costly litigation cases and result in loss of revenues, customers or key employees.

In order to cope with reputational risks, the Group always strives to protect the legitimate rights and interests of customers and investors, ensure timely handling of various complaints and disputes, continue to pay attention to negative information related to the Group, and accumulate early reputation risk warning information from various channels. At the same time, the Group establishes a good reputation risk management system, to further improve the incentive and restraint mechanism and reduce the possibility of damage to the Group's reputation.

# Management Discussion and Analysis

## (ii) Risk Management Measures Adopted or to be Adopted by the Company

### 1. Having established a four-level structured risk management system

The Company sets up a four-level risk management structure: the first level comprises the Board 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, especially minority Shareholders, can enjoy equal positions and protect the interest of minority Shareholders. It normalizes and improves the operation of the Board and gives full play to all Board committees and independent non-executive Directors. It gives full play to the monitoring role of the Supervisory Committee on the Board 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 Company's internal control and risk management system, continuously strengthen the identification and control of pre- and on-going risks, consistently enhance 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.

## Management Discussion and Analysis

### 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 regards 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 the general meetings, the Board of Directors, the Supervisory Committee and the senior management with reference to the code provisions as set out in the Corporate Governance Code. Riding on this structure, each operating unit is able to perform its duties under respective terms of reference, which ensures standardized operation of the Company. The Company has also adopted the Corporate Governance Code as its own corporate governance practices.

## COMPLIANCE WITH THE 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.

## SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has adopted the Model Code as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for senior management. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they had complied with the standards specified in the Model Code during the Reporting Period. The Company has made specific inquiries to the senior management 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 at 30 June 2018, 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 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 making suggestions as to the appointment and removal of the head of the internal auditing department of the Company; reviewing the financial information 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 the whistle-blowing system for employees to report on any potential misconducts regarding the financial reporting, internal control and other aspects; 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.

Since the resignation of Mr. Lv Xiangyou as a non-executive Director and a member of the Audit Committee on 9 August 2018, the Audit Committee consists of four Directors: Mr. Wang Chuanshun (independent non-executive Director), Mr. Gao Zhu (independent non-executive Director), Mr. Li Dapeng (independent 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 2018, the Audit Committee has reviewed and confirmed the Company's interim results announcement for the six months ended 30 June 2018, the 2018 interim report and the unaudited interim financial statements for the six months ended 30 June 2018 prepared in accordance with IAS 34 "Interim Financial Reporting".

### 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 was unaudited.

# Other Information

## SUBSEQUENT EVENTS

As at 27 July 2018, except for a Shareholder's dividend of RMB768,000, which is frozen by the court and has not been paid yet, the Company has paid all final dividends for the year ended 31 December 2017.

On 30 July 2018, the Company's principal place of business in Hong Kong has been changed to 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.

## SHARE CAPITAL

As at 30 June 2018, the total share capital of the Company was RMB1,001,900,000, divided into 1,001,900,000 Shares (including 724,810,000 Domestic Shares and 277,090,000 H 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 2018 was published on the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.luzhengqh.com](http://www.luzhengqh.com)) on 23 August 2018.

## INTERIM DIVIDEND

The Board of Directors did not recommend the declaration or payment of any interim dividend for the six months ended 30 June 2018.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

As at 30 June 2018, 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 2018, 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%
CITIC Capital (Shenzhen) Asset Management Co., Ltd. (中信資本(深圳)資產管理有限公司) <sup>(3)</sup>	H Shares	Beneficial owner	18,681,000 (long position)	1.86%	6.74%
Shenzhen Yaoshengxin Consulting Co., Ltd. (深圳市壹盛鑫諮詢有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%

## 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
CITIC Capital Advisory Limited <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Finance (Cayman) Limited <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Global Services Holdings Limited <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CITIC Capital Holdings Limited <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,681,000 (long position)	1.86%	6.74%
CM International Capital Limited <sup>(4)</sup>	H Shares	Beneficial owner	18,211,000 (long position)	1.82%	6.57%
CM International Capital Limited (中國國際資本有限公司) <sup>(4)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) <sup>(4)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%

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 2018.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 45.91% of the equity interest in Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 80% 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) 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.
- (4) CM International Capital Limited directly holds 18,211,000 (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 18,211,000 (long position) H Shares held by CM International Capital Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2018, the Directors are not aware of any other person (except for Directors, Supervisors or chief executives 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 INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

On 26 January 2018, Mr. Meng Tao ceased to act as a joint company secretary of the Company (“**Joint Company Secretary**”) and the authorised representative of the Company (“**Authorised Representative**”) for the purpose of Rule 3.05 of the Listing Rules. On the same day, Mr. Liu Yunzhi was appointed as the Joint Company Secretary and the Authorised Representative. For further information, please refer to the Company’s announcement dated 26 January 2018.

On 9 August 2018, Mr. Lv Xiangyou has resigned as a non-executive Director of the Company, and ceased to act as the member of each of the Audit Committee, the remuneration and appraisal committee as well as the strategic and development committee of the Company. For further information, please refer to the Company’s announcement dated 10 August 2018.

As of the date of this report, 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.

# Report on Review of Interim Financial Information



羅兵咸永道

To the board of directors of **LUZHENG FUTURES company limited**

(Incorporated in the People's Republic of China with limited liability)

## Introduction

We have reviewed the interim financial information set out on pages 32 to 114, which comprises the interim condensed consolidated statement of financial position of LUZHENG FUTURES Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 23 August 2018



# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2018 (Unaudited)	2017 (Unaudited)
Commission and fee income	5	146,542	120,044
Commission and fee expense	5	(121,643)	(86,722)
<b>Net commission and fee income</b>		<b>24,899</b>	<b>33,322</b>
Interest income	6	107,119	104,282
Interest expense	6	(5,624)	(6,366)
<b>Net interest income</b>		<b>101,495</b>	<b>97,916</b>
Gains on physical commodities trading	7	2,993	4,337
Net investment gains	8	41,741	20,813
Other income	9	54,199	59,403
<b>Operating income</b>		<b>225,327</b>	<b>215,791</b>
Staff costs	10	(59,023)	(53,494)
Commission to brokerage agents		(2,114)	(4,702)
Introducing broker commission		(2,618)	(3,729)
Depreciation and amortization		(6,027)	(4,611)
Impairment losses		(599)	(5)
Other operating expenses	11	(41,017)	(39,795)
<b>Operating expenses</b>		<b>(111,398)</b>	<b>(106,336)</b>
<b>Operating profit</b>		<b>113,929</b>	<b>109,455</b>
Share of losses of investment in associates	16	(1,397)	(897)
Other gains/(losses), net		2,521	(2,360)
<b>Profit before income tax</b>		<b>115,053</b>	<b>106,198</b>
Income tax expense	12	(28,578)	(24,090)
<b>Profit for the period</b>		<b>86,475</b>	<b>82,108</b>

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes		
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value	29	–	4,537
– Income tax effect on changes in fair value	29	–	(1,134)
– Amounts reclassified to profit or loss upon disposal or impairment	29	–	(244)
Currency translation differences	29	1,449	(665)
<b>Other comprehensive income for the period, net of tax</b>		<b>1,449</b>	2,494
<b>Total comprehensive income for the period</b>		<b>87,924</b>	84,602
Profit attributable to:			
– Shareholders of the Company		88,443	83,029
– Non-controlling interests		(1,968)	(921)
		<b>86,475</b>	82,108
Total comprehensive income attributable to:			
– Shareholders of the Company		89,892	85,523
– Non-controlling interests		(1,968)	(921)
		<b>87,924</b>	84,602
<b>Earnings per share attributable to shareholders of the Company</b>			
<b>for the period (expressed in RMB per share)</b>			
<b>Basic/Diluted</b>	14	<b>0.09</b>	0.08

# Condensed Consolidated Statement of Financial Position

As at 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2018 (Unaudited)	31 December 2017 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	46,315	44,966
Intangible assets		13,376	14,735
Investments in associates	16	44,094	45,491
Other non-current assets		2,660	3,432
Financial assets at fair value through other comprehensive income		1,400	–
Financial assets at fair value through profit or loss	18	127,583	–
Available-for-sale financial assets	19	–	264,820
Deferred income tax assets	20	3,670	7,017
Refundable deposits	21	25,642	25,599
<b>Total non-current assets</b>		<b>264,740</b>	<b>406,060</b>
<b>Current assets</b>			
Physical commodities		147,221	62,397
Other current assets	22	141,955	113,877
Available-for-sale financial assets	19	–	223,586
Derivative financial assets	23	78,265	63,087
Financial assets at fair value through profit or loss	18	978,214	526,967
Financial assets held under resale agreements	24	160,414	112,532
Deposits with exchange-clearing organizations	25	2,753,987	2,737,775
Bank balances held for clients	26	3,411,225	3,782,507
Cash and bank balances	27	672,396	800,146
<b>Total current assets</b>		<b>8,343,677</b>	<b>8,422,874</b>
<b>Total assets</b>		<b>8,608,417</b>	<b>8,828,934</b>

