



**鲁证期货**  
LUZHENG FUTURES

**LUZHENG FUTURES COMPANY LIMITED**  
**鲁证期货股份有限公司**

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



**2019**  
**INTERIM**  
**REPORT**



# Contents

Corporate Profile	2
Financial Highlights	4
Management Discussion and Analysis	7
Market Review	7
General Operating Results	9
Analysis of Principal Business	9
Prospects and Future Plans	13
Liquidity, Financial Resources and Capital Structure	15
Material Financing of the Company	16
Material Investments During the Reporting Period	17
Acquisition and Disposal of Material Assets, External Guarantee, Mortgage, Pledge and Material Contingent Liabilities	19
Employees, Remuneration Policies and Training	19
Risk Management	20
Corporate Governance	24
Compliance with the Corporate Governance Code	24
Securities Transactions by Directors, Supervisors and Senior Management	24
Independent Non-Executive Directors	24
Audit Committee	25
Directors' Responsibility for Financial Statements	25
Other Information	26
Subsequent Events	26
Share Capital	26
Interim Results	26
Interim Dividend	26
Purchase, Sale or Redemption of Listed Securities	26
Directors, Supervisors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures	26
Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares	27
Changes of Information of Directors, Supervisors and Chief Executives	29
Report on Review of Interim Financial Information	30
Condensed Consolidated Statement of Comprehensive Income	31
Condensed Consolidated Statement of Financial Position	33
Condensed Consolidated Statement of Changes in Equity	35
Condensed Consolidated Statement of Cash Flows	36
Notes to the Interim Condensed Financial Information	38
Definitions	95



# 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, the PRC

Postal code: 250001

## HEAD OFFICE IN THE PRC

15-16/F Securities Tower, No. 86 Jingqi Road

Shizhong District, Jinan, Shandong Province, the PRC

Postal code: 250001

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower

No. 248, Queen's Road East, Wan Chai, Hong Kong

## BOARD OF DIRECTORS

### Executive Directors

Mr. Chen Fang (Chairman of the Board)

Mr. Liang Zhongwei

### Non-executive Directors

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, the PRC

Mr. Liang Zhongwei

Room 301, Unit 1, Building 14

West Area of Yanzishan Community

Lixia District, Jinan

Shandong Province, the PRC

## JOINT COMPANY SECRETARIES

Mr. Liu Yunzhi (resigned on 21 June 2019)

Mr. Liang Zhongwei (appointed on 21 June 2019)

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, the 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, the 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**

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**STOCK CODE**

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# Financial Highlights

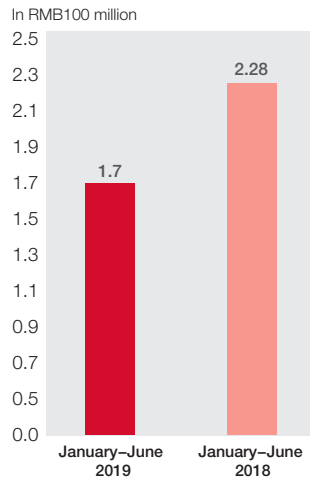
Item	January-June 2019 (Unaudited)	January-June 2018 (Unaudited)	Increase/decrease of the period as compared to that of last year
<b>Operating Results (RMB'000)</b>			
Revenue and other incomes <sup>(1)</sup>	169,612	227,848	-25.56%
Profit before income tax	47,276	115,053	-58.91%
Profit for the period – Attributable to the Company's Shareholders	35,392	88,443	-59.98%
Net cash from operating activities	379,030	48,138	687.38%
<b>Earnings per Share (RMB/Share)</b>			
Basic earnings per Share	0.04	0.09	-55.56%
Diluted earnings per Share	0.04	0.09	-55.56%
<b>Profitability Indexes</b>			
Weighted average return on net asset <sup>(2)</sup>	1.61%	4.08%	Decreased by 2.47 percentage points
<b>Scale Indexes (RMB'000)</b>			
Item	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)	Increase/decrease at the end of the period as compared to that of the end of last year
Total assets	9,540,446	7,900,430	20.76%
Total liabilities	7,329,871	5,667,104	29.34%
Accounts payable to brokerage clients	6,694,642	5,312,076	26.03%
Equity attributable to the Company's Shareholders	2,188,622	2,208,442	-0.90%
<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	2.20	-0.91%
Gearing ratio <sup>(3)</sup>	22.32%	13.72%	Increased by 8.60 percentage points

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

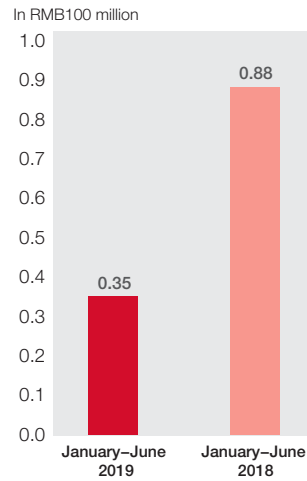
<sup>(2)</sup> Weighted average return on net asset = Profit for the period attributable to the Company's Shareholders/Average remaining balance of total equity attributable to the Company's Shareholders as at the beginning and the end of the period

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

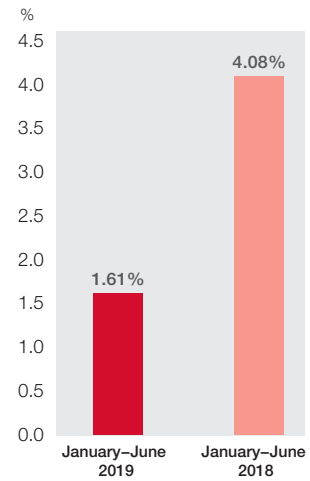
## Revenue and other incomes



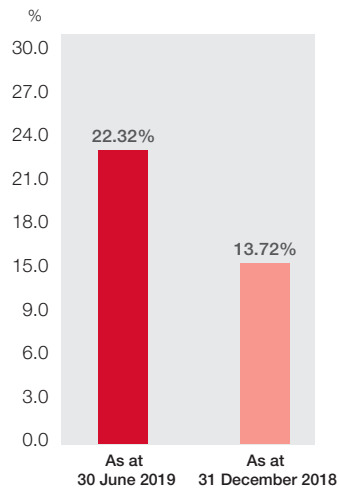
## Profit for the period – Attributable to the Company's Shareholders



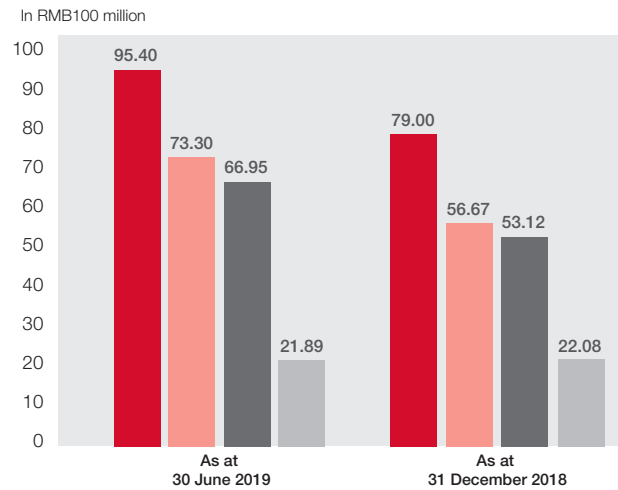
## Weighted average return on net asset



## Gearing ratio



## Scale Indexes



## Financial Highlights

The financial information of the Group for the six months ended 30 June 2019 was extracted from pages 31 to 94 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 2019 were unaudited.

### NET CAPITAL AND RELEVANT CONTROL INDEXES OF THE COMPANY AS AT 30 JUNE 2019

Name of index	As at 30 June 2019 (Unaudited)	Regulatory Standards
Net capital (RMB'000)	1,179,628.69	30,000
Ratio between net capital and total risk capital reserves	576.76%	100.00%
Ratio between net capital and net asset	57.11%	20.00%
Ratio between current assets and current liabilities	610.02%	100.00%
Ratio between liabilities and net assets	12.78%	150.00%
Clearing settlement funds (RMB'000)	837,101.87	12,000

Note: As at 30 June 2019, net capital of the Company amounted to RMB1,180 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 the "Administrative Measures on Futures Company's Regulatory Risk Management Index Scheme" (《期貨公司風險監管指標管理辦法》) 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 1.735 billion board lots (all of the followings are per side), representing a year-on-year increase of 23.47% with a total turnover of RMB128.56 trillion, representing a year-on-year increase of 33.79%, among which, the total trading volume of commodity futures was 1.703 billion board lots, representing a year-on-year increase of 22.18% with a total turnover of RMB96.18 trillion, representing a year-on-year increase of 13.75%. The total trading volume of stock index futures was 32.0650 million board lots, representing a year-on-year increase of 181.66% with a total turnover of RMB32.38 trillion, representing a year-on-year increase of 180.65%.

### (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 main line of the Sino-US trade war. Due to the escalation of the trade war, the prospect for cotton demand was pessimistic, and the prices of cotton futures fell sharply in the first half of 2019; on the other side, the prices of grease and soybean meals futures moved upward in volatility due to tariff concerns and import restrictions; and the newly listed Chinese jujube futures experienced a period of mild bullish movements due to support at historical low prices and the impact of the weather in the production area.

#### 2. Performance of metal futures

During the Reporting Period, prices of metal futures fluctuated violently as they were affected by the falling demand and environmental protection policies. In terms of ferrous metals, in the first half of the year, the prices of iron ores rose sharply and hit the highest point within five years because the supply of iron ore was limited by disturbances such as the Brazilian mine disaster and the strike in the ports of Australia, while the domestic demand for iron ore remained strong. Due to the rising costs and the restriction on production, the prices of steel futures moved upward in volatility but ended with a moderate increase. In terms of non-ferrous metals, due to the weak demand and the reduced supply, prices of copper futures moved downward in volatility on the whole; and zinc became the weakest non-ferrous metal variety in the first half of the year due to the automobile industry's sluggishness and recovery in the supply.



