



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)



2020

INTERIM REPORT

Contents

Corporate Profile	2
Financial Highlights	4
Management Discussion and Analysis	7
Market Review	7
General Operating Results	10
Analysis of Principal Business	10
Prospects and Future Plans	14
Liquidity, Financial Resources and Capital Structure	16
Material Financing of the Company	17
Material Investments of the Company	17
Acquisition and Disposal of Material Assets, External Guarantee, Mortgage, Pledge and Material Contingent Liabilities	17
Employees, Remuneration Policies and Training	18
Risk Management	18
Corporate Governance	23
Compliance with the Corporate Governance Code	23
Securities Transactions by Directors, Supervisors and Senior Management	23
Independent Non-Executive Directors	23
Audit Committee	24
Directors' Responsibility for Financial Statements	24
Other Information	25
Share Capital	25
Interim Results	25
Interim Dividend	25
Purchase, Sale or Redemption of Listed Securities	25
Directors, Supervisors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures	25
Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares	26
Changes of Information of Directors, Supervisors and Chief Executives	28
Report on Review of Interim Financial Information	29
Condensed Consolidated Statement of Comprehensive Income	30
Condensed Consolidated Statement of Financial Position	32
Condensed Consolidated Statement of Changes in Equity	34
Condensed Consolidated Statement of Cash Flows	35
Notes to the Interim Condensed Financial Information	37
Definitions	87



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, 250001, the PRC

HEAD OFFICE IN THE PRC

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

Shizhong District, Jinan, Shandong Province, 250001, the PRC

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. Zhong Jinlong (Chairman of the Board)

Mr. Liang Zhongwei

Non-executive Directors

Mr. Liu Hongsong

Mr. Hu Kainan

Mr. Ming Gang

Mr. Liu Feng

Independent Non-executive Directors

Mr. Gao Zhu

Mr. Wang Chuanshun

Mr. Li Dapeng

Mr. Zheng Jianping

AUTHORIZED REPRESENTATIVES

Mr. Zhong Jinlong

Room 602, Unit 1, Building 13

2nd East Area of Ming Hu Village, Lixia District Jinan

Shandong Province, the PRC

Mr. Liang Zhongwei

Room 301, Unit 1, Building 14

West Area of Yanzishan Village

Lixia District Jinan

Shandong Province, the PRC

JOINT COMPANY SECRETARIES

Mr. Liang Zhongwei

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

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

STOCK CODE

01461

INVESTOR ENQUIRIES

Investors' Service Line : +86-531-81678648
Fax : +86-531-81678006
Website : <http://www.luzhengqh.com>
E-mail : investor@luzhengqh.com

Financial Highlights

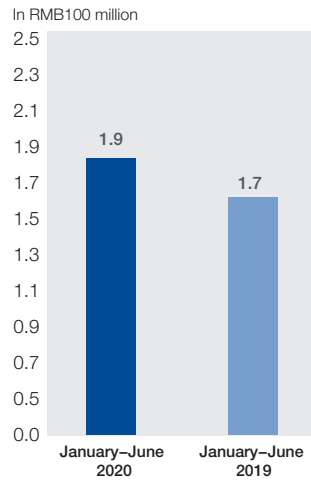
Item	January-June 2020 (Unaudited)	January-June 2019 (Unaudited)	Increase/decrease of the period as compared to that of last year
Operating Results (RMB'000)			
Revenue and other incomes ⁽¹⁾	190,286	169,612	12.19%
Profit before income tax	63,064	47,276	33.40%
Profit for the period – Attributable to the Company's Shareholders	41,766	35,392	18.01%
Net cash from operating activities	-469,668	379,030	-223.91%
Earnings per Share (RMB/Share)			
Basic earnings per Share	0.04	0.04	–
Diluted earnings per Share	0.04	0.04	–
Profitability Indexes			
Weighted average return on net asset ⁽²⁾	1.89%	1.61%	Increased by 0.28 percentage point
Item	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)	Increase/decrease at the end of the period as compared to that of the end of last year
Scale Indexes (RMB'000)			
Total assets	10,713,398	8,928,814	19.99%
Total liabilities	8,486,662	6,744,152	25.84%
Accounts payable to brokerage clients	8,226,102	6,389,258	28.75%
Equity attributable to the Company's Shareholders	2,226,736	2,184,201	1.95%
Total Share Capital (in thousands)	1,001,900	1,001,900	–
Net asset per Share attributable to the Company's Shareholders (RMB/Share)	2.22	2.18	1.83%
Gearing ratio ⁽³⁾	10.48%	13.97%	decreased by 3.49 percentage points

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

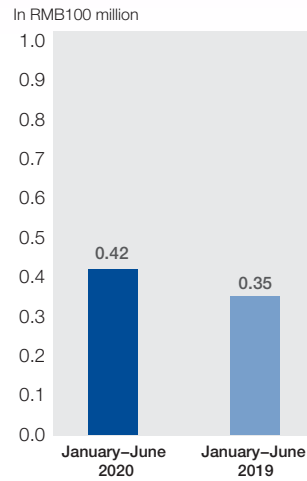
⁽²⁾ Weighted average return on net asset = Profit for the period attributable to the Company's Shareholders/Average remaining balance of total equity attributable to the Company's Shareholders as at the beginning and the end of the period