# Condensed Consolidated Statement of Financial Position

As at 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2018 (Unaudited)	31 December 2017 (Audited)
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	28	1,001,900	1,001,900
Share premium	29	650,630	650,630
Other reserves	29	215,152	209,798
Retained earnings		311,654	294,243
<b>Total equity attributable to shareholders of the Company</b>		<b>2,179,336</b>	2,156,571
Non-controlling interests	17	26,164	28,132
<b>Total equity</b>		<b>2,205,500</b>	2,184,703
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	20	3,411	2,573
Other non-current liabilities		5,471	3,810
<b>Total non-current liabilities</b>		<b>8,882</b>	6,383
<b>Current liabilities</b>			
Borrowings		–	13,000
Other current liabilities	30	272,670	114,460
Current income tax liabilities		14,566	14,074
Derivative financial liabilities	23	120,192	70,684
Financial liabilities at fair value through profit or loss	31	338,451	326,899
Accounts payable to brokerage clients		5,648,156	6,098,731
<b>Total current liabilities</b>		<b>6,394,035</b>	6,637,848
<b>Total liabilities</b>		<b>6,402,917</b>	6,644,231
<b>Total equity and liabilities</b>		<b>8,608,417</b>	8,828,934

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

(Unaudited)	Attributable to shareholders of the Company					Total equity
	Share capital (Note 28)	Share premium (Note 29)	Other reserves (Note 29)	Retained earnings	Non-controlling interests (Note 17)	
<b>Balance at 1 January 2018</b>	1,001,900	650,630	209,798	294,243	28,132	2,184,703
Changes on initial application of IFRS 9	-	-	(98)	98	-	-
<b>Restated balance at 1 January 2018</b>	1,001,900	650,630	209,700	294,341	28,132	2,184,703
Profit for the period	-	-	-	88,443	(1,968)	86,475
Other comprehensive income for the period	-	-	1,449	-	-	1,449
<b>Total comprehensive income for the period</b>	-	-	1,449	88,443	(1,968)	87,924
Net appropriation to reserves	-	-	4,003	(4,003)	-	-
Dividends recognized as distribution (Note 13)	-	-	-	(67,127)	-	(67,127)
<b>Balance at 30 June 2018</b>	1,001,900	650,630	215,152	311,654	26,164	2,205,500
<b>Balance at 1 January 2017</b>	1,001,900	650,630	176,354	219,871	29,773	2,078,528
Profit for the period	-	-	-	83,029	(921)	82,108
Other comprehensive income for the period	-	-	2,494	-	-	2,494
<b>Total comprehensive income for the period</b>	-	-	2,494	83,029	(921)	84,602
Net appropriation to reserves	-	-	4,169	(4,169)	-	-
Dividends recognized as distribution (Note 13)	-	-	-	(48,091)	-	(48,091)
<b>Balance at 30 June 2017</b>	1,001,900	650,630	183,017	250,640	28,852	2,115,039

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>115,053</b>	106,198
Adjustments for:		
Depreciation and amortization	6,027	4,611
Impairment losses	599	5
Net (gains)/losses on disposal of property and equipment and intangible assets	(76)	27
Foreign exchange losses	942	3
Realized losses from disposal of available-for-sale financial assets	–	3,978
Dividends and interest income from financial assets at fair value through profit or loss (2017: available-for-sale financial assets) and term deposits	(23,824)	(20,785)
Share of losses of investment in associates	1,397	897
	<b>100,118</b>	94,934
<b>Net decrease in operating assets</b>		
Net decrease in bank balances held for clients	370,683	585,491
Net decrease/(increase) in deposits with exchange-clearing organizations	9,243	(288,332)
Net decrease in financial assets at fair value through profit or loss and derivative financial assets	93,478	25,352
Net increase in financial assets held under resale agreements	(47,882)	(154,549)
Net increase in other assets	(21,352)	(50,985)
Net increase in physical commodities	(84,824)	(14,255)
	<b>319,346</b>	102,722
<b>Net decrease in operating liabilities</b>		
Net decrease in accounts payable to brokerage clients	(450,575)	(205,294)
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	52,614	31,649
Net increase in other liabilities	50,536	45,504
	<b>(347,425)</b>	(128,141)
<b>Income tax paid</b>	<b>(23,901)</b>	(32,573)
<b>Net cash inflow from operating activities</b>	<b>48,138</b>	36,942

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
<b>Cash flows from investing activities</b>		
Payment for investment in associates	–	(17,500)
Dividends and interest received from financial assets at fair value through profit or loss (2017: available-for-sale financial assets) and term deposits	17,058	20,785
Purchases of property and equipment, intangible assets and other long-term assets	(6,153)	(12,061)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	150	4
Payment for purchases of financial assets at fair value through profit or loss (2017: available-for-sale financial assets) and term deposits	(259,000)	(460,000)
Proceeds on maturity and disposal of financial assets at fair value through profit or loss (2017: available-for-sale financial assets) and term deposits	528,415	602,629
<b>Net cash inflow from investing activities</b>	<b>280,470</b>	<b>133,857</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	–	30,000
Proceeds from subscription to consolidated structured entities by external investors	–	70,690
Proceeds from sales with repurchase agreements	43,120	–
Repayment at maturity or redemption from consolidated structured entities to external investors	–	(299,936)
Repayment of borrowings	(13,081)	–
<b>Net cash inflow/(outflow) from financing activities</b>	<b>30,039</b>	<b>(199,246)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>358,647</b>	<b>(28,447)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>225,641</b>	<b>241,878</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(942)</b>	<b>(3)</b>
<b>Cash and cash equivalents at end of period (Note 32)</b>	<b>583,346</b>	<b>213,428</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 1 General information

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

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

The Company completed its initial public offering on The Stock Exchange of Hong Kong Limited on 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. 91370000614140809E. The registered address of the Company is Floor 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province.

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

## 2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2018 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 2017, which have been prepared in accordance with International Financial Reporting Standards (the “IFRS”).

The Group adopted the going concern basis in preparing its condensed consolidated interim financial information.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements except for the adoption of new and amended standards as set out below.



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group

In the current period, the Group has applied the following standards and amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2018 and the relevant impact is set out below:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IAS 40	Transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Except IFRS 9, amendments to IFRSs effective for the financial period ended 30 June 2018 do not have a material impact on the Group.

#### 2.1.1 IFRS 9, 'Financial instruments'

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 'Financial Instruments: Disclosures' have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in section 3.1 below.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

##### (a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Financial assets	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Refundable deposits	Amortised cost	25,599	Amortised cost	25,599
Other current assets (exclude prepayment)	Amortised cost	72,790	Amortised cost	72,790
Derivative financial assets	Fair value through profit or loss (FVPL)	63,087	FVPL	63,087
Financial assets at fair value through profit or loss	FVPL	526,967	FVPL	526,967
Financial assets held under resale agreements	Amortised cost	112,532	Amortised cost	112,532
Deposits with exchange-clearing organizations	Amortised cost	2,737,775	Amortised cost	2,737,775
Bank balances held for clients	Amortised cost	3,782,507	Amortised cost	3,782,507
Cash and bank balances	Amortised cost	800,146	Amortised cost	800,146
Available-for-sale financial assets (Debt instruments)	Fair value through other comprehensive income (FVOCI)	398,016	Amortised cost FVPL	10,023 387,993
Available-for-sale financial assets (Equity instruments)	FVOCI	90,390	FVPL FVOCI	88,990 1,400

There will be no impact on the Group's accounting for financial liabilities except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

##### (b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to Note 3.1 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassifications	IFRS 9 carrying amount 1 January 2018
<b>Amortised cost</b>			
<b>Refundable deposits</b>			
Opening balance under IAS 39 and closing balance under IFRS 9	25,599		25,599
<b>Other current assets</b>			
Opening balance under IAS 39 and closing balance under IFRS 9	72,790		72,790
<b>Financial assets held under resale agreements</b>			
Opening balance under IAS 39 and closing balance under IFRS 9	112,532		112,532