# Management Discussion and Analysis

### 3. Performance of energy and chemicals futures

During the Reporting Period, the prices of international crude oil fluctuated violently due to tensions in the Middle East and the poor prospect of global economic growth. The overall trend of the prices of chemicals futures was downward in volatility due to fluctuations in cost and the weak demand. However, due to lower-than-expected demand and capacity expansion, the general prices fluctuated within a narrow range. Among them, natural rubber and methanol were the weakest due to the most prominent conflict of strong supply and weak demand; other energy and chemicals futures varieties followed the broad market's fluctuation due to insufficient hot spots.

### 4. Performance of financial futures

During the Reporting Period, China's stock index futures market followed the trend of the A-share market, which fell sharply after a rally. As a result of the drastic fluctuation, the investors' demand for asset allocation to stock index futures and demand for hedging increased significantly. On 3 December 2018 and 22 April 2019, China Financial Futures Exchange relaxed restrictions on the stock index futures twice, which greatly improved the liquidity of the stock index futures market. Both the trading volume and turnover of stock index futures increased significantly year-on-year. China's market interest rates continued to decline, and the five-year treasury bonds' yield to maturity was approaching 3%. As a result, prices of the treasury bond futures rallied after falling, continuing the bull since 2018.

### (iii) Development of the Industry

Firstly, the pace of the institution of "Futures Law" has accelerated. On 15 February 2019, the CSRC solicited public comments on the "Provision of Item 5, Paragraph 1 of Article 70 of the Administrative Regulations of Futures Trading" (《關於〈期貨交易管理條例〉第七十條第一款第五項的規定》), in order to regulate the development of the futures market, accurately combat the manipulation of the futures market, maintain futures market order, and prevent risks; meanwhile, the CSRC issued the revised "Provisions on the Category-based Regulation of Futures Companies" (《期貨公司分類監管規定》), which was revised in terms of optimizing bonus points, adjusting deduction points, and improving evaluation procedures. On the same day, China Futures Association issued the "Guidelines for the Pilot Business of Risk Management Companies of Futures Companies" (《期貨公司風險管理公司業務試點指引》) to further standardize the innovation and development of the futures industry, and better guide futures companies to set up subsidiaries to conduct business pilot projects focused on risk management services. On 4 June 2019, the CSRC officially issued the "Measures for the Supervision and Administration of Futures Companies" (《期貨公司監督管理辦法》). After the institution of the "Futures Law", the supervision of the futures market will be more standard, which also imposes more stringent requirements on compliance management work of futures companies.

Secondly, the first domestic dried fruit futures, i.e. Chinese jujube futures, was listed. The launch of Chinese jujube futures will help to form a continuous and transparent futures price, which can provide pricing and hedging tools for Chinese jujube enterprises and a majority of jujube farmers, promote the healthy development of Chinese jujube industry, and guide Chinese jujube enterprises to improve production and management methods by reasonably setting delivery and quality Chinese standards, improve the standardization level and added value of products, fully reflect the value of Chinese jujube, and promote the transformation and upgrading of Chinese jujube industry.

## II. GENERAL OPERATING RESULTS

During the Reporting Period, the Group realized operating income of RMB170.24 million and profit for the period attributable to the Company's shareholders of RMB35.392 million, representing a decrease of 24.45% and 59.98% as compared with RMB225.327 million and RMB88.443 million in the same period of last year, respectively. Such decrease in business performance was mainly due to the following factors: (i) the downward adjustment of market interest rates and the changes in the fee cut policies of the exchanges for the six months ended 30 June 2019, resulting in a significant decline in the income of futures companies. Meanwhile, due to the restrictions on the basic resources of the exchanges' programmatic trading, the volume of the Company's programmatic trading has shrunk significantly as compared with last year, resulting in further decline in the income; (ii) a significant swing in the Company's investment income as a result of the changes in the fair value of the financial instruments held by the Company; and (iii) in response to the internationalization of the futures market of the Mainland China, the Company has been actively expanding its international footprints, and new establishments have increased the operating costs in the short term.

As of 30 June 2019, the total assets of the Group were RMB9.54 billion, representing an increase of 20.76% as compared with RMB7.9 billion as at the end of 2018. The total liabilities of the Group were RMB7.33 billion, representing an increase of 29.34% as compared with RMB5.667 billion as at the end of 2018. The net assets attributable to Shareholders of the Company were RMB2.189 billion, representing a decrease of 0.90% as compared with RMB2.208 billion as at the end of 2018. The Group's gearing ratio (both total assets and total liabilities have deducted accounts payable to brokerage customers) was 22.32%, representing an increase of 8.60 percentage points as compared with the end of 2018. During the Reporting Period, the Group's assets were good in quality and its financial position was healthy.

## III. ANALYSIS OF PRINCIPAL BUSINESS

The main businesses of the Group include futures and options brokerage, futures asset management, commodity trading and risk management, settlement and clearing, and bulk commodity market research consulting business.

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 construction work of the Communist Party of China" 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 goals for development in the year.

# Management Discussion and Analysis

## (i) Futures and Options Brokerage Business

During the Reporting Period, the Group recorded brokerage business revenue of RMB120.547 million, representing a decrease of 15.95% year-on-year; the total turnover reached RMB2.77 trillion, representing a decrease of 32.44% year-on-year. The average daily interests achieved was RMB6,403 million, including the futures interests of RMB6,237 million, and the stock option interests of RMB166 million, representing an increase of 0.45% year-on-year; the market share in trading amounts of futures was 1.08%, representing a decrease of 1.05 percentage points.

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 increased from RMB5,528 million as at the end of 2018 to RMB7,156 million as at the end of June 2019, representing an increase of 29.45%.

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 as compared with those of 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, the interests of institutional clients (including special legal person clients) reached RMB3,748 million, accounting for 52.38% of the total client interests of the Company of RMB7,156 million as at 30 June 2019, a slight decrease as compared with that in the same period last year.

The Company kept focusing on marketing and promoting account opening on the Internet. During the Reporting Period, the quantity of accounts opened on the Internet kept increasing. The number of client accounts opened on the Internet amounted to 2,098, representing 98% of the total 2,135 new clients of the Company (excluding special legal person and institutional clients) (the “**Internet Account Opening Ratio**”), increasing by 1 percentage point as compared with the Internet Account Opening Ratio of 97% in the same 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 internal control management and improvement of support capabilities in the middle and back offices.

## (ii) Futures Asset Management Business

During the Reporting Period, the Group's operating income from asset management business was RMB0.29 million, decreasing by RMB3.21 million as compared with RMB3.50 million in the same period of last year.

During the Reporting Period, the Company did not introduce new asset management schemes. As of 30 June 2019, the total assets under the Company's management amounted to RMB91 million.

During the Reporting Period, the Company focused on improving its risk control capability and establishing the risk control systems and processes. The Company regressed its asset management business to active management as its nature, insisting on the highest priority of compliance and risk control, and refraining from non-compliant businesses with uncontrollable risks.

## (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 RMB11.92 million, representing a year-on-year decrease of RMB9.062 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.

In terms of commodity trading, the Group actively conducted commodity trading in multiple industry chains, concentrating the Company's capital, manpower and other resources on the development of the Company's dominant varieties, with a focus on grains, grease and lubricants, ferrous metals and others in the various industrial chains. The purchase and sale amount of the physical commodities amounted to RMB1,200 million. The Group's hedging and arbitrage positions totaled to 890,200 lots, with a turnover of RMB43.944 billion. In order to strengthen the risk management of the physical commodities, in addition to the on-exchange futures, options and OTC option hedging protection, the Group actively tried to hedge the risk through the electronic trading platforms for physical commodities such as the Group's associated company Rizhao Board of Trade Co., Ltd. (日照大宗商品交易中心有限公司), with a transaction amount of RMB18 million. As a result of deepening into the terminal of the industrial chain, the market channels of the Group were further expanded, the number of clients was further increased, the market influence was further strengthened, which provided better support to other businesses of the Group.

## Management Discussion and Analysis

In terms of OTC derivatives business, the Group entered into master agreements with more than 400 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 coil, iron ore, soybean and corn, etc., achieved a nominal amount of RMB40.6 billion.

In terms of market making business, the Group obtained the cotton option market maker qualification of Zhengzhou Commodity Exchange, the soybean and corn futures market maker qualification of Dalian Commodity Exchange, the cotton and white sugar futures market maker qualification of Zhengzhou Commodity Exchange and the silver futures market maker qualification of Shanghai Futures Exchange, which further enriched its market making varieties and enhanced its market making ability.

### **(iv) Settlement and Clearing and Bulk Commodity Market Research Consulting Business**

During the Reporting Period, the Group actively promoted the four major segments, namely “Trading Market Registration and Settlement, OTC Quotation and Clearing, Information Technology Services and Bulk Commodity Market Research and Consulting” through Lu Clearing, to create a new business development model.

In terms of Trading Market Registration and Settlement, firstly, according to the requirements of the regulatory authorities, Lu Clearing connected to three trading markets and completed accesses to 14 trading markets. Secondly, it effectively carried out statistical monitoring of the trading markets, developed and launched unified data reporting system and built a big data analysis center. Thirdly, it achieved results in the fee-collection on the trading markets, achieving the revenue from its core business.

In terms of OTC Quotation and Clearing, the Group conscientiously implemented the requirements of the replacement of old drivers with new drivers in Shandong Province, created an OTC quotation and clearing platform, actively developed futures company risk management subsidiary membership system, provided OTC option quotation and clearing services, as well as expanded OTC physical commodity business leveraging on its OTC quotation and clearing platform, and signed membership agreements with entities to provide registration, settlement and other services. At the same time, the Group actively promoted the construction of systems for the second phase of the OTC platform, continuously improved the system functions, provided funds supervision, registration and clearing services for physical commodity enterprises, and expanded the new model of serving the real economy.