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

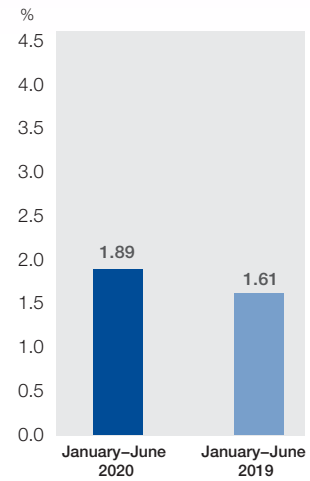
Revenue and other incomes



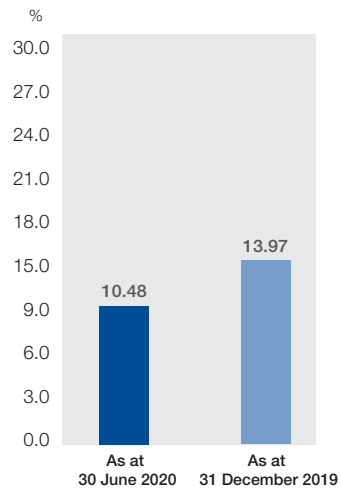
Profit for the period – Attributable to the Company's Shareholders



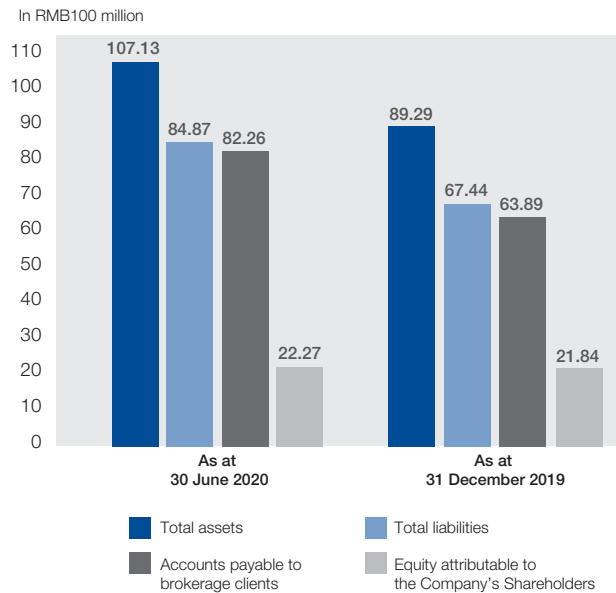
Weighted average return on net asset



Gearing ratio



Scale Indexes



Financial Highlights

The financial information of the Group for the six months ended 30 June 2020 was extracted from pages 30 to 86 to this report, which set forth details of the basis of presentation for the unaudited consolidated financial statements. The financial statements of the Group for the six months ended 30 June 2020 were unaudited.

NET CAPITAL AND RELEVANT CONTROL INDEXES OF THE COMPANY AS AT 30 JUNE 2020

Name of index	As at 30 June 2020 (Unaudited)	Regulatory Standards
Net capital (RMB'000)	1,029,607.72	30,000
Ratio between net capital and total risk capital reserves	324.72%	100.00%
Ratio between net capital and net asset	48.51%	20.00%
Ratio between current assets and current liabilities	755.95%	100.00%
Ratio between liabilities and net assets	9.03%	150.00%
Clearing settlement funds (RMB'000)	279,421.18	14,000

Note: During the Reporting Period, various risk management indexes of the Company 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 futures market of China was 2.522 billion board lots (all of the followings are per side), representing a year-on-year increase of 45.35% with a total turnover of RMB165.47 trillion, representing a year-on-year increase of 28.70%, among which, the total trading volume of commodity futures and options was 2.472 billion board lots, representing a year-on-year increase of 45.14% with a total turnover of RMB116.24 trillion, representing a year-on-year increase of 20.85%. The total trading volume of financial futures and options was 50.1023 million board lots, representing a year-on-year increase of 56.25% with a total turnover of RMB49.23 trillion, representing a year-on-year increase of 52.03%.

(ii) Performance of Products

The price trends of the futures market of China by sector during the Reporting Period are set out as follows:

1. Performance of agricultural products futures

During the Reporting Period, amidst the Covid-19 Pandemic (the “**Pandemic**”), China’s demand for agricultural products futures decreased significantly, leading to a sharp drop in the prices of most varieties in the first quarter of 2020. As China was recovering from the economic malaise caused by the Pandemic, prices of agricultural products futures sector rallied in the second quarter of 2020, resulting in a V-shaped moving trend of the prices of agricultural products futures as a whole. However, there was a big difference between the trends of varieties. The corn futures and No.1 Soybean futures were bullish in the first half of 2020, and their prices rallied to one and another highs due to tight supply. Softs (such as cotton and sugar), oils and meals, eggs, apples, etc. suffered from weak demand due to the Pandemic, and their prices fluctuated on a declining trend.