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)*

	IAS 39 carrying amount 31 December	IFRS 9 carrying amount 1 January	
Ref	2017	Reclassifications	2018
<b>Deposits with exchange-clearing organizations</b>			
Opening balance under IAS 39 and closing balance under IFRS 9	2,737,775		2,737,775
<b>Bank balances held for clients</b>			
Opening balance under IAS 39 and closing balance under IFRS 9	3,782,507		3,782,507
<b>Cash and bank balances</b>			
Opening balance under IAS 39 and closing balance under IFRS 9	800,146		800,146
<b>Financial assets at amortised cost</b>			
Opening balance under IAS 39	-		
Addition: From AFS	(1)	10,023	
Closing balance under IFRS 9			10,023
<b>Total financial assets measured at amortised cost</b>	<b>7,531,349</b>	<b>10,023</b>	<b>7,541,372</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)*

	IAS 39		IFRS 9
	carrying amount		carrying amount
	31 December		1 January
	Ref	2017	Reclassifications
			2018
<b>Fair value through profit of loss</b>			
<b>Derivative financial assets</b>			
Opening balance under IAS 39 and closing balance under IFRS 9		63,087	63,087
<b>Financial assets at fair value through profit or loss</b>			
Opening balance under IAS 39		526,967	
Addition: From AFS (Debt instruments)	(1)		387,993
Addition: From AFS (Equity instruments)	(1)		88,990
Closing balance under IFRS 9			1,003,950
<b>Total financial assets measured at FVPL</b>		590,054	476,983
			1,067,037

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

##### (b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

		IAS 39		IFRS 9
		carrying amount		carrying amount
		31 December		1 January
	Ref	2017	Reclassifications	2018
<b>Fair value through other comprehensive income</b>				
<b>Available-for-sale financial assets</b>				
Opening balance under IAS 39		488,406		
Subtraction: To amortised cost (Debt instruments)	(1)		(10,023)	
Subtraction: To FVPL (Debt instruments)	(1)		(387,993)	
Subtraction: To FVPL (Equity instruments)	(1)		(88,990)	
Subtraction: To FVOCI (Equity instruments)			(1,400)	
Closing balance under IFRS 9				-
<b>Financial assets at FVOCI</b>				
Opening balance under IAS 39		-		
Addition: From AFS (Equity instruments)			1,400	
Closing balance under IFRS 9				1,400
<b>Total financial assets measured at FVOCI</b>		488,406	(487,006)	1,400

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

##### *(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)*

###### (1) Financial instruments previously classified as available-for-sale financial assets

###### Debt instruments

The Group has assessed its business model for debt instruments classified as available-for-sale (AFS), and identified that the appropriate business model for these debt instruments is held to collect.

The majority of the Group's debt instruments with a carrying amount of RMB387,993 thousand failed to meet the solely payments of principal and interest (SPPI) requirement for amortised cost classification under IFRS 9. As a result, these instruments were classified as FVPL from the date of initial application.

The Group's also holds an investment in other wealth management product with a carrying amount of RMB10,023 thousand which has met the SPPI requirement for amortised cost classification under IFRS 9. The instrument was classified as amortised cost from the date of initial application.

###### Equity instruments

The Group holds a portfolio of equity instruments with a carrying amount of RMB88,990 thousand which were classified as FVPL from the date of initial application. Related fair value gains of RMB164 thousand were transferred from the AFS financial assets reserve to retained earnings on 1 January 2018.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.1 New and amended standards adopted by the Group (continued)

#### 2.1.1 IFRS 9, 'Financial instruments' (continued)

##### (c) *Impairment of financial assets*

The Group only has financial assets classified at amortised cost that are subject to IFRS 9's new expected credit loss model. The Group has assessed the impact of adoption of expected credit loss model, and identified that the increase of loss allowance is immaterial.

#### 2.1.2 IFRS 15, 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15 as issued by the IASB in May 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies. The Group did not early adopt any of IFRS 15 in previous periods.

As permitted by the transitional provisions of IFRS 15, the Group elected not to restate comparative figures. Any cumulative impact of the adoption was recognised in retained earnings as of 1 January 2018.

The Group has assessed the impact of adoption of IFRS 15, and identified that the impact on the Group's financial statements is limited.



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation (continued)

### 2.2 New standards and interpretations not yet adopted

#### IFRS 16, 'Leases'

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB31,349 thousand, see Note 33. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 3 Principal accounting policies

### 3.1 IFRS 9, 'Financial instruments'

#### Investments and other financial assets

##### (a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### (b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 3 Principal accounting policies (continued)

### 3.1 IFRS 9, 'Financial instruments' (continued)

#### Investments and other financial assets (continued)

##### (b) Measurement (continued)

###### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'Net investment gains/(losses)'. Impairment losses are presented as separate line item in the statement of profit or loss.

**FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment gains/(losses)'. Interest income from these financial assets is included in interest income using the effective interest rate method. Impairment losses are presented as separate line item in the statement of profit or loss.

**FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within 'Net investment gains/(losses)' in the period in which it arises.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 3 Principal accounting policies (continued)

### 3.1 IFRS 9, 'Financial instruments' (continued)

#### Investments and other financial assets (continued)

##### (b) *Measurement (continued)*

###### Debt instruments (continued)

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

###### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as 'Net investment gains/(losses)' when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in 'Net investment gains/(losses)' in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

##### (c) *Impairment*

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 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 2017.

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 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.

### 4.2 Determining business model and applying SPPI test

Determining the appropriate business model and assessing whether cash flows generated by an asset constitute SPPI is sometimes complex and may require significant judgement. These judgements may have significant impacts on the financial statements.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 4 Estimates (continued)

### 4.2 Determining business model and applying SPPI test (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows meet the SPPI test. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic arrangement i.e. interest includes only consideration for the time value of money, credit risk, and a profit margin that is consistent with a basic arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic arrangement, the related financial asset is classified and measured at FVPL.

### 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 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 2018

(All amounts in RMB'000 unless otherwise stated)

## 4 Estimates (continued)

### 4.4 Determination of consolidation scope (continued)

A trust scheme is established by a third-party asset manager where the Group holds a part of the units. The manager of the trust scheme is mainly responsible for fund administration with very low management fee level. Assets held by the trust scheme are entirely invested in the asset management scheme which the Company is the asset manager. By assessing the management fee and performance reward earned in capacity of the asset manager, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

## 5 Net commission and fee income

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
<b>Commission and fee income</b>		
Futures brokerage service	143,200	115,502
Settlement and clearing service income from other futures firms	2,082	622
Asset management service	1,250	3,884
Investment consultancy	10	36
	<b>146,542</b>	120,044
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	119,561	86,100
Settlement and clearing service expense to exchange-clearing organizations	2,082	622
	<b>121,643</b>	86,722

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 6 Net interest income

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
<b>Interest income</b>		
Interest income from deposits with banks	99,787	98,870
Interest income from deposits with exchange-clearing organizations	5,029	2,953
Interest income from financial assets held under resale agreements and sales under repurchase agreements	2,303	2,459
	<b>107,119</b>	104,282
<b>Interest expense</b>		
Interest expense to certain brokerage clients	4,880	5,592
Interest expense on settlement and clearing services to other futures firms	533	774
Interest expense on borrowings	211	–
	<b>5,624</b>	6,366



## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

### 7 Gains on physical commodities trading

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Sales proceeds	411,341	492,703
Costs of purchases	(408,348)	(488,366)
	2,993	4,337

A subsidiary of the Company involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized based on the satisfaction of performance obligations.

### 8 Net investment gains

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Net realized losses from disposal of available-for sale financial assets	–	(3,978)
Dividends and interest income from available-for-sale financial assets	–	6,439
Interest income from financial assets at amortised cost	171	–
Net realized (losses)/gains from disposal of financial assets at fair value through profit or loss	(429)	2,480
Dividends and interest income from financial assets at fair value through profit or loss	19,661	1,117
Net realized gains from derivative financial instruments	10,737	5,964
Unrealized fair value change of financial instruments at fair value through profit or loss		
– Financial assets at fair value through profit or loss	6,830	7,305
– Derivative financial instruments	8,690	(3,022)
– Financial liabilities at fair value through profit or loss	(3,919)	4,508
	41,741	20,813

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 9 Other income

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Refunds of trading income <sup>(1)</sup>	45,764	51,535
Cooperative hedging income	5,913	642
Training service income	1,361	2,904
Software service income	631	864
Consulting service income	189	1,562
Other	341	1,896
	<b>54,199</b>	<b>59,403</b>

<sup>(1)</sup> To improve the sustainable development of futures market, the futures exchanges implement a practice to partially refund trading fees to their clearing members. The policies on the timing and calculation method of refund, are made and adjusted periodically at the discretion of the futures exchanges.