In terms of Information Technology Services, the Group thoroughly implemented the concept of integration of finance and technology development, and made breakthroughs in the construction of information technology services, providing customized system software development for the Shandong Province’s bulk commodity trading market which opened up a new channel for generating business revenue.

In terms of Bulk Commodity Market Research and Consulting, the Group further developed the bulk commodity trading market, actively cooperated with the intra-provincial trading markets, conducted cooperation and exploration in supply chain finance, warehouse receipt supervision, variety selection, and trading model research and development and provided research and demonstration as well as consultancy and guidance services to help the trading market grow and develop.

### 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 will 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 will also facilitate the innovation and development of futures companies and continuously enhance the ability of the 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 the 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 solve the difficulties in pricing insurance products, enhance the scientificity and reasonableness of insurance products as well as practically safeguard farmers' income.

## Management Discussion and Analysis

The development of innovative businesses such as OTC options, asset management and risk management marks that the futures industry has gradually shifted towards a pattern 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 its revenue and the gradual increase in the proportion of revenue from innovative businesses.

Along with the internationalization of Renminbi, the market-oriented pricing of the interest rate and exchange rate and the further opening of the domestic capital market, the futures operators of Mainland China will accelerate the pace of development of the international business. The broad development prospects of the futures industry propose new requirements on the scales of invested capital of futures operators. The capability of capital replenishment 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 and upgrade of the Group.

In the second half of 2019, 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 2019; secondly, continuing to improve the compliance and risk management in response to more stringent requirements imposed by the market and regulatory authorities on futures companies' compliance and risk control capabilities; thirdly, taking multiple measures to stop the decline of brokerage business, and insisting on the idea that brokerage business is the main source of revenue and the cornerstone of business transformation and upgrading; fourthly, always keeping its employees alarmed to prevent and control the risk of OTC business, understanding the intention of supervision and legislation, clarifying which can be done, and strictly prohibiting the business that can't be done; fifthly, remembering the original purpose and mission, and treating futures what they should be in nature, which is not only the business guiding ideology, but also the most fundamental measure to prevent and control the operational risks.

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

As of 30 June 2019, the equity attributable to the Company's Shareholders were RMB2,189 million, decreasing by 0.86% from RMB2,208 million as at the end of 2018, which was mainly attributable to a decrease in the profits and distribution of dividends during the Reporting Period.

During the Reporting Period, the Group's asset increased and maintained sound asset quality and liquidity. As of 30 June 2019, the Group's total assets after deducting accounts payable to brokerage clients reached RMB2,846 million, increasing by 9.97% as compared with RMB2,588 million as at the end of 2018, among which, funds deposited with the China Futures Exchange accounted for 48.14%; cash and bank balance accounted for 21.36%; investment assets (including investments in associates and financial assets, especially investment in financial assets with strong liquidity) accounted for 19.64%; and the property and equipment and intangible assets accounted for 1.97%.

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 22.32%, increasing by 8.6 percentage points as compared with that as at the end of 2018. The Group's operating leverage (the total assets less accounts payable to brokerage clients/equity attributable to the Company's Shareholders) was 1.3 times, increasing by approximately 11.11% as compared with 1.17 times as at the end of 2018. As of 30 June 2019, the Group's total liabilities were RMB7,330 million, among which, RMB6,695 million was accounts payable to brokerage clients. The remaining liabilities (net of accounts payable to brokerage clients) were RMB635 million, of which derivative financial liabilities were RMB248 million, RMB169 million was payable to OTC option customers, RMB55 million was for dividends payable, RMB30 million was payable to specific holders of consolidated structured entities, RMB17 million was payable to clients for cooperative hedging business and RMB8 million for advance received for physical commodity trading. The Group has 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 2019, the total equity attributable to the Company's Shareholders was RMB2,189 million, of which share capital was RMB1,001.9 million, share premium was RMB651 million and retained earnings were RMB292 million.

The Company dynamically monitors the 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 in terms of regulatory indicators.



## Management Discussion and Analysis

After taking into consideration of the available financial resources, including cash flow from operating activities, the Group has enough working capital 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 as compared with 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 income from foreign currency transaction 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. MATERIAL 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	7,272.247	36,005.273	5.57%
To supplement working capital	No	0	64,600	10%

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

Therefore, during 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	Net proceeds
To establish “light branches” and recruit personnel	Yes	0	1,137.719	0.18%	0
To contribute additional capital to Luzheng Trading	No	89,000	319,000	49.34%	559.35
To invest information technology	Yes	0	36,005.273	5.57%	0
To supplement working capital	No	0	289,778.79	44.82%	0

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

The Company made a capital contribution of RMB200 million to Luzheng Trading on 8 March 2019.

### **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 such as major external guarantee, mortgage, pledge, etc., that affected the Group's financial position and operating results. Details of contingent liabilities are set out in Note 37 to the interim condensed financial information of this report.

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

As at the end of the Reporting Period, the Group had a total of 548 employees. For the six months ended 30 June 2019, the cost of employees of the Group amounted to approximately RMB69,669.00 thousand, 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, incentives and constraints linked to performance assessment and 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 contracts with each employee to establish employment relationships with them according to applicable laws and regulations of the PRC. The Group provides each employee with various social insurances (pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and housing provident fund and makes prompt and full payments of the above social insurances and housing provident fund according to the PRC laws and regulations.

The Group 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 to improve training results. During the Reporting Period, the Group organized a series of trainings on new varieties such as cotton yarn futures, Chinese jujube futures, corn futures, soybean futures and existing varieties, business line trainings such as OTC derivatives business, risk management subsidiary business, Hong Kong subsidiary business and Swiss subsidiary business, business support trainings such as information technology, investor appropriateness, etc., and a series of trainings such as work integrity, marketing skills improvement, talent management skills improvement and systems and rules of the Company.

## 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, risk management business and 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 enter into a contract with 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 Group's futures brokerage business, the Group conducts risk rating on the Group's clients based on their 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 Group 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 pays 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.

#### 2. Market Risk

Market risk refers to the risk 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; and
- (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 has adopted the following measures: (1) strengthening the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management; (2) establishing a risk evaluation and monitor system on net capital; (3) conducting comprehensive or special stress tests on the risk control indexes on a regular or ad hoc basis and conducting 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) selecting those commodities that are more actively traded for commodity trading and risk management business, or selecting the contracts with the largest or second-largest open interest among similar futures contracts in futures trading.

### **4. Compliance Risk**

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

# Management Discussion and Analysis

In response to compliance risk, the Group 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., to consistently improve the Company's internal control system.

## 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 errors 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 collect early reputation risk warning information from various channels. At the same time, the Group establishes a good internal reputation risk management system, to further improve the incentive and restraint mechanism and reduce the possibility of damage to the Group's reputation.

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

### 1. Having established a four-level risk management structure

The Group has set 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 Group's business departments and branches.

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

The Group 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 Group 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 of all employees, strengthen the risk awareness of all employees, foster an excellent risk management culture and ensure the realization of the overall target of the Group in risk management.

## **4. Orderly advancing the conducting of innovative businesses and further improving the risk management mechanism in innovative businesses**

The compliance department of the Group 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 risk management system, and the establishment of the systems, processes, positions and response mechanisms of innovative businesses. It pushes ahead the implementation of all systems, processes and the risk management principles through the appraisal and approval beforehand, the independent supervision during the process and the internal audit of the audit department to conduct risk management throughout the whole process of various innovative businesses.

## **5. Consistently improving the credit risk management capability in commodity trading and risk management business**

With the continuous expansion of the scope of commodity trading and risk management business and the increase of clients under cooperation, the Group 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 Group. It will promote the principle of "know your clients", consistently improve the credit risk management capability and conduct credit risk 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, save for the code provision A.4.2, 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.

According to the code provision A.4.2 of the Corporate Governance Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Company's articles of association, the Directors (including non-executive Directors and independent non-executive Directors) should be appointed for a term of three years and may be re-elected upon expiration of their terms of office. The terms of the second session of the Board of Directors and the Supervisory Committee of the Company expired on 15 June 2019. As (among others) some of the Directors of the Company are nominated by the Shareholders, the nomination procedure has not been completed and the candidates for the successors of some of the Directors are still being selected, the Company was unable to complete the re-election work before the expiration of the terms of the second session of the Board of Directors and the Supervisory Committee. Before the completion of the re-election, the current Directors and Supervisors will continue to perform their duties.

## 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 the 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 2019, 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.

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 28 August 2019, the Audit Committee has reviewed and confirmed the Company's interim results announcement for the six months ended 30 June 2019, the 2019 interim report and the unaudited interim financial statements for the six months ended 30 June 2019 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 is unaudited.

# Other Information

## SUBSEQUENT EVENTS

As of 1 August 2019, the Company had paid all final dividends for the year ended 31 December 2018.

## SHARE CAPITAL

As at 30 June 2019, 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 2019 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 28 August 2019.

## INTERIM DIVIDEND

The Board of Directors did not recommend the declaration or payment of any interim dividend for the six months ended 30 June 2019.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor its subsidiaries 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 2019, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or which were 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 2019, 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%
CM International Capital Limited <sup>(3)</sup>	H Shares	Beneficial owner	18,211,000 (long position)	1.82%	6.57%
CMIG International Capital Limited (中民投國際資本有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%

## Other Information

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 2019.