2. Performance of metal futures

During the Reporting Period, after the 2020 Spring Festival, the prices of metal futures plunged due to the Pandemic. In early February 2020, favorable policies were expected, and the prices of ferrous metal futures rallied substantially as a result; as the Pandemic continued to spread overseas in March 2020, the prices of ferrous metal futures plunged once again; since April 2020, as China resumed work and production, demand for ferrous metal futures increased quickly and were strong thanks to optimism for supporting policies, driving their prices to dramatic reaction. Prices of non-ferrous metals fell sharply to a low level in recent years due to substantial reduction in demand at the outset of the Pandemic. However, as the economic shock of the Pandemic on China was reduced, their demand slowly recovered. The outbreak of the Pandemic in major mining countries, especially South America, choked upstream supply, and prices of non-ferrous metals generally experienced a V-shaped rally.

3. Performance of energy and chemicals futures

During the Reporting Period, the energy and chemical market experienced substantial fluctuations driven by crude oil. Due to the unexpected decision of the OPEC+ oil-producing countries to stop cutting output at their meeting in March 2020, as well as the sharp decline in demand caused by the Pandemic, prices of crude oil experienced a historic drop in March and April 2020. Prices of chemical futures plummeted along with crude oil in China. In May 2020, the substantial reduction in the output of oil-producing countries and the resumption of the economies of Europe and the United States have led to a gradual recovery in the prices of crude oil and a rise in that of chemical products. Prices of crude oil began to fluctuate at a high level in June 2020, but in a narrower range. The prices of chemical products were based on their respective supply and demand profile again. In particular, varieties with sound supply and demand balance such as PP, PE and PVC did well, and those with poor supply and demand balance such as PTA, MEG and MA continued to fluctuate at low levels.

4. Performance of financial futures

During the Reporting Period, affected by the Pandemic and the significant fluctuations in international crude oil prices, the A-share market in China was volatile, and investors' demand for stock index futures surged for asset allocation and hedging purpose. The trading volume and the total closing position of the three major index futures of the China Financial Futures Exchange were far higher above the level of the same period in 2019. In addition, owing to the Pandemic and the relatively stable monetary policy in China, China's market interest rates fell initially before rising in the first half of the year. The prices of China Financial Futures Exchange's treasury bond futures rose initially before falling, showing a complete inverted V-shaped trend.

(iii) Development of the Industry

1. The ability to serve the real economy continued to increase

New varieties were listed at a much faster pace. In the first half of 2020, the CSRC approved trading of the futures and options of six varieties, including liquefied petroleum gas (“LPG”) futures and options, live pig futures, low-sulfur fuel oil, and aluminum and zinc. As at the end of the Reporting Period, 66 futures products and 19 options products were listed on the PRC's futures markets. The coordinated development of on-exchange and over-the-counter (“OTC”) commodity and financial futures and options on domestic and overseas markets was initially formed.

The scale of the market expanded steadily. As at the end of the Reporting Period, the cumulative trading volume of the futures market of China was 2.522 billion board lots, representing a year-on-year increase of 45.35% with a total turnover of RMB165.47 trillion, representing a year-on-year increase of 28.70%; the holding of Wenhua CCI was 21.06 million board lots, representing a significant increase of 20.4% and 32.9% as compared with 17.491 million board lots at the end of last year and the 15.848 million board lots during the same period of last year. The market-wide holdings grew steadily. Major products have maintained high liquidity, the continuity of active contracts has been continuously improved, and the futures market's ability to serve the real economy has been continuously enhanced.

2. Reform and opening up of the futures market continued

Commercial banks and insurance institutions were allowed to participate in trading of the treasury bond futures. With the consent of the State Council, the CSRC, the Ministry of Finance of China, the People's Bank of China, and the China Banking and Insurance Regulatory Commission issued a joint announcement to allow commercial banks and insurance institutions to participate in trading of treasury bond futures via China Financial Futures Exchange in batches, subject to laws and regulations, control of risks, and commercially sustainability.

Restriction on foreign investment in Chinese futures companies were officially removed. On 18 June 2020, the CSRC approved the application for the change of shareholdings of the first futures company wholly-controlled by foreign investors.

3. Solid achievements were made in poverty alleviation by the futures market

As at the end of the Reporting Period, in terms of paired assistance, 110 futures companies have signed 377 paired assistance agreements with 212 national-level poor counties (townships and villages), and RMB570 million were invested in poverty alleviation. Through the "insurance + futures" model, futures companies provided price protection for agricultural products in poor areas, with an insured value of approximately RMB18.542 billion; helped 27 enterprises in poor areas in becoming futures exchange delivery warehouses; provided 112 risk management service programs for entities or individuals in poor areas, such as cooperative hedging, pricing, and OTC options, with a nominal principal of approximately RMB1.05 billion.

II. GENERAL OPERATING RESULTS

During the Reporting Period, the Group realized operating income and other gains of RMB190.286 million and profit for the period attributable to the Company's shareholders of RMB41.766 million, representing an increase of 12.19% and 18.01% as compared with RMB169.612 million and RMB35.392 million in the same period of last year, respectively. Such increase in business performance was mainly due to the following factors: active trading of the futures market during the six months ended 30 June 2020; at the same time, the Company launched a series of promotions, which demonstrated the advantages of the Company's Internet business model as evidenced by the fact that the average daily equity balance of new customers doubled, the handling fee income increased significantly, and the market share in terms of the handling fee income has increased substantially as compared with the same period of last year.