## 10 Staff costs

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Salaries and bonus	45,639	41,184
Other social security	5,751	5,353
Pension	5,431	4,922
Labour union funds and employee education funds	2,175	1,845
Other welfare	27	190
	<b>59,023</b>	<b>53,494</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 11 Other operating expenses

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Office expenses	8,254	9,679
Rentals	6,993	6,304
Marketing and distribution expenses	6,480	7,436
Consulting expenses	6,383	4,677
Information system maintenance fees	5,823	4,368
Professional service expenses	2,097	1,672
Property maintenance fee	2,081	1,852
Taxes and surcharges	446	474
Futures Investors Protection Fund	246	165
Other expenses	2,214	3,168
	<b>41,017</b>	<b>39,795</b>

## 12 Income tax expense

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Current tax	24,427	19,664
Deferred tax (Note 20)	4,151	4,426
	<b>28,578</b>	<b>24,090</b>

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 period.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 12 Income tax expense (continued)

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

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit before income tax	115,053	106,198
Tax calculated at tax rates applicable to profits in the respective area	27,695	26,392
Items deducted for tax purposes but not subtracted to arrive at taxable income	(1,001)	(1,042)
Adjustments in respect of prior years	18	(2,153)
Items not deductible for tax purposes	1,866	893
	<b>28,578</b>	24,090

## 13 Dividends

A dividend of RMB67,127 thousand in respect of the year ended 31 December 2017 of the Company was declared and recognised during the period of six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB48,091 thousand).

The board of directors has proposed not to declare any interim dividends in respect of the six months period ended 30 June 2018.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 14 Earnings per share

### 14.1 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	
	2018 (Unaudited)	2017 (Unaudited)
Profit attributable to shareholders of the Company (in RMB thousands)	88,443	83,029
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.09	0.08

### 14.2 Diluted earnings per share

For the six months ended 30 June 2018, there were no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share (for the six months ended 30 June 2017: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 15 Property, plant and equipment

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
1 January 2018	40,073	10,341	36,842	87,256
Additions	–	–	5,126	5,126
Disposals	–	(554)	(147)	(701)
30 June 2018	40,073	9,787	41,821	91,681
<b>Accumulated depreciation</b>				
1 January 2018	(8,939)	(7,681)	(25,670)	(42,290)
Additions	(649)	(350)	(2,704)	(3,703)
Disposals	–	533	94	627
30 June 2018	(9,588)	(7,498)	(28,280)	(45,366)
<b>Carrying amount</b>				
30 June 2018	30,485	2,289	13,541	46,315

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 15 Property, plant and equipment (continued)

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
1 January 2017	40,073	9,661	29,756	79,490
Additions	–	767	3,577	4,344
Disposals	–	–	(640)	(640)
30 June 2017	40,073	10,428	32,693	83,194
<b>Accumulated depreciation</b>				
1 January 2017	(7,641)	(7,159)	(22,451)	(37,251)
Additions	(649)	(380)	(1,852)	(2,881)
Disposals	–	–	609	609
30 June 2017	(8,290)	(7,539)	(23,694)	(39,523)
<b>Carrying amount</b>				
30 June 2017	31,783	2,889	8,999	43,671

All buildings of the Group are located outside Hong Kong.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 16 Investments in associates

Set out below are the associates of the Group as at 30 June 2018. The associates as listed below have share capital consisting solely of ordinary shares, which are held indirectly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at 30 June 2018:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司) ("Rizhao BOT") <sup>(1)</sup>	Rizhao, the PRC	29.5%	Commodity trading	Equity
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. (上海魯証鋒通經貿有限公司) ("Luzheng Fengtong") <sup>(2)</sup>	Shanghai, the PRC	35.0%	Commodity trading	Equity

<sup>(1)</sup> Rizhao BOT

The Group invested RMB9.8 million in an associate named Rizhao BOT during the year ended 31 December 2014. Rizhao BOT is located in Rizhao City, Shandong Province.

Upon completion of the equity restructuring of Rizhao BOT in May 2015, the Group's equity holding in Rizhao BOT was diluted from 49% to 29.5%. The Group made payment of RMB24.88 million for the capital increase in April 2016.

The registered capital of Rizhao BOT is RMB120 million as at 30 June 2018. The Group holds 29.5% of its equity and accounts for the associate using equity method.



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 16 Investments in associates (continued)

<sup>(1)</sup> Rizhao BOT (continued)

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
At 1 January	27,218	28,743
Capital injection	-	-
Share of losses for the period	(912)	(897)
At 30 June	26,306	27,846
Summarized Financial Information		
Opening net assets	97,467	102,641
Capital contributions	-	-
Losses for the period	(3,092)	(3,042)
Other comprehensive income	-	-
Closing net assets	94,375	99,599
Interest in the associate and carrying value	26,306	27,846

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 16 Investments in associates (continued)

<sup>(2)</sup> Luzheng Fengtong

The registered capital of Luzheng Fengtong is RMB100 million as at 30 June 2018. The Group holds 35% of its equity and accounts for the associate using equity method.

As at 30 June 2018, the Group has made a capital contribution of RMB17.5 million.

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

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
At 1 January	18,273	–
Capital injection	–	17,500
Share of losses for the period	(485)	–
<b>At 30 June</b>	<b>17,788</b>	<b>17,500</b>
Summarized Financial Information		
Opening net assets	52,209	–
Capital contributions	–	50,000
Losses for the period	(1,387)	–
Other comprehensive income	–	–
<b>Closing net assets</b>	<b>50,822</b>	<b>50,000</b>
<b>Interest in the associate and carrying value</b>	<b>17,788</b>	<b>17,500</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 17 Investments in subsidiaries and consolidated structured entities

### 17.1 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 Trading Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB350,000,000/ RMB350,000,000	100%	Directly	Commodity trading, derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司)("Zhongtai Hui Rong")	Hong Kong	21 November 2013	Limited company	HKD84,449,920.83/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司)("Lu Clearing")	Jinan, the PRC	9 October 2016	Limited company	RMB50,000,000/ RMB150,000,000	40%	Indirectly	Registration, settlement and derivatives clearing
Luzheng International Holding Limited (魯証國際控股有限公司) ("Luzheng International Holding")	Hong Kong	16 April 2018	Limited company	HKD0/ HKD30,000,000	100%	Directly	Investment holding
Luzheng International Futures Limited (魯証國際期貨有限公司)("Luzheng International Futures")	Hong Kong	17 May 2018	Limited company	HKD0/ HKD1	100%	Indirectly	

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

### 17.2 Non-controlling interests

Non-controlling interests amounting to RMB26,164 thousand (31 December 2017: RMB28,132 thousand) is attributable to Lu Clearing as at 30 June 2018.

### 17.3 Consolidated structured entities (SEs)

As at 30 June 2018, net assets of consolidated SEs, the Group's initial investment and maximum exposure arising from its investments in consolidated SEs are:

(Unaudited)	Net assets	Initial investment	Maximum exposure
Investments in consolidated SEs by the Group:			
CR Trust-Huiquan Wantai FOF No.2	354,681	30,000	30,000
Huiquan Wantai FOF No.2	354,115	328,650	354,115
	708,796	358,650	384,115

"CR Trust-Huiquan Wantai FOF No.2" is a trust scheme established by a third-party asset manager where the Group holds a part of the units.

"Huiquan Wantai FOF No.2" is a collective asset management scheme where the Company has been involved as manager.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
<b>Non-current</b>		
Trust schemes	91,082	–
Private securities investment funds	29,143	–
Collective asset management schemes <sup>(1)</sup>	7,358	–
	<b>127,583</b>	–
<b>Current</b>		
Trust schemes	741,307	384,866
Collective asset management schemes <sup>(1)</sup>	120,579	24,856
Private securities investment funds	63,675	84,648
Open-ended funds	44,638	20,030
Bank wealth management products	8,009	11,037
Listed equity securities	6	1,530
	<b>978,214</b>	526,967
	<b>1,105,797</b>	526,967

<sup>(1)</sup> Collective asset management schemes refer to those privately offered schemes managed by CSRC-regulated financial institutions including fund management companies, securities companies, futures companies and their asset management subsidiaries.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 19 Available-for-sale financial assets

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
<b>Non-current – Unlisted</b>		
<b>At fair value</b>		
Trust schemes	–	256,368
Collective asset management schemes	–	7,052
<b>At cost</b>		
Investments in exchange memberships	–	1,400
	–	264,820
<b>Current – Unlisted</b>		
<b>At fair value</b>		
Collective asset management schemes	–	81,938
Trust schemes	–	131,625
Other wealth management products	–	10,023
	–	223,586
	–	488,406

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

### 20 Deferred income tax assets and liabilities

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

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Balance at beginning of period	4,444	5,747
Income statement charge (Note 12)	(4,226)	(4,547)
Tax charge relating to components of other comprehensive income	41	(1,052)
Balance at end of period	259	148