### 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 Co., Ltd. (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 80% by Shandong Steel Group Co., Ltd. Therefore, Shandong Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel Group Co., Ltd. for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 18,211,000 (long position) H Shares of the Company. According to the form of disclosure of interest submitted by China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) to the Stock Exchange on 4 October 2018, CMIG International Capital Limited (中民投國際資本有限公司) holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) and CMI Financial Holding Corporation (a company wholly-owned by CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司, which is wholly-owned by China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司)), hold 31.5% and 68.5% of equity interests in CMIG International Capital Limited (中民投國際資本有限公司), respectively. Therefore, China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司), CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司), CMI Financial Holding Corporation and CMIG International Capital Limited (中民投國際資本有限公司) are deemed to be interested in the 18,211,000 (long position) H Shares of the Company held by CM International Capital Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who had 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 were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

On 3 April 2019, Mr. Wang Hairan and Mr. Yu Zhanyong ceased to act as employee representative Supervisors of the Company. On the same day, Mr. Lin Zongheng and Mr. Liu Pu were appointed as employee representative Supervisors of the Company. For further information, please refer to the Company's announcement dated 8 April 2019.

On 21 June 2019, Mr. Liu Yunzhi 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. Liang Zhongwei was appointed as the Joint Company Secretary and the Authorised Representative. For further information, please refer to the Company's announcement dated 21 June 2019.

As of the date of this report, there was 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 31 to 94, 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 2019 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of 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 of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 28 August 2019

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2019 (Unaudited)	2018 (Unaudited)
Commission and fee income	5	154,302	146,542
Commission and fee expense	5	(130,876)	(121,643)
<b>Net commission and fee income</b>		<b>23,426</b>	24,899
Interest income	6	95,395	107,119
Interest expense	6	(14,016)	(5,624)
<b>Net interest income</b>		<b>81,379</b>	101,495
Gains on physical commodities trading	7	4,294	2,993
Net investment gains	8	27,424	41,741
Other income	9	33,717	54,199
<b>Operating income</b>		<b>170,240</b>	225,327
Staff costs	10	(69,669)	(59,023)
Commission to brokerage agents		(3,417)	(2,114)
Introducing broker commission	38.2.1	(4,260)	(2,618)
Depreciation and amortization	11	(11,485)	(6,027)
Credit impairment losses		–	(599)
Other operating expenses	12	(33,982)	(41,017)
<b>Operating expenses</b>		<b>(122,813)</b>	(111,398)
<b>Operating profit</b>		<b>47,427</b>	113,929
Share of gains/(losses) of investments in associates	18	477	(1,397)
Other (losses)/gains, net		(628)	2,521
<b>Profit before income tax</b>		<b>47,276</b>	115,053
Income tax expense	13	(14,814)	(28,578)
<b>Profit for the period</b>		<b>32,462</b>	86,475



# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2019 (Unaudited)	2018 (Unaudited)
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(108)	1,449
<b>Other comprehensive income for the period, net of tax</b>		<b>(108)</b>	<b>1,449</b>
<b>Total comprehensive income for the period</b>		<b>32,354</b>	<b>87,924</b>
Profit attributable to:			
– Shareholders of the Company		35,392	88,443
– Non-controlling interests		(2,930)	(1,968)
		<b>32,462</b>	<b>86,475</b>
Total comprehensive income attributable to:			
– Shareholders of the Company		35,285	89,892
– Non-controlling interests		(2,931)	(1,968)
		<b>32,354</b>	<b>87,924</b>
<b>Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share)</b>			
<b>Basic/Diluted</b>	15	<b>0.04</b>	<b>0.09</b>

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2019 (Unaudited)	31 December 2018 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	42,005	44,748
Intangible assets	17	14,319	15,398
Investments in associates	18	44,120	43,643
Other non-current assets	20	29,363	2,668
Derivative financial assets	26	159	–
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss	21	–	61,280
Deferred income tax assets	22	16,950	11,009
Refundable deposits	23	25,726	25,683
<b>Total non-current assets</b>		<b>174,042</b>	<b>205,829</b>
<b>Current assets</b>			
Physical commodities	24	20,908	199,769
Other current assets	25	169,334	77,418
Contract assets		13,895	13,895
Derivative financial assets	26	141,938	37,930
Financial assets at fair value through profit or loss	21	337,204	576,212
Financial assets held under resale agreements	27	35,722	337,318
Deposits with exchange-clearing organizations	28	3,514,231	2,387,336
Bank balances held for clients	29	4,524,826	3,256,333
Cash and bank balances	30	608,346	808,390
<b>Total current assets</b>		<b>9,366,404</b>	<b>7,694,601</b>
<b>Total assets</b>		<b>9,540,446</b>	<b>7,900,430</b>

# Condensed Consolidated Statement of Financial Position

As at 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2019 (Unaudited)	31 December 2018 (Audited)
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	31	1,001,900	1,001,900
Share premium	32	650,630	650,630
Other reserves	32	244,278	241,744
Retained earnings		291,814	314,168
<b>Total equity attributable to shareholders of the Company</b>		<b>2,188,622</b>	2,208,442
Non-controlling interests	19	21,953	24,884
<b>Total equity</b>		<b>2,210,575</b>	2,233,326
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	22	2,498	2,438
Other non-current liabilities	33	22,999	5,983
<b>Total non-current liabilities</b>		<b>25,497</b>	8,421
<b>Current liabilities</b>			
Borrowings		–	10,328
Other current liabilities	34	302,847	182,529
Financial assets sold under repurchase agreements		–	32,346
Current income tax liabilities		11,872	19,788
Derivative financial liabilities	26	248,260	62,506
Financial liabilities at fair value through profit or loss	35	46,753	39,110
Accounts payable to brokerage clients		6,694,642	5,312,076
<b>Total current liabilities</b>		<b>7,304,374</b>	5,658,683
<b>Total liabilities</b>		<b>7,329,871</b>	5,667,104
<b>Total equity and liabilities</b>		<b>9,540,446</b>	7,900,430

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

(Unaudited)	Attributable to shareholders of the Company					Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Non-controlling interests	
	(Note 31)	(Note 32)	(Note 32)		(Note 19)	
<b>Balance at 1 January 2019</b>	<b>1,001,900</b>	<b>650,630</b>	<b>241,744</b>	<b>314,168</b>	<b>24,884</b>	<b>2,233,326</b>
Profit for the period	-	-	-	35,392	(2,930)	32,462
Other comprehensive income for the period	-	-	(107)	-	(1)	(108)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(107)</b>	<b>35,392</b>	<b>(2,931)</b>	<b>32,354</b>
Net appropriation to reserves	-	-	2,641	(2,641)	-	-
Dividends relating to 2018 (Note 14)	-	-	-	(55,105)	-	(55,105)
<b>Balance at 30 June 2019</b>	<b>1,001,900</b>	<b>650,630</b>	<b>244,278</b>	<b>291,814</b>	<b>21,953</b>	<b>2,210,575</b>
<b>Balance at 1 January 2018</b>	<b>1,001,900</b>	<b>650,630</b>	<b>209,798</b>	<b>294,243</b>	<b>28,132</b>	<b>2,184,703</b>
Changes on initial application of IFRS 9	-	-	(98)	98	-	-
<b>Restated balance at 1 January 2018</b>	<b>1,001,900</b>	<b>650,630</b>	<b>209,700</b>	<b>294,341</b>	<b>28,132</b>	<b>2,184,703</b>
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>	<b>-</b>	<b>-</b>	<b>1,449</b>	<b>88,443</b>	<b>(1,968)</b>	<b>87,924</b>
Net appropriation to reserves	-	-	4,003	(4,003)	-	-
Dividends relating to 2017 (Note 14)	-	-	-	(67,127)	-	(67,127)
<b>Balance at 30 June 2018</b>	<b>1,001,900</b>	<b>650,630</b>	<b>215,152</b>	<b>311,654</b>	<b>26,164</b>	<b>2,205,500</b>

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>47,276</b>	115,053
Adjustments for:		
Depreciation and amortization	11,485	6,027
Credit impairment losses	–	599
Interest expense on borrowings	96	–
Interest expense on lease liabilities	1,414	N/A
Net losses/(gains) on disposal of property and equipment and intangible assets	8	(76)
Foreign exchange losses	14	942
Interest income from term deposits (2018: Dividends and interest income from financial assets at fair value through profit or loss and term deposits)	(5,921)	(23,824)
Share of (gains)/losses of investments in associates	(477)	1,397
	<b>53,895</b>	100,118
<b>Net (increase)/decrease in operating assets:</b>		
Net (increase)/decrease in bank balances held for clients	(1,268,536)	370,683
Net (increase)/decrease in deposits with exchange-clearing organizations	(470,996)	9,243
Net decrease in financial assets at fair value through profit or loss and derivative financial assets	196,121	93,478
Net decrease/(increase) in financial assets held under resale agreements	301,596	(47,882)
Net increase in restricted cash	(90,346)	–
Net increase in other assets	(91,251)	(21,352)
Net decrease/(increase) in physical commodities	178,861	(84,824)
	<b>(1,244,551)</b>	319,346
<b>Net increase/(decrease) in operating liabilities:</b>		
Net increase/(decrease) in accounts payable to brokerage clients	1,382,566	(450,575)
Net decrease in financial assets sold under repurchase agreements	(32,346)	–
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	193,397	52,614
Net increase in other liabilities	54,680	50,536
	<b>1,598,297</b>	(347,425)
<b>Income tax paid</b>	<b>(28,611)</b>	(23,901)
<b>Net cash inflow from operating activities</b>	<b>379,030</b>	48,138

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
<b>Cash flows from investing activities</b>		
Interest received from term deposits (2018: Dividends and interest received from financial assets at fair value through profit or loss and term deposits)	5,954	17,058
Purchases of property and equipment, intangible assets and other long-term assets	(2,165)	(6,153)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	–	150
Payment for purchases of financial assets at fair value through profit or loss and term deposits	–	(259,000)
Proceeds on maturity of term deposits (2018: Proceeds on maturity and disposal of financial assets at fair value through profit or loss and term deposits)	(26,785)	528,415
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(22,996)</b>	<b>280,470</b>
<b>Cash flows from financing activities</b>		
Proceeds from sales with repurchase agreements	–	43,120
Repayment of lease liabilities	(6,839)	N/A
Repayment of borrowings	(10,424)	(13,081)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(17,263)</b>	<b>30,039</b>
<b>Net increase in cash and cash equivalents</b>	<b>338,771</b>	<b>358,647</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>697,830</b>	<b>225,641</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(14)</b>	<b>(942)</b>
<b>Cash and cash equivalents at end of period (Note 36)</b>	<b>1,036,587</b>	<b>583,346</b>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(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.