As at 30 June 2020, the total assets of the Group were RMB10.713 billion, representing an increase of 19.99% as compared with RMB8.929 billion as at the end of 2019. The total liabilities of the Group were RMB8.487 billion, representing an increase of 25.84% as compared with RMB6.744 billion as at the end of 2019. The equity attributable to Shareholders of the Company was RMB2.227 billion, representing an increase of 1.95% as compared with RMB2.184 billion as at the end of 2019. The Group's gearing ratio (both total assets and total liabilities have excluded accounts payable to brokerage clients) was 10.48%, representing a decrease of 3.49 percentage points as compared with 13.97% as at the end of 2019. 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 commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management, commodity trading, basis trading, warehouse receipt services, cooperation insurance market making business, Over-the-counter ("OTC") derivatives business, information technology consulting services, and other business activities permitted by the CSRC.

During the Reporting Period, the Group took the initiatives and worked conscientiously by adjusting and optimizing our organization and structure and strengthening compliance and risk control system, continued to improve our results of operation and pushed ahead various tasks for meeting the Group's development goals for the year while taking effective measures to prevent and control the Pandemic.

(i) Futures and Options Brokerage Business

During the Reporting Period, the Group's major operating indicators such as income from brokerage business, client equity balance, and turnover and market shares continued to rise. Among them, income from brokerage business was RMB142.42 million, representing a year-on-year increase of 18.14%; accumulated turnover of futures (bilateral) was RMB2.58 trillion. The turnover and market shares increased steadily.

During the Reporting Period, the Company improved its capability to serve industrial clients by increasing its industry research capabilities. It helped enterprises in risk management and model innovation by inspecting the physical commodities sectors, and utilizing a combination of financial tools to serve physical commodities producers according to their local conditions, and integrating futures and options tools with industrial enterprises' procurement, production, sales, and trade.

During the Reporting Period, the Company's options business continued to maintain a leading position in the industry. From January to June 2020, the Company's trading volume of stock options on the Shanghai Stock Exchange ranked the first in the entire market. In addition, the OTC derivatives business continued to develop steadily. Despite the dramatic fluctuations in the prices of the energy and chemical bulk commodity market represented by crude oil, the Company's OTC service team responded proactively to minimize the impact of market risks on the Company and achieved satisfactory profits. The Company provides various OTC option products for many established entities and financial institutions.

During the Pandemic, the Company exploited opportunities out of the crisis, and focused on building an online customer service system to improve customer experience and satisfaction. By launching a handheld business hall online, it enabled clients to transact business online at home. It made best use of the channel advantages and operational advantages of the Internet. While attracting customers and expanding the market through the platform, it actively promoted the establishment of online investment and research services and customer classification systems, and offered lots of online investment education. During the Reporting Period, the number of the Company's new clients who opened accounts increased by 380.70% year on year, among them, the number of new clients who opened accounts online account for 97.64% of the number of new clients who opened accounts.

During the Reporting Period, the Company facilitated the development of futures and options brokerage business by implementing effective measures in marketing management, acquisition of institutional clients, promotion of business synergies, strengthening team-building and improvement of support capabilities in the middle and back offices.

(ii) Futures Asset Management Business

During the Reporting Period, the Company defined the new goal of returning the asset management business to its origin, developing high-quality asset management business in a compliant manner, and making every effort to build active management capabilities; focused on improving the professional capabilities and compliance risk control level of asset management business, comprehensively reviewed and strengthened the internal control system of asset management business, perfected the endogenous mechanism of preventing and controlling operational risks.

(iii) Commodity Trading and Risk Management Business

During the Reporting Period, the Group's profit before income tax from commodity trading and risk management business was RMB14.8728 million, representing an increase of RMB2.9528 million as compared with the same period of last year.

During the Reporting Period, the Group continued to develop the commodities trading and risk management business through Luzheng Capital, which includes OTC derivatives business, market making business, warehouse receipt services and basis trading business as well as commodity trading business, primarily engaged in inventory management and risk management of commodity prices for clients.

In terms of OTC derivatives business, the Group has signed master OTC derivatives business agreements with more than 700 companies and institutions, which further expanded its business scope and diversified its business. The master agreements covered products including rebar, hot-rolled coil, iron ore, soybean meal, corn and other varieties.

Management Discussion and Analysis

In terms of market making business, the Group has successively obtained the market maker qualifications for four options including the thermal coal option of Zhengzhou Commodity Exchange, the polyethylene, polyvinyl chloride and polypropylene options of Dalian Commodity Exchange; and the market maker qualifications for seven futures products including styrene, polypropylene, soybean oil, corn starch, palm oil, eggs of Dalian Commodity Exchange, the oil and asphalt on Shanghai Futures Exchange. Now it provides market-making services for a total of nine options products and eleven futures products on Zhengzhou Commodity Exchange, Dalian Commodity Exchange and Shanghai Futures Exchange. The Group extended its market-making varieties to more industries, continuously optimized and diversified its market-making strategies, resulting in enhanced market-making capabilities.