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 20 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	Deductible tax loss	Interest payable	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Tax impact arising from consolidated structured entities	Others	Total
<b>(Unaudited)</b>							
<b>As at 1 January 2018</b>	-	4,563	463	1,428	-	1,320	7,774
Income statement charge	-	(1,776)	(187)	(1,428)	-	4,614	1,223
Tax charge relating to components of other comprehensive income	-	-	-	-	-	-	-
<b>As at 30 June 2018</b>	-	2,787	276	-	-	5,934	8,997
<b>(Unaudited)</b>							
<b>As at 1 January 2017</b>	1,566	4,204	542	-	528	1,223	8,063
Income statement charge	-	(1,309)	(223)	9,446	(528)	(646)	6,740
Tax charge relating to components of other comprehensive income	-	-	-	-	-	-	-
<b>As at 30 June 2017</b>	1,566	2,895	319	9,446	-	577	14,803



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

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

	Changes in fair value of available-for-sale financial assets	Interest receivable from deposits	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Tax impact arising from consolidated structured entities	Others	Total
<b>(Unaudited)</b>						
<b>As at 1 January 2018</b>	41	2,376	845	-	68	3,330
Income statement charge	-	3,221	2,228	-	-	5,449
Tax charge relating to components of other comprehensive income	(41)	-	-	-	-	(41)
<b>As at 30 June 2018</b>	-	5,597	3,073	-	68	8,738
<b>(Unaudited)</b>						
<b>As at 1 January 2017</b>	509	1,577	154	-	76	2,316
Income statement charge	-	453	10,489	345	-	11,287
Tax charge relating to components of other comprehensive income	1,052	-	-	-	-	1,052
<b>As at 30 June 2017</b>	1,561	2,030	10,643	345	76	14,655

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

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

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

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Deferred income tax assets	(5,327)	(10,933)
Deferred income tax liabilities	(5,327)	(10,933)

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

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Deferred income tax assets	3,670	3,870
Deferred income tax liabilities	3,411	3,722

## 21 Refundable deposits

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Security deposit placed with the China Financial Futures Exchange	20,116	20,114
Security deposit placed with the China Securities Depository and Clearing	5,526	5,485
	<b>25,642</b>	<b>25,599</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 22 Other current assets

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Interest receivable from deposits	22,392	9,506
Prepayments	22,325	41,086
Deposit for derivatives trading	17,882	–
Accounts receivable <sup>(1)</sup>	13,608	6,499
Notes receivable	4,000	4,566
Other receivables	61,748	52,220
	<b>141,955</b>	<b>113,877</b>

<sup>(1)</sup> Accounts receivable

The aging analysis of accounts receivable is as follows:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	13,867	(259)	6,899	(400)
1-2 years	400	(400)	–	–
	<b>14,267</b>	<b>(659)</b>	<b>6,899</b>	<b>(400)</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 23 Derivative financial instruments

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Assets	Liabilities	Assets	Liabilities
OTC options <sup>(1)</sup>	73,406	108,293	58,594	67,080
Exchange traded options <sup>(2)</sup>	4,859	11,899	4,493	3,604
Futures contracts <sup>(3)</sup>	–	–	–	–
	<b>78,265</b>	<b>120,192</b>	<b>63,087</b>	<b>70,684</b>

<sup>(1)</sup> OTC options

The intrinsic value of the OTC options at 30 June 2018 amounted to RMB50,898 thousand (31 December 2017: RMB23,885 thousand), of which the underlying assets were exchange-traded commodity futures contracts (31 December 2017: same).

<sup>(2)</sup> Exchange traded options

The intrinsic value of the exchange traded options at 30 June 2018 amounted to RMB12,888 thousand (31 December 2017: RMB6,571 thousand), of which the underlying assets were exchange-traded commodity futures contracts (31 December 2017: same).

<sup>(3)</sup> Futures contracts

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Contractual value	Fair value	Contractual value	Fair value
Commodities futures	1,725,900	(5,146)	954,314	(5,316)
Financial futures	–	–	932	3
Less: Cash paid as settlement		5,146		5,313
Net position		–		–

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in "deposits with exchange-clearing organizations" as at 30 June 2018 (31 December 2017: same).

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

### 24 Financial assets held under resale agreements

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Analysed by asset type:		
– Debt securities	150,000	92,800
– Warehouse receipts <sup>(1)</sup>	10,414	19,732
	<b>160,414</b>	<b>112,532</b>

<sup>(1)</sup> The Group received warehouse receipts as collateral which can be re-pledged. As at 30 June 2018, the Group received warehouse receipts with a fair value of RMB10,268 thousand (31 December 2017: RMB25,620 thousand) and a supplementary margin deposit of RMB209 thousand as collateral.

### 25 Deposits with exchange-clearing organizations

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Clients' margin deposits	2,298,333	2,548,609
Proprietary clearing settlement funds	202,950	175,495
Clients' unrestricted deposits	252,704	13,671
	<b>2,753,987</b>	<b>2,737,775</b>
<b>Represented by</b>		
Deposits with Shanghai Future Exchange	942,149	665,962
Deposits with Dalian Commodity Exchange	695,576	673,669
Deposits with China Financial Futures Exchange	501,160	1,040,969
Deposits with Zhengzhou Commodity Exchange	357,277	214,393
Deposits with China Securities Depository and Clearing	225,430	142,782
Deposits with Shanghai International Energy Exchange	32,395	–
	<b>2,753,987</b>	<b>2,737,775</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 26 Bank balances held for clients

The Company maintains separate accounts with banks for clients' money arising from the normal course of business. The money mainly consist of individuals, asset management customers and other non-fully licenced futures firms. The Company records these money 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 money. Bank balances held for clients for transaction and settlement purposes are subject to regulatory oversight by large state-owned commercial banks and joint stock commercial banks in the PRC, pursuant to CSRC regulations.

## 27 Cash and bank balances

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Cash	37	22
Term deposit with banks	550,000	740,000
Demand deposit with banks	112,485	49,735
Deposit with securities and futures brokers	10,473	10,389
	672,995	800,146
Less: impairment allowance	(599)	–
	672,396	800,146

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

## 28 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 2018 (Unaudited)	31 December 2017 (Audited)
Registered, issued and fully paid share capital	1,001,900	1,001,900

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

### 29 Share premium and other 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 2018</b>	650,630	46,017	163,002	98	681	860,428
Changes on initial application of IFRS 9	-	-	-	(98)	-	(98)
<b>As at 1 January 2018 (Restated)</b>	650,630	46,017	163,002	-	681	860,330
Appropriation to futures risk reserve	-	-	3,909	-	-	3,909
Appropriation to general risk reserve for asset management business	-	-	94	-	-	94
Currency translation differences	-	-	-	-	1,449	1,449
<b>As at 30 June 2018</b>	650,630	46,017	167,005	-	2,130	865,782
<b>(Unaudited)</b>						
<b>As at 1 January 2017</b>	650,630	32,619	140,232	1,528	1,975	826,984
Amounts recognized in other comprehensive income	-	-	-	3,159	-	3,159
Appropriation to futures risk reserve	-	-	4,169	-	-	4,169
Currency translation differences	-	-	-	-	(665)	(665)
<b>As at 30 June 2017</b>	650,630	32,619	144,401	4,687	1,310	833,647

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 29 Share premium and other reserves (continued)

<sup>(1)</sup> Other risk reserves

Other risk reserves include general risk reserve, futures risk reserve and general risk reserve for asset management business. 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. General risk reserve for asset management business is appropriated based on 10% of management fee income on asset management business, for the purpose of covering potential losses from conducting the business according to 'Guidance on Regulating the Asset Management Business of Financial Institutions' (《關於規範金融機構資產管理業務的指導意見》) issued on 27 April 2018.

<sup>(2)</sup> Available-for-sale financial assets revaluation reserve

(Unaudited)	Six months ended 30 June 2018		
	Pre-tax amount	Income tax effect	After-tax net amount
Balance at beginning of period	131	(33)	98
Amounts reclassified to retained earnings according to IFRS 9	(131)	33	(98)
Balance at end of period	-	-	-

(Unaudited)	Six months ended 30 June 2017		
	Pre-tax amount	Income tax effect	After-tax net amount
Balance at beginning of period	2,037	(509)	1,528
Changes in fair value of available-for-sale financial assets	4,537	(1,134)	3,403
Amounts reclassified to losses upon disposal of available-for-sale financial assets	(326)	82	(244)
Balance at end of period	6,248	(1,561)	4,687



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 30 Other current liabilities

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Payable to OTC clients	81,582	26,702
Dividends payable (Note 13)	67,127	–
Salaries, bonus, allowance and benefits payables	45,639	53,702
Warehouse receipts sold under repurchase agreements <sup>(1)</sup>	43,120	–
Advance received for physical commodity trading	11,646	18,474
Amount collected on behalf of futures asset management schemes	2,054	47
Interest payable	1,103	1,852
Payable to Futures Investor Protection Fund	247	376
Other payables	20,152	13,307
	<b>272,670</b>	<b>114,460</b>

<sup>(1)</sup> The warehouse receipts with a carrying amount of RMB42,415 thousand classified as physical commodities were restricted for sales.