This condensed consolidated interim financial information is approved for issue by the board of directors of the Company on 28 August 2019.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standards (the "IAS") 34 Interim Financial Reporting.

The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (the "IFRS"), and any public announcements made by the Company during the interim reporting period.

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

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements except for the adoption of new and amended standards as set out below.

### 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 2019 and the relevant impact is set out below:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual improvements 2015 – 2017 cycle
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint ventures

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. Amendments other than IFRS 16 are not expected to significantly affect the current or future periods.

### 2.2 New standards and interpretations not yet adopted

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 3.1 below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on 1 January 2019.

### 3.1 Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.5%.

The remeasurements to the lease liabilities are recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019
Operating lease commitments disclosed as at 31 December 2018	40,988
Discounted using the lessee's incremental borrowing rate of at the date of initial application	36,140
Less: short-term leases recognized on a straight-line basis as expense	(3,274)
<b>Lease liability recognized as at 1 January 2019</b>	<b>32,866</b>
Of which are:	
Current lease liabilities	13,101
Non-current lease liabilities	19,765
	32,866

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 3 Changes in accounting policies (Continued)

### 3.1 Adjustments recognized on adoption of IFRS 16 (Continued)

The associated right-of-use assets for property leases are measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that leases recognized in the balance sheet as at 31 December 2018. There are no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets are only related to properties.

	30 June 2019	1 January 2019
Total right-of-use assets	27,010	32,866

#### (a) Impact on segment disclosures and net profit after tax

Segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The following segments are affected by the change in policy:

	Segment assets	Segment liabilities
Futures brokerage	16,578	16,856
Commodity trading and risk management	4,261	4,339
Treasury and others	6,171	6,246
	27,010	27,441

Net profit after tax of the Group decreased by approximately RMB238 thousand for the six months ended 30 June 2019 as a result of adopting the new rules.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 3 Changes in accounting policies (Continued)

### 3.1 Adjustments recognized on adoption of IFRS 16 (Continued)

#### (b) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

### 3.2 The Group's leasing activities and how these are accounted for

The Group leases various offices of which rental contracts are typically made for fixed periods of 2 to 5 years with no extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

## 3 Changes in accounting policies (Continued)

### 3.2 The Group's leasing activities and how these are accounted for (Continued)

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the leases. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 3 Changes in accounting policies (Continued)

### 3.2 The Group's leasing activities and how these are accounted for (Continued)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

As at 30 June 2019, property leases across the Group do not contain variable payment terms and extension and termination options. The Group does not provide residual value guarantees in relation to property leases.

## 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 are the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

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 Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial 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.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 4 Estimates (Continued)

### 4.2 Fair value of financial instruments

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

### 4.3 Income taxes

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

### 4.4 Determination of consolidation scope

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

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

A non-classified asset management scheme comprises a single unit class where the Group holds a part of the unit. 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 2019

(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 unit. The manager of the trust scheme is mainly responsible for fund administration with very low management fee level. The trust scheme is the sole investor of an 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	
	2019 (Unaudited)	2018 (Unaudited)
<b>Commission and fee income</b>		
Futures brokerage service	144,593	143,200
Settlement and clearing service income from other futures firms	9,395	2,082
Asset management service	305	1,250
Investment consultancy service	9	10
	<b>154,302</b>	146,542
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	121,481	119,561
Settlement and clearing service expense to exchange-clearing organizations	9,395	2,082
	<b>130,876</b>	121,643

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 6 Net interest income

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
<b>Interest income</b>		
Interest income from deposits with banks	84,750	99,787
Interest income from financial assets held under resale agreements	7,201	2,303
Interest income from deposits with exchange-clearing organizations	3,444	5,029
	<b>95,395</b>	107,119
<b>Interest expense</b>		
Interest expense to brokerage clients	11,092	4,880
Interest expense on lease liabilities	1,414	N/A
Interest expense on financial assets sold under repurchase agreements	1,081	–
Interest expense on settlement and clearing services to other futures firms	333	533
Interest expense on borrowings	96	211
	<b>14,016</b>	5,624

## 7 Gains on physical commodities trading

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Sales proceeds	547,534	411,341
Costs of purchases	(543,240)	(408,348)
	<b>4,294</b>	2,993

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.



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 8 Net investment gains

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Net realized gains from derivative financial instruments	40,237	10,737
Dividends and interest income from financial assets at fair value through profit or loss	14,982	19,661
Net realized gains/(losses) from disposal of financial assets at fair value through profit or loss	4,390	(429)
Interest income from financial assets at amortized cost	–	171
Unrealized fair value change of financial instruments at fair value through profit or loss and derivative financial instruments		
– Financial liabilities at fair value through profit or loss	–	(3,919)
– Financial assets at fair value through profit or loss	(10,628)	6,830
– Derivative financial instruments	(21,557)	8,690
	27,424	41,741

## 9 Other income

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Refunds of trading income <sup>(1)</sup>	30,005	45,764
Training service income	2,066	1,361
Cooperative hedging fees	724	5,913
Software service income	468	631
Consulting service income	–	189
Other	454	341
	33,717	54,199

<sup>(1)</sup> To improve the sustainable development of futures market, the futures exchanges implement a practice to partially refund trading and clearing 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.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 10 Staff costs

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Salaries and bonus	53,985	45,639
Other social security	7,029	5,751
Pension	6,294	5,431
Labour union funds and employee education funds	2,216	2,175
Other welfares	145	27
	<b>69,669</b>	<b>59,023</b>

## 11 Depreciation and amortization

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Depreciation of right-of-use assets	5,418	N/A
Depreciation of property, plant and equipment	3,973	3,703
Amortization of intangible assets	1,097	1,359
Amortization of long-term prepaid expenses	997	965
	<b>11,485</b>	<b>6,027</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 12 Other operating expenses

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Information system maintenance fees	6,749	5,823
Office expenses	6,595	8,254
Marketing and distribution expenses	5,841	6,480
Professional service expenses	4,824	2,097
Property maintenance fee	2,246	2,081
Rentals	1,983	6,993
Consulting expenses	1,976	6,383
Taxes and surcharges	629	446
Futures Investors Protection Fund	154	246
Other expenses	2,985	2,214
	<b>33,982</b>	<b>41,017</b>

## 13 Income tax expense

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Current tax	20,601	24,427
Deferred tax	(5,787)	4,151
	<b>14,814</b>	<b>28,578</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 13 Income tax expense (Continued)

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.

Switzerland profit tax has been provided at the rate of 24.16% on the estimated assessable profit for the period.

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	
	2019 (Unaudited)	2018 (Unaudited)
Profit before income tax	47,276	115,053
Tax calculated at tax rates applicable to profits in the respective area	14,732	27,695
Items deducted for tax purposes but not subtracted to arrive at taxable income	(690)	(1,001)
Adjustments in respect of prior years	(49)	18
Items not deductible for tax purposes	821	1,866
	14,814	28,578

## 14 Dividends

A dividend of RMB55,105 thousand in respect of the year ended 31 December 2018 of the Company is declared and recognized during the period of six months ended 30 June 2019 (for the six months ended 30 June 2018: RMB67,127 thousand).

The board of directors has proposed not to declare any interim dividends in respect of the six months period ended 30 June 2019.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 15 Earnings per share

### 15.1 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	
	2019 (Unaudited)	2018 (Unaudited)
Profit attributable to shareholders of the Company (in RMB thousands)	35,392	88,443
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.04	0.09

### 15.2 Diluted earnings per share

For the six months ended 30 June 2019, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (for the six months ended 30 June 2018: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 16 Property, plant and equipment

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
At 1 January 2019	40,073	9,787	43,316	93,176
Additions	-	-	1,238	1,238
Disposals	-	-	(166)	(166)
At 30 June 2019	40,073	9,787	44,388	94,248
<b>Accumulated depreciation</b>				
At 1 January 2019	(10,237)	(7,823)	(30,368)	(48,428)
Additions	(649)	(324)	(3,000)	(3,973)
Disposals	-	-	158	158
At 30 June 2019	(10,886)	(8,147)	(33,210)	(52,243)
<b>Carrying amount</b>				
At 30 June 2019	29,187	1,640	11,178	42,005

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 16 Property, plant and equipment (Continued)

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

All buildings of the Group are located outside Hong Kong.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 17 Intangible assets

<b>(Unaudited)</b>	<b>Computer software</b>
<b>Cost</b>	
At 1 January 2019	24,870
Additions	18
Disposals	–
At 30 June 2019	24,888
<b>Accumulated depreciation</b>	
At 1 January 2019	(9,472)
Additions	(1,097)
Disposals	–
At 30 June 2019	(10,569)
<b>Carrying amount</b>	
At 30 June 2019	14,319



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 17 Intangible assets (Continued)

(Unaudited)	Computer software
<b>Cost</b>	
At 1 January 2018	22,021
Additions	–
Disposals	–
At 30 June 2018	22,021
<b>Accumulated depreciation</b>	
At 1 January 2018	(7,286)
Additions	(1,359)
Disposals	–
At 30 June 2018	(8,645)
<b>Carrying amount</b>	
At 30 June 2018	13,376

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 18 Investments in associates

Set out below are the associates of the Group as at 30 June 2019. 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 investments in associates as at 30 June 2019 are as follows.