In terms of warehouse receipt service business, the Group actively promoted the warehouse receipt service business, focusing on standard warehouse receipt services. The operation mode was mainly pledge of warehouse receipts, agreed repurchase, and risk-free delivery arbitrage, providing strong liquidity support for clients to revitalize their inventory. At the same time, under the premise that risks are controllable, non-standard warehouse receipt service business should be prudently carried out to improve service quality and level, and better serve industrial enterprises.

In terms of basis trading and commodity trading, the Group actively conducted commodity trading in multiple industry chains, concentrating its capital, manpower and other resources on the development of the Group's dominant varieties, with a focus on various products on grains, oils and fats, ferrous metals and other industrial chains. 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). 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 presence was further strengthened, which provided better support to other businesses of the Group.

IV. PROSPECTS AND FUTURE PLANS

(i) Market Analysis

In the first half of 2020, the unprecedented Pandemic shocked the global economy. However, under the strong leadership of the Central Committee of the CPC, China has coordinated the efforts to prevent and control the Pandemic and to promote economic and social development. Thanks to a series of policies, China's economic operation rose after initial declining, and steadily recovered, withstanding the challenge of the Pandemic.

In terms of economic growth, the GDP of China for the second quarter increased by 3.2% year-on-year, turning around from a decline of 6.8% in the first quarter; the added value of industrial enterprises above designated size increased by 4.4% as compared with a decrease of 8.4% in the first quarter; the added value of services industry increased by 1.9%, turning around from a decline of 5.2% in the first quarter. In terms of social consumption, the decline in total retail sales of consumer goods in the second quarter narrowed by 15.1 percentage points as compared with that in the first quarter. In terms of investment, the decline in fixed asset investment in the first half of the year narrowed by 13.0 percentage points as compared with that in the first quarter. In terms of prices, the rise of consumer prices showed a downward trend. In the first half of the year, the consumer prices rose by 3.8% year-on-year, and the growth rate dropped by 1.1 percentage points as compared with that in the first quarter.

The economic growth maintained improvement in quality. The growth of the high-tech sector accelerated. In the first half of the year, the added value of the high-tech manufacturing industry increased by 4.5% year-on-year, accounting for 14.7% of the added value of industries above designated size, up by 0.9 percentage point as compared with that in the same period of last year. Investment in high-tech fields continued to increase. In the first half of the year, investment in high-tech manufacturing increased by 5.8% year-on-year, and investment in high-tech service industries increased by 7.2% year-on-year. Related products such as new infrastructure grew rapidly. Urban rail vehicles increased by 13.0% in the first half of the year, and the output of charging piles increased by 11.9%.

China was able to effectively control the Pandemic in a short period of time, turn the economy from falling to rising, and maintain the overall economic and social stability, highlighting the strong resilience and potential of the Chinese economy.

2020 is the year to finish building a moderately prosperous society in all respects and the “13th Five-Year Plan (“十三五”規劃)” will end. It is necessary to lay a solid foundation for the development of the “14th Five-Year Plan (“十四五”規劃)” and the realization of the second centenary goal. The “Central Economic Work Conference” at the end of 2019 pointed out that to achieve the expected goals of 2020, it is necessary to “uphold the policy framework of stable macro policies, flexible micro policies, and social policies that ensure basic needs are met and to introduce more forward-looking, pertinent and effective approaches in macro-economic regulation.” In 2020, the economic policies of China will be designed towards such goals. In terms of fiscal policies, the country will increase counter-cyclical adjustments with investment and infrastructure to stabilize economic growth; in terms of monetary policies, the country will continue to implement a moderately loose monetary policy and use multiple monetary policy tools in a flexible manner to maintain reasonable and sufficient liquidity and effectively support economic operations within a reasonable range; the recent signing of the first phase economic and trade agreements following the 13th round of Sino-US trade negotiation will contribute to improved expectation and boost investment confidence in China. But the economic growth is still exposed to risks. Firstly, the Sino-US trade issue is a long-term issue, and there are still great uncertainties about the future; secondly, the endogenous growth momentum has weakened, stifling the growth of global economy, and the probability that the global economy is going worse and several economies are falling into recession has increased. Central banks and governments of various countries have begun to work out more initiatives to stabilize growth to avoid a rapid decline in demand. On the whole, despite the risks, China’s economy will steadily pick up under countercyclical adjustment policies in 2020.

(ii) Development Plan

The Group will firmly grasp the existing edges with the first duty of “serving real economy” and the goal of to “establishing 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 2020, 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 assignments specified at the beginning of 2020; 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, increasing business competitiveness in all round, focusing on transformation of brokerage business to build an excellent research brand, and steadily improving the profitability of various business lines; fourthly, always keeping its employees alarmed and informed of the intention of supervision and legislation to prevent and control the risk of OTC business and innovative businesses, steadily increasing the size of risk management business; fifthly, strengthening party building work, promoting the deep integration of party building with business development, and effectively strengthening party members’ cultivation and education and talent building.

V. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the equity attributable to the Company's Shareholders was RMB2,227 million, of which share capital was RMB1,001.9 million, share premium was RMB651 million and retained earnings were RMB310 million. This represents an increase of 1.95% as compared with RMB2,184 million as at the end of 2019, which was mainly attributable to an increase in the profits during the Reporting Period.

During the Reporting Period, the Group's asset increased and maintained sound asset quality and liquidity. As at 30 June 2020, the Group's total assets after deducting accounts payable to brokerage clients reached RMB2,487 million, decreasing by 2.06% as compared with RMB2,540 million as at the end of 2019, among which, funds deposited with the futures exchanges in the PRC accounted for 31.01%; cash and bank balance accounted for 23.04%; investment assets (including investments in associates and financial assets, especially investment in financial assets with strong liquidity) accounted for 37.43%; and the property and equipment and intangible assets accounted for 1.90%.

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 (both total assets and total liabilities less accounts payable to brokerage clients) was 10.48%, decreasing by 3.49 percentage points as compared with that as at the end of 2019. The Group's operating leverage (the total assets less accounts payable to brokerage clients/equity attributable to the Company's Shareholders) was 1.12 times, decreasing by approximately 3.45% as compared with 1.16 times as at the end of 2019. As at 30 June 2020, the Group's total liabilities were RMB8,487 million, among which, RMB8,226 million was accounts payable to brokerage clients. The remaining liabilities (net of accounts payable to brokerage clients) were RMB261 million, of which RMB57 million was derivative financial liabilities, RMB97 million was payable to OTC option clients, RMB39 million was for staff cost payable, RMB26 million was lease liabilities. The Group has sufficient resources to repay the aforementioned liabilities. During the Reporting Period, the aging analysis of accounts payable was not applicable to the Group.

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.

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 OF THE COMPANY

During the Reporting Period, the Company had no material investments.

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 33 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 511 employees. For the six months ended 30 June 2020, the cost of employees of the Group amounted to approximately RMB72,384 thousand, details of which are set out in note 8 to the interim condensed financial information of this report.

The Group established a remuneration system which allows management by sequence, links incentives and constraints to performance assessment. It is competitive as compared with its peers and features fairness within the Group. 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 employees and continuously improved the Group's operating results. The remuneration of the employees of the Group consists of six parts including basic salary, performance wage, bonus, sales commissions, special incentives and insurance 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 operation-related training to improve training results. During the Reporting Period, the Group organized a series of trainings on new varieties such as LPG futures, live pig futures, low-sulfur fuel oil futures and existing varieties, a series of trainings on compliance, information technology, finance, investor appropriateness, work integrity, marketing skills improvement, middle and senior leadership, job competence, 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 the minimum required by the futures exchanges in the PRC. 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 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 conducting 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 monitoring 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 companies' business activities or their employees' conduct in violation of the relevant laws, regulations or rules.

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 and risk control department and the audit department with full-time compliance management staff; and conducted supervision and control on the overall compliance of the business through means such as compliance review, compliance training, compliance consultation and internal audit, etc., to continuously 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 has taken the following measures: (1) has strict internal control systems and work procedures in place, reviews risk areas in the business to form a risk control list, and strengthens accountability, implements strict operation control mechanisms to reduce the risks of technical irregularities or human errors, enhances the efficiency and capability of operational risk management; (2) regularly conducts internal audit and evaluates the efficiency and capability of operational risk management; (3) established a scientific salary and promotion incentive mechanism to create a good development environment for employees; and (4) 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, clients or key employees.

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

(ii) Risk Management Measures Adopted by the Group

1. Establishing a scientific and effective risk management structure

The Board of the Company is the highest decision-making body for risk management. It has a risk control committee and an audit committee to review and audit major risk issues; the senior management is responsible for organizing and carrying out the Company's routine comprehensive risk management work; the Supervisory Committee is responsible for supervising the Board and the senior management in performing their duties of risk management; the chief risk officer is responsible for organizing, coordinating, and implementing various comprehensive risk management tasks; the Company's Compliance and Risk Control Department is at the core of the Company's comprehensive risk management, who is responsible for the implementation, monitoring and overseeing of specific risk management tasks and assesses the effectiveness of such tasks; each of other functional departments and branches has its compliance risk control personnel who is responsible for organizing the identification, evaluation, responding to and reporting of various risks of the entity within which they function. The Company incorporates its subsidiaries into the comprehensive risk management system, and subsidiaries at all levels shall carry out risk management under the Company's overall comprehensive risk management framework.

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 each of the special committees of the Board and independent non-executive directors. It gives full play to the monitoring role of the Supervisory Committee on the Board and the senior management.

3. Consistently improving the overall risk management system

The Group sticks to the principle of implementing a risk management system covering all departments and subsidiaries 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, continuously implement risk management throughout the entire process on various innovation businesses, gather main business risk information and operating data of various departments and subsidiaries of the Group on a daily basis for overall risk analysis and central reporting.