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Interests of holders of consolidated SEs	324,708	316,262
Payable to clients for cooperative hedging business	13,743	10,637
	<b>338,451</b>	<b>326,899</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 32 Cash and cash equivalents

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

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Cash and bank balances (Note 27)	672,396	969,618
Proprietary deposits with exchange-clearing organizations (Note 25)	202,950	126,810
Less:		
Term deposits with original maturity over three months	(280,000)	(875,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(12,000)	(8,000)
	<b>583,346</b>	213,428

## 33 Commitments and contingent liabilities

### (1) Capital commitments

Other than what has been disclosed in Note 16 (2), the Group was not involved in any material capital commitments as at 30 June 2018 (31 December 2017: same).

### (2) Operating lease commitments

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Within 1 year	13,135	11,069
1 to 3 years	10,531	11,056
Over 3 years	7,683	7,056
	<b>31,349</b>	29,181

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 33 Commitments and contingent liabilities (continued)

### (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 2018, 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 2017: same).

## 34 Related party transactions

### 34.1 Related parties

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

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 30 June 2018:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. (originally known as Qilu Securities Co., Ltd., "Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Securities (Shanghai) Asset Management Co., Ltd. ("Zhongtai Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The largest and direct controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Controlled by Laiwu Steel

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 34 Related party transactions (continued)

### 34.1 Related parties (continued)

Significant related legal entities	The relationship with the Group
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The indirect controlling shareholder of Zhongtai Securities
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. (originally known as Jinan Steel Co., Ltd., "Shandong Steel")	Controlled by Shandong Steel Group
Shandong Steel Group Rizhao Co., Ltd. ("Shandong Steel Rizhao")	Controlled by Shandong Steel Group
Rizhao Board of Trade Co., Ltd. ("Rizhao Trade")	Associate invested by the Group
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. ("Luzheng Fengtong")	Associate invested by the Group
Shandong Red Bull Financial Service Co., Ltd. ("Shandong Red Bull")	Associate invested by Zhongtai Securities
Shandong Zhuofei Investment Management Co., Ltd. ("Zhuofei Investment")	Associate invested by Zhongtai Securities

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 34 Related party transactions (continued)

### 34.2 Related party transactions and balances

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

##### *Transactions during the period*

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Introducing broker commission expense <sup>(1)</sup>	2,618	3,729
Interest expense	634	233
Income from providing futures brokerage service	618	264
Rental expense	180	399
Commission expense for stock trading	151	19

<sup>(1)</sup> Introducing broker commission expense relates to commission paid to Zhongtai Securities for introducing futures brokerage clients. It is calculated as a fixed percentage of the commission income from transactions executed by those clients.

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

	30 June	31 December
	2018 (Unaudited)	2017 (Audited)
Accounts payable to brokerage clients	437,112	140,735
Deposit with securities brokers	66	395
Other current liabilities		
– Introducing broker commission payable	3,667	602
– Other payables	43	43
Other receivables		
– Rental prepayment	175	75

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 34 Related party transactions (continued)

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

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

##### Transactions during the period

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Income from providing futures brokerage service	226	–
Interest income from bank deposit		
– Laishang Bank	7,743	17,226
Purchase of collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	9,210	1,420
– Jinquan 7 Days	5,000	–
Purchase of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	–	37,761
Purchase of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	–	10,000
Proceeds received upon maturity of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	10,000	–
Proceeds from disposal of open-ended fund managed by Wanjia Funds		
– Wanjia Funds-Xianjinbao	–	34,327
Proceeds from disposal of collective asset management schemes managed by Zhongtai Asset Management		
– Jinquan 7 Days	2,650	1,000
– Wengu 21/63 Days	9,550	–
Cost of purchase of physical commodities		
– Shandong Steel Rizhao	3,931	–
– Laiwu Steel	–	528
– Laigang Yongfeng	24,489	–
Underwriting fee expense		
– Zhuofei Investment	–	11
Commission sales fee expense		
– Shandong Red Bull	–	87

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 34 Related party transactions (continued)

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

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

*Balance at the end of period/year*

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Accounts payable to brokerage clients	18,027	2,911
Cash and bank balance		
– Laishang Bank	280,031	420,008
Collective asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days FVPL (2017: AFS financial assets)	65,836	66,176
– Jinquan 7 Days FVPL (2017: AFS financial assets)	3,000	650
Other wealth management product managed by Zhuofei Investment		
– Shangpiaotong AFS financial assets	–	10,023
Prepayments		
– Shandong Steel Rizhao	39	3,359
– Laiwu Steel	–	49
Consulting fee payable		
– Zhaongtai Asset Management	45	45
Other receivables		
– Rizhao BOT	–	40

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 34 Related party transactions (continued)

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

#### 34.2.3 Key management personnel

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

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Key management compensation	1,939	2,299

There is no loan or advance to key management during the six months ended 30 June 2018 and 30 June 2017.

## 35 Segment analysis

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

- 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 2018 and 30 June 2017.

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

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(All amounts in RMB'000 unless otherwise stated)

## 35 Segment analysis (continued)

(Unaudited)	Six months ended 30 June 2018					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others	Elimination	
Net commission and fee income						
– external	23,649	–	1,250	–	–	24,899
– internal	2,695	–	–	–	(2,695)	–
Net interest income						
– external	72,624	467	59	28,345	–	101,495
– internal	(989)	–	–	–	989	–
Gains on physical commodities trading						
– external	–	2,993	–	–	–	2,993
Net investment gains						
– external	–	21,501	2,191	18,049	–	41,741
– internal	–	(1,383)	–	–	1,383	–
Other income						
– external	45,764	6,101	–	2,334	–	54,199
– internal	(323)	–	–	351	(28)	–
<b>Total operating income</b>	<b>143,420</b>	<b>29,679</b>	<b>3,500</b>	<b>49,079</b>	<b>(351)</b>	<b>225,327</b>
<b>Total operating expenses</b>						
– external	(50,820)	(6,408)	(3,513)	(50,657)	–	(111,398)
– internal	–	–	–	(53)	53	–
Share of losses of investment in associates	–	(1,397)	–	–	–	(1,397)
Other (losses)/gains, net	–	(892)	–	3,413	–	2,521
<b>Profit/(Loss) before income tax</b>	<b>92,600</b>	<b>20,982</b>	<b>(13)</b>	<b>1,782</b>	<b>(298)</b>	<b>115,053</b>
<b>Total assets</b>	<b>6,070,994</b>	<b>674,374</b>	<b>354,279</b>	<b>2,129,799</b>	<b>(621,025)</b>	<b>8,608,421</b>
<b>Total liabilities</b>	<b>5,853,098</b>	<b>281,985</b>	<b>326,295</b>	<b>182,030</b>	<b>(240,490)</b>	<b>6,402,918</b>
<b>Supplemental information</b>						
Depreciation and amortization	4,127	45	23	1,832	–	6,027
Impairment provision	–	–	–	(599)	–	(599)
Capital expenditure	5,589	–	12	(85)	–	5,516

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 35 Segment analysis (continued)

(Unaudited)	Six months ended 30 June 2017					Elimination	Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Headquarter and others			
Net commission and fee income							
– external	29,963	–	3,359	–	–	–	33,322
– internal	909	–	–	–	(909)	–	–
Net interest income							
– external	77,661	1,483	1,857	16,915	–	–	97,916
– internal	(394)	394	–	–	–	–	–
Gains on physical commodities trading							
– external	–	4,337	–	–	–	–	4,337
Net investment gains							
– external	–	9,222	5,080	6,512	–	–	20,813
– internal	–	(909)	–	–	909	–	–
Other income							
– external	51,535	2,641	–	5,227	–	–	59,403
<b>Total operating income</b>	159,159	17,682	10,296	28,654	–	–	215,791
<b>Total operating expenses</b>	(54,224)	(4,739)	(4,545)	(42,828)	–	–	(106,336)
Share of losses of investment							
in associates	–	(897)	–	–	–	–	(897)
Other losses, net	–	(2,043)	–	(317)	–	–	(2,360)
<b>Profit/(Loss) before income tax</b>	104,935	10,003	5,751	(14,491)	–	–	106,198
<b>Total assets</b>	5,770,629	456,339	77,275	2,059,516	(412,686)	–	7,951,073
<b>Total liabilities</b>	5,617,133	139,056	77,363	85,168	(82,686)	–	5,836,034
<b>Supplemental information</b>							
Depreciation and amortization	1,987	72	24	2,528	–	–	4,611
Impairment provision	–	–	–	5	–	–	5
Capital expenditure	3,061	101	42	8,857	–	–	12,061

# Notes to the Interim Condensed Financial Information

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(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management

### 36.1 Risk management policies and structure

#### (1) Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximize the shareholders' value. The Group's risk management strategy is to identify and analyse the risks to which the Group is exposed, 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, assess, monitor and manage the financial risks. The Group reviews the risk management policies and systems regularly, and revises according to the market environment, as well as changes in products and services. The Group is devoted to establish a control environment consisting of a clear framework, normative process and specific responsibilities.