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 18 Investments in associates (Continued)

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

The registered capital of Rizhao BOT is RMB120 million as at 30 June 2019. The Group holds 29.5% of its equity and accounts for the associate using equity method.

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At 1 January	25,000	27,218
Share of profits/(losses) for the period	642	(912)
At 30 June	25,642	26,306
Summarized financial information of Rizhao BOT is as follows.		
Opening net assets	89,948	97,467
Profits/(losses) for the period	2,176	(3,092)
Other comprehensive income	-	-
Closing net assets	92,124	94,375
Interest in the associate and carrying value	25,642	26,306

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019  
(All amounts in RMB'000 unless otherwise stated)

## 18 Investments in associates (Continued)

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

The registered capital of Luzheng Fengtong is RMB100 million as at 30 June 2019. The Group holds 35.0% of its equity and accounts for the associate using equity method.

As at 30 June 2019, the Group has made a capital commitment 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	
	2019 (Unaudited)	2018 (Unaudited)
At 1 January	18,643	18,273
Share of losses for the period	(165)	(485)
At 30 June	18,478	17,788
Summarized financial information of Luzheng Fengtong is as follows.		
Opening net assets	53,255	52,209
Losses for the period	(471)	(1,387)
Other comprehensive income	-	-
Closing net assets	52,784	50,822
Interest in the associate and carrying value	18,478	17,788

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 19 Investments in subsidiaries and consolidated structured entities

### 19.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specially stated, the Group's interests in these subsidiaries are 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") <sup>(a)</sup>	Shenzhen, the PRC	24 April 2013	Limited company	RMB550,000,000/ RMB550,000,000	100%	Directly	Commodity trading, OTC derivatives trading
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
Jinova S.A.	Geneva, Switzerland	23 August 2018	Limited company	CHF3,000,000/ CHF3,000,000	96.6%	Indirectly	Commodity 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
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	HKD20,000,000/ 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	HKD15,000,000/ HKD15,000,000	100%	Indirectly	Derivatives trading

<sup>(a)</sup> The Company made payment of RMB200 million for the capital increase in Luzheng Trading in March 2019.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 19 Investments in subsidiaries and consolidated structured entities (Continued)

### 19.2 Non-controlling interests

Non-controlling interests are mainly attributable to Lu Clearing amounting to RMB21,379 thousand as at 30 June 2019 (31 December 2018: RMB24,183 thousand).

### 19.3 Consolidated structured entities (the “SEs”)

As at 30 June 2019, the Group has consolidated two SEs which are CR Trust-Huiquan Wantai FOF No. 2, a trust scheme managed by a third-party trustee where the Company holds a part of the units, and Huiquan Wantai FOF No.2, an asset management scheme where the Company is the manager. The trust scheme is the sole investor of the asset management scheme. The two SEs have commenced but not yet completed the liquidation process.

Net assets of consolidated SEs, the Group's initial investments and maximum exposure arising from its investments in consolidated SEs are:

(Unaudited)	Net assets	The Group's initial investments	The Group's maximum exposure
Consolidated SEs	26,359	30,000	26,359

## 20 Other non-current assets

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Right-of-use assets	27,010	N/A
Leasehold improvement	2,353	2,441
Long-term prepaid expenses	–	227
	29,363	2,668

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
<b>Non-current</b>		
Trust schemes	–	31,683
Private securities investment funds	–	29,597
	–	61,280
<b>Current</b>		
Trust schemes	188,384	405,456
Asset management schemes <sup>(1)</sup>	80,618	98,325
Private securities investment funds	55,807	67,299
Bank wealth management products	12,391	5,128
Listed equity securities	4	4
	337,204	576,212
	337,204	637,492

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019  
(All amounts in RMB'000 unless otherwise stated)

## 22 Deferred income tax assets and liabilities

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At 1 January	11,009	7,017
Income statement charge	5,941	(3,347)
At 30 June	16,950	3,670

(2) The net movements on the deferred income tax liabilities are as follows:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At 1 January	2,438	2,573
Income statement charge	60	879
Tax charge relating to components of other comprehensive income	–	(41)
At 30 June	2,498	3,411



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 22 Deferred income tax assets and liabilities (Continued)

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

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

	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	Provisions	Total
<b>(Unaudited)</b>						
<b>As at 1 January 2019</b>	3,260	624	10,696	907	1,506	16,993
Income statement charge	4,640	(262)	3,096	-	(677)	6,797
<b>As at 30 June 2019</b>	<b>7,900</b>	<b>362</b>	<b>13,792</b>	<b>907</b>	<b>829</b>	<b>23,790</b>
<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>	<b>2,787</b>	<b>276</b>	<b>-</b>	<b>-</b>	<b>5,934</b>	<b>8,997</b>

Deferred income tax assets are recognized for tax loss carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The balance as at 30 June 2019 is attributable to RMB35,662 thousand by Zhongtai Hui Rong (30 June 2018: RMB16,892 thousand), RMB6,198 thousand by Jinova S.A. (30 June 2018: nil) and RMB3,145 thousand by Luzheng International Holding (30 June 2018: nil).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 22 Deferred income tax assets and liabilities (Continued)

### (3) 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	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Others	Total
<b>(Unaudited)</b>					
<b>As at 1 January 2019</b>	-	4,907	3,507	8	8,422
Income statement charge	-	1,046	(130)	-	916
<b>As at 30 June 2019</b>	-	5,953	3,377	8	9,338
<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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 22 Deferred income tax assets and liabilities (Continued)

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

	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Deferred income tax assets	(6,840)	(5,327)
Deferred income tax liabilities	(6,840)	(5,327)

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

	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Deferred income tax assets	16,950	3,670
Deferred income tax liabilities	2,498	3,411

## 23 Refundable deposits

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Security deposit placed with the China Financial Futures Exchange	20,115	20,114
Security deposit placed with the China Securities Depository and Clearing	5,611	5,569
	25,726	25,683

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019  
(All amounts in RMB'000 unless otherwise stated)

## 24 Physical commodities

	<b>30 June 2019 (Unaudited)</b>	31 December 2018 (Audited)
Carrying amount	<b>20,908</b>	202,474
Change in fair value	–	(2,705)
	<b>20,908</b>	199,769

As at 30 June 2019, no physical commodities are placed as collateral of margin deposits on futures exchanges (31 December 2018: physical commodities with carrying amount of RMB66,290 thousand).

The Group's physical and commodities involves major metal and agricultural products.

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its physical commodities into the three levels prescribed under IFRS 13. An explanation of each level is provided in Note 41.

The fair value hierarchy of physical commodities held by the Group is set out below.

<b>(Unaudited)</b>				
<b>As at 30 June 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Physical commodities	–	<b>20,908</b>	–	<b>20,908</b>

<b>(Audited)</b>				
<b>As at 31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Physical commodities	–	199,769	–	199,769

There are no transfers between any levels during the period.

Physical commodities have therefore been classified as level 2 in the fair value hierarchy, since no significant adjustments need to be made to the prices obtained from the local markets.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 25 Other current assets

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Accounts receivable <sup>(1)</sup>	85,279	44,200
Prepayments	66,077	24,048
Deposit for derivatives trading	8,261	–
Notes receivable	–	5,942
Other receivables	9,717	3,228
	<b>169,334</b>	<b>77,418</b>

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

The aging analysis of accounts receivable is as follows:

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	87,399	(2,725)	44,646	(2,627)
3 months to 1 year	643	(38)	2,317	(136)
	<b>88,042</b>	<b>(2,763)</b>	<b>46,963</b>	<b>(2,763)</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019  
(All amounts in RMB'000 unless otherwise stated)

## 25 Other current assets (Continued)

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

The impairment allowance for accounts receivable as at 31 December 2018 reconciles to the closing impairment allowance as at 30 June 2019 as follows:

	Six months ended 30 June 2019 (Unaudited)
Closing impairment allowance as at 31 December 2018	(2,763)
Increase in impairment allowance recognized in profit or loss during the period	-
Decrease in impairment allowance recognized in profit or loss during the period	-
Closing impairment allowance as at 30 June 2019	(2,763)

## 26 Derivative financial instruments

	30 June 2019 (Unaudited)		
	Notional amount	Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	1,458,920	159	-
<b>Current</b>			
OTC options	11,970,304	125,129	219,854
Exchange traded options	1,577,055	16,519	28,406
Futures contracts <sup>(1)</sup>	3,480,436	-	-
Forward contracts	6,909	290	-
	17,034,704	141,938	248,260
	18,493,624	142,097	248,260

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 26 Derivative financial instruments (Continued)

	Notional amount	31 December 2018 (Audited)	
		Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	–	–	–
<b>Current</b>			
OTC options	5,889,061	36,545	60,465
Exchange traded options	66,713	1,385	2,041
Futures contracts <sup>(1)</sup>	856,552	–	–
Forward contracts	–	–	–
	6,812,326	37,930	62,506
	6,812,326	37,930	62,506

<sup>(1)</sup> **Futures contracts**

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
Commodities futures	3,480,436	3,489	856,552	3,573
Financial futures	–	–	–	–
Less: Cash received as settlement		(3,489)		(3,573)
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 2019 (31 December 2018: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 27 Financial assets held under resale agreements

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Analysed by asset type:		
– Warehouse receipts <sup>(1)</sup>	35,722	77,318
– Debt securities	–	260,000
	<b>35,722</b>	<b>337,318</b>

<sup>(1)</sup> The Group receives warehouse receipts as collateral which can be re-pledged at its discretion. As at 30 June 2019, the Group has accepted collateral with a fair value of RMB40,430 thousand (31 December 2018: RMB100,018 thousand).