4. Continuously increasing risk awareness

The Group attaches great importance to increasing the risk awareness and risk control capabilities of all employees. Through various lectures and trainings within the Group, it consistently enhances the ability to identify and prevent risks of all employees, strengthens the risk awareness of all employees, fosters an excellent risk management culture and ensure the realization of the overall target of the Group in risk management.

Corporate Governance

The Company is committed to enhancing corporate governance standard and regards it as an indispensable part to creating values for Shareholders. The Company has established an effectively balanced and independently operated modern corporate governance structure which comprises a number of bodies including the general meetings, the Board of Directors, the Supervisory Committee and the senior management with reference to the code provisions as set out in the Corporate Governance Code. Riding on this structure, each operating unit is able to perform its duties under respective terms of reference, which ensures standardized operation of the Company. The Company has also adopted the Corporate Governance Code as its own corporate governance practices.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company had complied with all code provisions in the Corporate Governance Code, and had adopted most of the recommended best practices set out in the Corporate Governance Code.

SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has adopted the Model Code as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for 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 2020, the Company appointed a total of four independent non-executive Directors, including Mr. Gao Zhu, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping.

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 five Directors: Mr. Wang Chuanshun (independent non-executive Director), Mr. Gao Zhu (independent non-executive Director), Mr. Li Dapeng (independent non-executive Director), Mr. Hu Kainan (non-executive Director) and Mr. Liu Feng (non-executive Director). Mr. Wang Chuanshun currently serves as the chairman of the Audit Committee.

On 20 August 2020, the Audit Committee has reviewed and confirmed the Company's interim results announcement for the six months ended 30 June 2020, the 2020 interim report and the unaudited interim financial statements for the six months ended 30 June 2020 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

SHARE CAPITAL

As at 30 June 2020, 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 2020 was published on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.luzhengqh.com) on 20 August 2020.

INTERIM DIVIDEND

When reviewing the interim report, the Board of Directors of the Company did not draft any proposal of profit distribution.

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 2020, 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 2020, 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.) ⁽¹⁾	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. ^{(1), (2)}	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. ⁽²⁾	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CM International Capital Limited ⁽³⁾	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) ⁽³⁾	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) ⁽³⁾	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
Xu Guiqin	H Shares	Beneficial owner	18,276,000 (long position)	1.82%	6.59%

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 2020.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 41.32% 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 80.52% 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 2020, 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

As at the end of the Reporting Period, save for disclosed below, 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.

Mr. Ming Gang served as the general manager of International Trade Company of Yongfeng Group Co., Ltd. (永鋒集團有限公司) since January 2020.

Mr. Liu Feng no longer served as the general manager and director of Lukang Investment Co., Ltd (魯康投資有限公司) since February 2020; served as the supervisor of Shandong Geo-Mineral Co.,Ltd. (山東地礦股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 000409) since January 2020; and served as the supervisor of Shandong Marine Group Ltd. (山東海洋集團有限公司) since April 2020.

Mr. Wang Chuanshun no longer served as the director of Shandong Branch of Ruihua Certified Public Accountants (瑞華會計師事務所山東分所) since February 2020; no longer served as the independent director of Qingdao Gancheng Technology Co., Ltd. (青島乾程科技股份有限公司) since April 2020; and no longer served as the independent director of Huadian International Power Co., Ltd. (華電國際電力股份有限公司) since June 2020; and served as the partner of Jinan Branch of Grant Thornton (致同會計師事務所濟南分所) since February 2020.

Mr. Tan Shaojie obtained the qualification of senior economist in May 2020.

Mr. Hu Yuyue no longer served as the independent director of Shanghai Ganglian Ecommerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (listed on Shenzhen Stock Exchange, stock code: 300226) since May 2020; and served as the independent director of TF Futures Co., Ltd. (天風期貨股份有限公司) since February 2020.

On 18 June 2020, Mr. An Tie was appointed as a non-staff representative Supervisor of the Company. For further information, please refer to the Company's circular dated 3 June 2020 and announcement dated 18 June 2020.

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 30 to 86, 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 2020 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, 20 August 2020

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
Revenue	4	158,025	134,810
(Losses)/Gains on physical commodities trading	5	(36,983)	4,294
Net investment gains	6	67,539	27,424
Other income	7	711	3,712
Operating income		189,292	170,240
Staff costs	8	(72,384)	(69,669)
Commission to brokerage agents		(5,492)	(3,417)
Introducing broker commission	34.2.1	(4,625)	(4,260)
Depreciation and amortization	9	(10,486)	(11,485)
Other operating expenses	10	(35,199)	(33,982)
Operating expenses		(128,186)	(122,813)
Operating profit		61,106	47,427
Share of gains of investments in associates	15	964	477
Other gains/ (losses), net		994	(628)
Profit before income tax		63,064	47,276
Income tax expense	11	(21,359)	(14,814)
Profit for the period		41,705	32,462

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		721	(108)
Other comprehensive income for the period, net of tax		721	(108)
Total comprehensive income for the period		42,426	32,354
Profit attributable to:			
– Shareholders of the Company		41,766	35,392
– Non-controlling interests		(61)	(2,930)
		41,705	32,462
Total comprehensive income attributable to:			
– Shareholders of the Company		42,535	35,285
– Non-controlling interests		(109)	(2,931)
		42,426	32,354
Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share)			
Basic/Diluted	13	0.04	0.04