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

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

##### *Level 1: Board, Supervisory Committee*

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018  
(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

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

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

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

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

##### *Level 3: Compliance and Internal 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*

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 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

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

#### (3) Policies and structure of Luzheng Trading, a major subsidiary of the Group

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

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

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

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

### 36.2 Credit risk

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

The Group's credit risks mainly come from financial assets which include bank balances, bank balances held for clients, deposits with exchange-clearing organizations, financial assets held under resale agreements, debt instruments classified as financial asset at fair value through profit or loss (2017:available-for-sale financial assets), financial asset at fair value through other comprehensive income, 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 debt instruments and 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 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.2 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 requires 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 extra 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 warrants 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 2018, the Group received warehouse receipts with a fair values of RMB10,268 thousand (31 December 2017: RMB25,620 thousand) and a supplementary margin deposit of RMB209 thousand as collateral for the balance of RMB10,414 thousand (31 December 2017: RMB19,732 thousand) under financial assets held under resale agreements.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.2 Credit risk (continued)

#### (1) Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit loss on a lifetime basis.

The Group's financial assets measured at amortised cost that are subject to IFRS 9's new expected credit loss model, such as refundable deposits, other current assets, financial assets held under resale agreements, deposit with exchange-clearing organizations, bank balance held for clients and cash and bank balances. Except for the accounts receivable under other current assets amounting to RMB400 thousand is classified in Stage 3 and fully impaired, all the other items are classified in Stage 1. The Group considers that the impairment loss is immaterial.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.2 Credit risk (continued)

#### (2) Maximum exposure to credit risk – Financial instruments subject to impairment

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 2018 (Unaudited)	31 December 2017 (Audited)
Refundable deposits	25,642	25,599
Other current assets	119,630	72,790
Available-for-sale financial assets	–	399,415
Financial assets at fair value through profit or loss (Debt instruments)	498,240	–
Financial assets held under resale agreements	160,414	112,532
Deposits with exchange-clearing organizations	2,753,987	2,737,775
Bank balances held for clients	3,411,225	3,782,507
Bank balances	672,359	800,124
	<b>7,641,497</b>	<b>7,930,742</b>



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.2 Credit risk (continued)

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

Client Risk Ratio	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,685,657	4,934,881	1,544,919	5,018,427
80%-100%	595,683	652,437	997,593	1,070,712
Above 100%	16,993	16,562	6,097	5,675
	2,298,333	5,603,880	2,548,609	6,094,813
Coverage ratio		244%		239%

### 36.3 Market risk

#### Summary

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.3 Market risk (continued)

#### 36.3.1 Price risk

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

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives, collective asset management schemes, private securities investment funds, wealth management products and trust schemes in nature of equity. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments and the underlying assets 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 mitigate 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 commodity type, 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 2018, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, derivatives, listed equity securities, open-ended funds, private securities investment funds, wealth management products, trust schemes in nature of equity, 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 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.3 Market risk (continued)

#### 36.3.1 Price risk (continued)

##### *Sensitivity analysis*

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of collective asset management schemes, derivatives, listed equity securities, open-ended funds, private securities investment funds, wealth management products, trust 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 2018 (Unaudited)	31 December 2017 (Audited)
Profit before income tax		
Increase by 5%	11,136	10,235
Decrease by 5%	(11,136)	(10,235)
Other comprehensive income before income tax		
Increase by 5%	-	4,450
Decrease by 5%	-	(4,450)

#### 36.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for clients, deposits with exchange-clearing organizations and trust schemes in nature of debt. 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 2018  
(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.3 Market risk (continued)

#### 36.3.2 Interest rate risk (continued)

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

(Unaudited)	Within 1 month	1-3 months	3 months to 1 year	1 year to 5 years	Non-interest bearing	Total
<b>As at 30 June 2018</b>						
Refundable deposits	25,642	-	-	-	-	25,642
Other current assets	-	-	-	-	119,630	119,630
Derivative financial assets	-	-	-	-	78,265	78,265
Financial assets at fair value through other comprehensive income	-	-	-	-	1,400	1,400
Financial assets at fair value through profit or loss	-	-	417,534	80,706	607,557	1,105,797
Financial assets held under resale agreements	152,297	8,117	-	-	-	160,414
Deposits with exchange-clearing organizations	315,657	-	-	-	2,438,330	2,753,987
Bank balances held for clients	3,411,225	-	-	-	-	3,411,225
Cash and bank balances	222,396	170,000	-	280,000	-	672,396
<b>Sub-total</b>	<b>4,127,217</b>	<b>178,117</b>	<b>417,534</b>	<b>360,706</b>	<b>3,245,182</b>	<b>8,328,756</b>
Other current liabilities	-	(43,120)	-	-	(117,375)	(160,495)
Accounts payable to brokerage clients	(2,413,255)	-	-	-	(3,234,901)	(5,648,156)
Derivative financial liabilities	-	-	-	-	(120,192)	(120,192)
Financial liabilities at fair value through profit or loss	-	-	-	-	(338,451)	(338,451)
Other non-current liabilities	-	-	-	-	(5,471)	(5,471)
<b>Sub-total</b>	<b>(2,413,255)</b>	<b>(43,120)</b>	<b>-</b>	<b>-</b>	<b>(3,816,390)</b>	<b>(6,272,765)</b>
<b>Interest rate sensitivity gap</b>	<b>1,713,962</b>	<b>134,997</b>	<b>417,534</b>	<b>360,706</b>	<b>(571,208)</b>	<b>2,055,991</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.3 Market risk (continued)

#### 36.3.2 Interest rate risk (continued)

(Audited)	Within		3 months to	1 year to	Non-interest	Total
	1 month	1-3 months	1 year	5 years	bearing	
As at 31 December 2017						
Refundable deposits	25,599	-	-	-	-	25,599
Other current assets	-	-	-	-	72,790	72,790
Available-for-sale financial assets	-	10,023	131,624	256,368	90,391	488,406
Derivative financial assets	-	-	-	-	63,087	63,087
Financial assets at fair value through profit or loss	-	-	-	-	526,967	526,967
Financial assets held under resale agreements	92,800	19,732	-	-	-	112,532
Deposits with exchange-clearing organizations	189,166	-	-	-	2,548,609	2,737,775
Bank balances held for clients	3,782,507	-	-	-	-	3,782,507
Cash and bank balances	100,146	320,000	100,000	280,000	-	800,146
<b>Sub-total</b>	<b>4,190,218</b>	<b>349,755</b>	<b>231,624</b>	<b>536,368</b>	<b>3,301,844</b>	<b>8,609,809</b>
Borrowings	-	(13,000)	-	-	-	(13,000)
Other current liabilities	-	-	-	-	(48,316)	(48,316)
Accounts payable to brokerage clients	(1,467,082)	-	-	-	(4,631,649)	(6,098,731)
Derivative financial liabilities	-	-	-	-	(70,684)	(70,684)
Financial liabilities at fair value through profit or loss	-	-	-	-	(326,899)	(326,899)
Other non-current liabilities	-	-	-	-	(3,810)	(3,810)
<b>Sub-total</b>	<b>(1,467,082)</b>	<b>(13,000)</b>	<b>-</b>	<b>-</b>	<b>(5,081,358)</b>	<b>(6,561,440)</b>
<b>Interest rate sensitivity gap</b>	<b>2,723,136</b>	<b>336,755</b>	<b>231,624</b>	<b>536,368</b>	<b>(1,779,514)</b>	<b>2,048,369</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.3 Market risk (continued)

#### 36.3.2 Interest rate risk (continued)

##### *Sensitivity analysis*

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Net interest income		
Increases by 50bps	9,558	14,886
Decreases by 50bps	(9,558)	(14,886)

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 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.3 Market risk (continued)

#### 36.3.3 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.

### 36.4 Liquidity risk

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

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

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

After approved by the board of directors, 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.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.4 Liquidity risk (continued)