The collateral with a fair value of RMB15,559 thousand (31 December 2018: RMB28,782 thousand) is re-pledged for margin deposits and no collateral (31 December 2018: the collateral with a fair value of RMB23,375 thousand) is re-pledged for financial assets sold under repurchase agreements.

## 28 Deposits with exchange-clearing organizations

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Clients' margin deposits	2,596,230	1,563,551
Proprietary clearing settlement funds	837,102	181,203
Clients' unrestricted deposits	80,899	642,582
	<b>3,514,231</b>	<b>2,387,336</b>
<b>Represented by</b>		
Deposits with Dalian Commodity Exchange	1,222,030	566,048
Deposits with Shanghai Futures Exchange	962,253	846,741
Deposits with China Financial Futures Exchange	566,224	317,439
Deposits with Zhengzhou Commodity Exchange	473,043	314,767
Deposits with China Securities Depository and Clearing Co., Ltd.	210,914	270,816
Deposits with Shanghai International Energy Exchange	79,767	71,525
	<b>3,514,231</b>	<b>2,387,336</b>



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 29 Bank balances held for clients

The Company maintains separate accounts with banks for clients' funds arising from the normal course of business. The funds mainly consist of individuals, asset management customers and other non-fully licenced futures firms. The Company records these funds 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 funds. 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.

## 30 Cash and bank balances

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Cash	42	13
Term deposit with banks	307,114	280,362
Demand deposit with banks <sup>(1)</sup>	285,829	296,073
Deposit with securities and futures brokers	15,960	232,541
Less:		
Credit impairment allowance	(599)	(599)
	<b>608,346</b>	808,390

<sup>(1)</sup> As at 30 June 2019, RMB90,346 thousand of the Group's demand deposit is of restricted use due to the Company's dispute with China Merchants Bank Co., Ltd. ("CMB") (Note 35).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 31 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 2019 (Unaudited)	31 December 2018 (Audited)
<b>Issued and fully paid ordinary shares of RMB1 each</b>		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900
<b>Share capital</b>		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900

On 7 July 2015, the Company issued 250,000,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with its global offering.

On 24 July 2015, the Company issued 1,900,000 ordinary shares of RMB1 each at HK\$3.32 per share in connection with the over-allotment.

The excess of RMB360,338 thousand over the par value of RMB251,900 thousand for the 251,900 thousand ordinary shares issued, net of the relevant incremental costs of RMB47,425 thousand directly contributed to the newly-issued shares, was credited to "share premium".

In accordance with relevant requirements, certain shareholders of the state-owned shares of the Company have transferred an aggregate of 25,190 thousand ordinary shares of the Company to the National Social Security Fund of the PRC.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 32 Share premium and other reserves

	Other reserves					Total
	Share premium	Surplus reserve	Other risk reserves <sup>(1)</sup>	Available-for-sale financial assets revaluation reserve	Currency translation differences	
<b>(Unaudited)</b>						
<b>As at 1 January 2019</b>	650,630	57,662	182,123	-	1,959	892,374
Appropriation to futures risk reserve	-	-	2,652	-	-	2,652
Utilization of futures risk reserve	-	-	(11)	-	-	(11)
Currency translation differences	-	-	-	-	(107)	(107)
<b>As at 30 June 2019</b>	650,630	57,662	184,764	-	1,852	894,908
<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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

## 32 Share premium and other reserves (Continued)

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

In accordance with the requirements of the Notice of the MOF on Issuing the Tentative Provisions for the Financial Management of Commodities Futures Trading (Caishang [1997] No. 44) issued on 3 March 1997, the 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. When actual losses occur, the loss amount is charged to the current profit or loss, with the same amount being transferred from futures risk reserve to retained earnings simultaneously. Appropriation for futures risk reserve is recorded as profit distribution, whilst the utilization of futures risk reserve is recorded as the reversal of the reserve.

## 33 Other non-current liabilities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Lease liabilities	16,120	N/A
Other non-current liabilities	6,879	5,983
	22,999	5,983

## 34 Other current liabilities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Payable to OTC clients	169,487	79,264
Dividends payable (Note 14)	55,105	–
Salaries, bonus, allowance and benefits payables	39,855	56,717
Lease liabilities	11,321	N/A
Advance received for physical commodity trading	8,159	42,163
Payable to Futures Investor Protection Fund	154	432
Other payables	18,766	3,953
	302,847	182,529

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Financial liabilities designated at fair value through profit or loss		
Payable to a holder of a consolidated SE <sup>(1)</sup>	29,841	29,841
Payable to clients for cooperative hedging business	16,912	7,355
Interests of holders of consolidated SEs	-	1,914
	<b>46,753</b>	<b>39,110</b>

<sup>(1)</sup> The Company enters into a contract with CMB, which is an investor of a trust scheme named CR Trust-Huiquan Wantai FOF No.2 (Note 19.3). Pursuant to the contract, the Company is obliged to compensate CMB for any under performance of the scheme until CMB's rate of return per annum reaches an agreed level. There is a disagreement between the Company and CMB regarding the enforceability of certain terms of the contract. The Company is in negotiation with CMB and no compensations had been made.

Payable to a holder of a consolidated SE represents the fair value of the above contract which is determined by the Group to reflect the best estimation of its potential obligation based on full exposure and probability of execution after taking into consideration legal advice provided by external legal counsel.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 36 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 2019 (Unaudited)	31 December 2018 (Audited)
Cash and bank balances (Note 30)	608,346	808,390
Proprietary clearing settlement funds (Note 28)	837,102	181,203
Less:		
Term deposits with original maturity over three months	(307,114)	(280,362)
Minimum clearing settlement funds required by exchange-clearing organizations	(12,000)	(12,000)
Restricted cash (Note 30(1))	(90,346)	–
Add:		
Credit impairment allowance	599	599
	<b>1,036,587</b>	<b>697,830</b>

## 37 Commitments and contingent liabilities

### (1) Capital commitments

Other than what has been disclosed in Note 18(2), the Group is not involved in any material capital commitments as at 30 June 2019 (31 December 2018: same).

### (2) Operating lease commitments

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Within 1 year	605	16,365
1 to 3 years	–	17,652
Over 3 years	–	6,971
	<b>605</b>	<b>40,988</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 37 Commitments and contingent liabilities (continued)

### (3) Other contingencies

Other than the Company's dispute with CMB mentioned in Note 35, an investor of a futures asset management scheme has filed a claim against both the Company acting as the manager and a commercial bank acting as the distributor, asserting that she should be compensated for investment cost and returns at a certain level. The undiscounted amount involved approximates RMB1,677 thousand. The Group disclaims any significant misconduct in discharging its responsibilities as the manager and has therefore not recognized any provision to this claim.

## 38 Related party transactions

### 38.1 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 influence 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 2019:

Significant related legal entities	The relationship with the Group
Zhongtai 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 controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Associate invested 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)

## 38 Related party transactions (continued)

### 38.1 Related parties (continued)

Significant related legal entities	The relationship with the Group
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The ultimate 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. ("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 BOT")	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)

## 38 Related party transactions (continued)

### 38.2 Related party transactions and balances

#### 38.2.1 The Company's direct controlling shareholder

##### *Transactions during the period*

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Introducing broker commission expense <sup>(1)</sup>	4,260	2,618
Income from providing futures brokerage service	3,588	618
Interest expense	1,559	634
Rental expense	231	180
Commission expense for stock trading	184	151

<sup>(1)</sup> Introducing broker commission expense relates to commission paid to Zhongtai Securities for introducing futures brokerage clients. It is calculated at 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
	2019 (Unaudited)	2018 (Audited)
Accounts payable to brokerage clients	423,383	352,613
Deposit with securities brokers	111	202,410
Other current liabilities		
– Introducing broker commission payable	4,866	7,129
– Interest payable	–	232
– Other payables	43	43
Other receivables		
– Rental prepayment	125	65

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 38 Related party transactions (continued)

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

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

##### *Transactions during the period*

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Income from providing futures brokerage service	618	226
Interest income from bank deposit		
– Laishang Bank	5,992	7,743
Purchase of asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	–	9,210
– Jinquan 7 Days	–	5,000
Proceeds received upon maturity of other wealth management product managed by Zhuofei Investment		
– Shangpiaotong	–	10,000
Proceeds from disposal of asset management schemes managed by Zhongtai Asset Management		
– Jinquan 7 Days	–	2,650
– Wengu 21/63 Days	3,500	9,550
Purchase of physical commodities		
– Shandong Steel Rizhao	173	3,931
– Laigang Yongfeng	42,117	24,489
Revenue of sales of physical commodities		
– Laigang Yongfeng	738	–

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 38 Related party transactions (continued)

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

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

*Balance at the end of period/year*

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Accounts payable to brokerage clients	19,119	31,062
Cash and bank balance		
– Laishang Bank	283,044	283,052
Asset management schemes managed by Zhongtai Asset Management		
– Wengu 21/63 Days	60,750	64,250
– Jinqian 7 Days	3,000	3,000
Deposit with securities and futures brokers		
– Rizhao BOT	208	–
Other current assets		
Prepayments		
– Shandong Steel Rizhao	–	39
– Laigang Yongfeng	796	32
Other receivables		
– Luzheng Fengtong	3,973	–
Other current liabilities		
Consulting fee payable		
– Zhaongtai Asset Management	45	45

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 38 Related party transactions (continued)

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

#### 38.2.3 Key management personnel

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Key management compensation	3,412	1,939

There is no loan or advance to key management during the six months ended 30 June 2019 and 30 June 2018.

## 39 Segment analysis

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

- (a) Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- (b) Commodity trading and risk management: including physical commodity trading, futures trading and OTC derivatives trading;
- (c) Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- (d) Treasury and others: including treasury 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 is no change in the basis during the six months ended 30 June 2019 and 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)

## 39 Segment analysis (continued)

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.