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 2018, the Group held cash and cash equivalents of approximately RMB583 million that are expected to readily generate cash inflows for managing liquidity risk (31 December 2017: RMB228 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 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 30 June 2018</b>						
<b>Non-derivative cash flow</b>						
Accounts payable to brokerage clients	5,648,156	–	–	–	–	5,648,156
Other current liabilities	112,321	1,345	43,643	3,709	–	161,018
Financial liabilities at fair value through profit or loss	–	–	–	13,743	324,708	338,451
Other non-current liabilities	–	–	–	–	5,471	5,471
	<b>5,760,477</b>	<b>1,345</b>	<b>43,643</b>	<b>17,452</b>	<b>330,179</b>	<b>6,153,096</b>
<b>Derivative cash flow</b>						
(a) total inflow	–	9,343	6,006	6,638	–	21,987
(b) total outflow	–	(12,021)	(13,905)	(22,743)	–	(48,669)



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.4 Liquidity risk (continued)

(Audited)	On demand	Within 1 month	1-3 months	3 months to 1 year	Above 1 year	Total
<b>As at 31 December 2017</b>						
<b>Non-derivative cash flow</b>						
Borrowings	–	–	13,182	–	–	13,182
Accounts payable to brokerage clients	6,098,731	–	–	–	–	6,098,731
Other current liabilities	46,164	1,426	81	645	–	48,316
Financial liabilities at fair value through profit or loss	–	–	1,856	8,781	316,262	326,899
Other non-current liabilities	–	–	–	–	3,810	3,810
	6,144,895	1,426	15,119	9,426	320,072	6,490,938
<b>Derivative cash flow</b>						
(a) total inflow	–	3,204	2,704	4,109	–	10,017
(b) total outflow	–	(2,411)	(15,489)	(8,280)	–	(26,180)

### 36.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiaries 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 subsidiaries;
- 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 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 Financial risk management (continued)

### 36.5 Capital management (continued)

According to the 'Administrative Measures Concerning Risk Control Indicators for Future Companies' (《期貨公司風險監管指標管理辦法》) issued by the CSRC on 18 April 2017, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB30,000 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 20%;
- 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 RMB12,000 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

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 37 Fair value of financial assets and liabilities

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

### 37.1 Financial instruments not measured at fair value

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

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

### 37.2 Financial instruments measured at fair value

The table below analyses 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 2018  
(All amounts in RMB'000 unless otherwise stated)

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

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

The following table presents the financial assets and liabilities that are measured at fair value as at 30 June 2018 and 31 December 2017.

(Unaudited)	Level 1	Level 2	Level 3	Total
<b>As at 30 June 2018</b>				
Financial assets at fair value through profit or loss				
– Collective asset management schemes <sup>(1)</sup>	–	127,937	–	127,937
– Trust schemes in nature of equity <sup>(1)</sup>	–	326,272	–	326,272
– Trust schemes in nature of debt <sup>(2)</sup>	–	–	506,117	506,117
– Private securities investment funds <sup>(1)</sup>	–	92,818	–	92,818
– Bank wealth management products <sup>(3)</sup>	–	–	8,009	8,009
– Listed equity securities	6	–	–	6
– Open-ended funds	44,638	–	–	44,638
Derivative financial assets				
– OTC options	–	73,406	–	73,406
– Exchange traded options	4,859	–	–	4,859
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
	49,503	620,433	515,526	1,185,462
Financial liabilities at fair value through profit or loss	–	(338,451)	–	(338,451)
Derivative financial liabilities				
– OTC options	–	(108,293)	–	(108,293)
– Exchange traded options	(11,899)	–	–	(11,899)
	(11,899)	(446,744)	–	(458,643)

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

(Audited)	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets at fair value through profit or loss				
– Collective asset management schemes	–	24,856	–	24,856
– Trust schemes	–	384,866	–	384,866
– Private securities investment funds	–	84,648	–	84,648
– Listed equity securities	1,530	–	–	1,530
– Open-ended funds	20,030	–	–	20,030
– Bank wealth management products	–	–	11,037	11,037
Derivative financial assets				
– OTC options	–	58,594	–	58,594
– Exchange traded options	4,493	–	–	4,493
Available-for-sale financial assets				
– Collective asset management schemes	–	88,990	–	88,990
– Trust schemes	–	–	387,993	387,993
– Other wealth management products	–	–	10,023	10,023
	26,053	641,954	409,053	1,077,060
Financial liabilities at fair value through profit or loss				
	–	(326,899)	–	(326,899)
Derivative financial liabilities				
– OTC options	–	(67,080)	–	(67,080)
– Exchange traded options	(3,604)	–	–	(3,604)
	(3,604)	(393,979)	–	(397,583)

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

- <sup>(1)</sup> As at 30 June 2018, collective asset management schemes, trust schemes in nature of equity and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by the Company, Zhongtai Asset Management and other non-related financial institutions, as well as unregulated private fund managers, 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, trust schemes in nature of equity and private securities investment funds are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 36.3.1.
- <sup>(2)</sup> As at 30 June 2018, trust schemes in nature of debt that are classified as level 3 in fair value hierarchy are issued by financial institutions, 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 36.2 (2) and 36.3.2.
- <sup>(3)</sup> As at 30 June 2018, bank wealth management products that are classified as level 3 in fair value hierarchy are issued and managed by Bank of Communications (交通銀行股份有限公司) and Ping An Bank (平安銀行股份有限公司). The bank wealth management products can be purchased and redeemed upon maturity (31 December 2017: same) with the investment return calculated by the expected yield published by the bank. They are mainly exposed to price risk as disclosed in Note 36.3.1.

For the six months ended 30 June 2018, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2017: 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.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

#### (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 2018 and 31 December 2017, the Group's valuation methods for specific investments are as follows:

- (i) For exchange listed equity securities and exchange traded options, fair value is determined based on the closing price of the equity securities and exchange traded options 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.
- (ii) For open ended funds that are listed and traded on exchange, fair value is determined based on the closing price of the funds 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. For open ended funds that are subscribed and redeemed at their net asset value, fair value is determined based on the net asset value of the funds at the reporting date.
- (iii) For collective asset management schemes, trust schemes in the nature of equity, private securities investment funds and bank wealth management products, fair value is determined based on the net asset value as at the reporting date.
- (iv) For OTC options, fair value is determined based on the Black-Scholes (BS) Model and Monte Carlo Model. The key parameters are obtained through the observable market.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

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

The following table presents the changes in level 3 instruments for the period/year ended 30 June 2018 and 31 December 2017.

(Unaudited)	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Available-for-sale financial assets
Balance at 1 January 2018	-	11,037	-	398,016
Change in accounting policy	1,400	387,993	10,023	(398,016)
Restated balance at 1 January 2018	1,400	399,030	10,023	-
Increase	-	267,127	-	-
Decrease	-	(152,031)	(10,023)	-
Balance at 30 June 2018	1,400	514,126	-	-
Total gains or losses for the period included in profit or loss for assets held at end of period under "Net investment gains"	-	7,534	-	-
Change in unrealized gains or losses for the period included in profit or loss for assets held at end of period	-	(407)	-	-



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

#### (d) Financial instruments in level 3 (continued)

(Audited)	Financial assets at fair value through profit or loss	Available- for-sale financial assets
Balance at 1 January 2017	–	137,560
Increase	11,037	405,842
Decrease	–	(145,386)
Balance at 31 December 2017	11,037	398,016
Total gains or losses for the year included in profit or loss for assets held at end of year, under “Net investment gains”	60	15,142
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	60	–

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 38 Offsetting financial assets and financial liabilities

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

As at 30 June 2018					
(Unaudited)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	(5,140)	–	(5,140)	5,140	–

As at 31 December 2017					
(Audited)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial (assets)/ liabilities	Cash (received)/ paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	(5,316)	3	(5,313)	5,313	–

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 2018

(All amounts in RMB'000 unless otherwise stated)

## 39 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include collective asset management schemes, private securities investment funds, bank wealth management products, open-ended funds 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 2018, the interests in unconsolidated structured entities held by the Group included investment recognized as financial assets at fair value through profit or loss. The related carrying amount and the maximum exposure were as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Financial assets at fair value through profit or loss	1,105,791	525,437
Available-for-sale financial assets	–	487,006
	<b>1,105,791</b>	1,012,443

For the period ended 30 June 2018, the income from these unconsolidated SEs held by the Group was as follows:

	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Net investment gains	21,623	2,974

As at 30 June 2018, 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 2017: 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
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“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 ordinary 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
“IAS”	International Accounting Standards issued by the International Accounting Standards Board and its Interpretations
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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

## Definitions

“Main Board”	the Main Board operated by 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 “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 2018
“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