(Unaudited)	Six months ended 30 June 2019					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	
Net commission and fee income						
– external	23,121	–	305	–	–	23,426
– internal	4,893	–	–	–	(4,893)	–
Net interest income						
– external	69,584	2,724	–	9,071	–	81,379
– internal	(1,491)	1,491	–	–	–	–
Gains on physical commodities trading						
– external	–	4,294	–	–	–	4,294
Net investment gains						
– external	–	18,679	(15)	8,760	–	27,424
– internal	–	671	–	–	(671)	–
Other income						
– external	30,004	724	–	2,989	–	33,717
– internal	(5,564)	–	–	–	5,564	–
<b>Total operating income</b>	<b>120,547</b>	<b>28,583</b>	<b>290</b>	<b>20,820</b>	<b>–</b>	<b>170,240</b>
<b>Total operating expenses</b>	<b>(52,195)</b>	<b>(17,213)</b>	<b>(3,359)</b>	<b>(50,046)</b>	<b>–</b>	<b>(122,813)</b>
– external	(52,195)	(17,213)	(3,359)	(50,046)	–	(122,813)
– internal	–	–	–	–	–	–
Share of gains of investments in associates	–	477	–	–	–	477
Other gains/(losses), net	–	73	–	(701)	–	(628)
<b>Profit/(Loss) before income tax</b>	<b>68,352</b>	<b>11,920</b>	<b>(3,069)</b>	<b>(29,927)</b>	<b>–</b>	<b>47,276</b>
<b>Total assets</b>	<b>8,002,835</b>	<b>1,045,295</b>	<b>(2,571)</b>	<b>1,564,998</b>	<b>(1,070,111)</b>	<b>9,540,446</b>
<b>Total liabilities</b>	<b>7,127,644</b>	<b>461,914</b>	<b>1,240</b>	<b>211,064</b>	<b>(471,991)</b>	<b>7,329,871</b>
<b>Supplemental information</b>						
Depreciation and amortization	5,096	1,170	27	5,192	–	11,485
Credit impairment losses	–	–	–	–	–	–
Capital expenditure	290	388	35	719	23	1,455

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 39 Segment analysis (continued)

(Unaudited)	Six months ended 30 June 2018					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury 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>	143,420	29,679	3,500	49,079	(351)	225,327
<b>Total operating expenses</b>	(50,820)	(6,408)	(3,513)	(50,710)	53	(111,398)
– external	(50,820)	(6,408)	(3,513)	(50,657)	–	(111,398)
– internal	–	–	–	(53)	53	–
Share of losses of investments in associates	–	(1,397)	–	–	–	(1,397)
Other (losses)/gains, net	–	(892)	–	3,413	–	2,521
<b>Profit/(Loss) before income tax</b>	92,600	20,982	(13)	1,782	(298)	115,053
<b>Total assets</b>	6,070,994	674,374	354,279	2,129,799	(621,025)	8,608,421
<b>Total liabilities</b>	5,853,098	281,985	326,295	182,030	(240,490)	6,402,918
<b>Supplemental information</b>						
Depreciation and amortization	4,127	45	23	1,832	–	6,027
Credit impairment losses	–	–	–	(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)

## 40 Financial risk management

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximize the shareholders' value. The Group's risk management strategy is to identify and analyze the risks to which the Group is exposed, 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.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018.

There have been no changes in the risk management policies and structures since year end.

## 41 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.

### 41.1 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, contract assets, borrowings, accounts payable to brokerage clients, financial assets sold under repurchase agreements their fair values approximate their carrying amounts.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

### 41.2 Financial instruments measured at fair value

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognized at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

(Unaudited)	Level 1	Level 2	Level 3	Total
<b>As at 30 June 2019</b>				
Financial assets at fair value through profit or loss				
– Asset management schemes	–	63,750	16,868	80,618
– Trust schemes	–	80,747	107,637	188,384
– Private securities investment funds	–	55,807	–	55,807
– Listed equity securities	4	–	–	4
– Bank wealth management products	–	–	12,391	12,391
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	125,288	–	125,288
– Exchange Traded options	16,519	–	–	16,519
– Forward contracts	–	290	–	290
	16,523	325,882	138,296	480,701
Financial liabilities at fair value through profit or loss				
– Payable to a holder of a consolidated SE (Note 35)	–	–	(29,841)	(29,841)
– Others	–	(16,912)	–	(16,912)
Derivative financial liabilities				
– OTC options	–	(219,854)	–	(219,854)
– Exchange Traded options	(28,406)	–	–	(28,406)
	(28,406)	(236,766)	(29,841)	(295,013)



# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

(Audited)	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets at fair value through profit or loss				
– Asset management schemes	–	98,325	–	98,325
– Trust schemes	–	79,957	357,182	437,139
– Private securities investment funds	–	96,896	–	96,896
– Listed equity securities	4	–	–	4
– Bank wealth management products	–	–	5,128	5,128
Financial assets at fair value through other comprehensive income				
	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	36,545	–	36,545
– Exchange Traded options	1,385	–	–	1,385
	1,389	311,723	363,710	676,822
Financial liabilities at fair value through profit or loss				
– Payable to a holder of a consolidated SE (Note 35)	–	–	(29,841)	(29,841)
– Others	–	(9,269)	–	(9,269)
Derivative financial liabilities				
– OTC options	–	(60,465)	–	(60,465)
– Exchange Traded options	(2,041)	–	–	(2,041)
	(2,041)	(69,734)	(29,841)	(101,616)

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

The Group does not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2019.

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

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

#### (1) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. 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.

#### (2) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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.

As at 30 June 2019, asset management schemes, trust schemes 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 listed financial and commodity futures in the PRC. Fair value of these investments are determined based on their net asset value as at the reporting date, which 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.

For OTC options, fair value is determined based on the Black-Scholes (BS) Model and Monte Carlo Simulation. The key parameters are obtained through the observable market.

For forward contracts, the fair value is measured by discounting the differences between the contract prices and market prices of the underlying financial instruments.

For the period ended 30 June 2019, there are no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (2018: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

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

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

As at 30 June 2019, trust schemes, bank wealth management schemes and asset management schemes that are classified as level 3 in fair value hierarchy are issued by financial institutions. Such schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within the schemes where principal and return of senior tranche is guaranteed by junior tranche investors. The discounted cash flow model is used to determine the fair value of those schemes, where the expected future cash flows are discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and market risk.

The following table presents the changes in level 3 instruments for the period/year ended 30 June 2019 and 31 December 2018.

(Unaudited)	Financial assets	Financial assets	Financial liabilities
	at fair value through other comprehensive income	at fair value through profit or loss	at fair value through profit or loss
Balance at 1 January 2019	1,400	362,310	(29,841)
Transfer from level 2	-	21,949	-
Acquisition	-	14,300	-
Disposal	-	(248,412)	-
Unrealized losses recognized in net investment gains	-	(13,251)	-
Balance at 30 June 2019	1,400	136,896	(29,841)
Including: unrealized losses recognized in profit or loss attributable to balances held at end of period	-	(13,251)	-

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

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

(Audited)	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Financial liabilities at fair value through profit or loss
Balance at 1 January 2018	–	11,037	398,016	–
Changes on initial application of IFRS 9	1,400	387,993	(398,016)	–
Restated balance at 1 January 2018	1,400	399,030	–	–
Acquisition	–	223,431	–	–
Disposal	–	(265,875)	–	–
Unrealized gains or (losses) recognized in net investment gains	–	5,724	–	(29,841)
Balance at 31 December 2018	1,400	362,310	–	(29,841)
Including: unrealized gains or (losses) recognized in profit or loss attributable to balances held at end of year	–	5,724	–	(29,841)

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

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

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

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

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Financial instruments	Fair value at 30 June 2019	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss	136,896	Expected rate of return	7.00%-8.50%	The higher the expected rate of return, the higher the fair value
		Expected recovery date	23 November 2019-30 June 2021	The earlier the recovery date, the higher the fair value
		Discount rates that correspond to the expected risk level	6.24%-8.11%	The lower the discount rate, the higher the fair value
Financial liabilities at fair value through profit or loss – Payable to a holder of a consolidated SE	(29,841)	Probability of execution <sup>(a)</sup>	50%	The higher the probability of execution, the higher the fair value
		Expected payment date	31 December 2021	The earlier the payment date, the higher the fair value
		Discount rates that correspond to the expected risk level	2.89%	The lower the discount rate, the higher the fair value

<sup>(a)</sup> Assuming all other variables remain unchanged, a 5% increase or decrease in probability of execution will decrease or increase profit before income tax by RMB2,984 thousand.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

## 42 Offsetting financial assets and financial liabilities

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

As at 30 June 2019					
(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	3,489	-	3,489	(3,489)	-

As at 31 December 2018					
(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	3,573	-	3,573	(3,573)	-

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)

## 43 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include asset management schemes, private securities investment funds, bank wealth management products 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 2019, the interests in unconsolidated structured entities held by the Group included investment recognized as financial assets at fair value through profit or loss (31 December 2018: same). The related carrying amount and the maximum exposure are as follows:

	<b>30 June 2019 (Unaudited)</b>	31 December 2018 (Audited)
Financial assets at fair value through profit or loss	<b>337,200</b>	637,488

For the period ended 30 June 2019, the income from these unconsolidated SEs held by the Group is as follows:

	<b>Six months ended 30 June 2019 (Unaudited)</b>	2018 (Unaudited)
Net investment gains	<b>8,744</b>	21,623

As at 30 June 2019, the Group had no financial support provided to these unconsolidated SEs, and there is no plan of providing financial support by the Group to these unconsolidated SEs (30 June 2018: 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

“Lu Clearing”	Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司), established in the PRC with limited liability on 9 October 2016, a joint stock company of Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) which is the Company’s wholly-owned subsidiary
“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”	the People’s Republic of China which, for the purposes of this report, excludes 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 2019
“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