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 2020

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	39,884	42,593
Intangible assets		7,316	8,479
Investments in associates	15	58,754	57,790
Other non-current assets	17	28,061	18,897
Deferred income tax assets	18	6,348	18,915
Refundable deposits	19	31,290	31,170
Derivative financial assets	23	–	84
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss	20	50,061	–
Total non-current assets		223,114	179,328
Current assets			
Physical commodities	21	26,295	309,256
Other current assets	22	91,615	161,728
Contract assets		12,371	12,371
Derivative financial assets	23	45,940	53,544
Financial assets at fair value through profit or loss	20	396,340	270,369
Financial assets held under resale agreements	24	378,499	30,256
Deposits with exchange-clearing organizations	25	5,158,974	3,735,024
Bank balances held for clients	26	3,807,161	3,600,073
Cash and bank balances	27	573,089	576,865
Total current assets		10,490,284	8,749,486
Total assets		10,713,398	8,928,814

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	28	1,001,900	1,001,900
Share premium	29	650,630	650,630
Other reserves	29	263,736	259,037
Retained earnings		310,470	272,634
Total equity attributable to shareholders of the Company		2,226,736	2,184,201
Non-controlling interests		-	461
Total equity		2,226,736	2,184,662
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	18	3,672	11
Other non-current liabilities	30	17,243	13,454
Total non-current liabilities		20,915	13,465
Current liabilities			
Other current liabilities	31	181,142	266,682
Current income tax liabilities		1,185	5,585
Derivative financial liabilities	23	57,318	44,600
Financial liabilities at fair value through profit or loss		-	24,562
Accounts payable to brokerage clients		8,226,102	6,389,258
Total current liabilities		8,465,747	6,730,687
Total liabilities		8,486,662	6,744,152
Total equity and liabilities		10,713,398	8,928,814

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 2020

(All amounts in RMB'000 unless otherwise stated)

(Unaudited)	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital (Note 28)	Share premium (Note 29)	Other reserves (Note 29)	Retained earnings		
Balance at 1 January 2020	1,001,900	650,630	259,037	272,634	461	2,184,662
Profit for the period	-	-	-	41,766	(61)	41,705
Other comprehensive income for the period	-	-	769	-	(48)	721
Total comprehensive income for the period	-	-	769	41,766	(109)	42,426
Net appropriation to reserves	-	-	3,930	(3,930)	-	-
Acquire equity of non-controlling shareholders	-	-	-	-	(352)	(352)
Balance at 30 June 2020	1,001,900	650,630	263,736	310,470	-	2,226,736
Balance at 1 January 2019	1,001,900	650,630	241,744	314,168	24,884	2,233,326
Profit for the period	-	-	-	35,392	(2,930)	32,462
Other comprehensive income for the period	-	-	(107)	-	(1)	(108)
Total comprehensive income for the period	-	-	(107)	35,392	(2,931)	32,354
Net appropriation to reserves	-	-	2,641	(2,641)	-	-
Dividends relating to 2018	-	-	-	(55,105)	-	(55,105)
Balance at 30 June 2019	1,001,900	650,630	244,278	291,814	21,953	2,210,575

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 2020

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Cash flows from operating activities		
Profit before income tax	63,064	47,276
Adjustments for:		
Depreciation and amortization	10,486	11,485
Interest expense on borrowings	–	96
Interest expense on lease liabilities	887	1,414
Net losses on disposal of property and equipment and intangible assets	27	8
Net gains on modification of lease agreements	(32)	–
Foreign exchange losses	91	14
Interest income from term deposits	(5,920)	(5,921)
Share of gains of investments in associates	(964)	(477)
	67,639	53,895
Net increase in operating assets:		
Net increase in bank balances held for clients	(207,208)	(1,268,536)
Net increase in deposits with exchange-clearing organizations	(1,900,258)	(470,996)
Net (increase)/decrease in financial assets at fair value through profit or loss and derivative financial assets	(168,344)	196,121
Net (increase)/decrease in financial assets held under resale agreements	(348,243)	301,596
Net increase in restricted cash	–	(90,346)
Net decrease/(increase) in other assets	70,234	(91,251)
Net decrease in physical commodities	282,961	178,861
	(2,270,858)	(1,244,551)
Net increase in operating liabilities:		
Net increase in accounts payable to brokerage clients	1,836,844	1,382,566
Net decrease in financial assets sold under repurchase agreements	–	(32,346)
Net (decrease)/increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	(11,844)	193,397
Net (decrease)/increase in other liabilities	(81,817)	54,680
	1,743,183	1,598,297
Income tax paid	(9,632)	(28,611)
Net cash (outflow)/inflow from operating activities	(469,668)	379,030

Condensed Consolidated Statement of Cash Flows

For the Six Months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Cash flows from investing activities		
Payment for acquisition of equity of non-controlling shareholders	(352)	–
Interest received from term deposits	5,953	5,954
Purchases of property and equipment, intangible assets and other long-term assets	(2,818)	(2,165)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	658	–
Proceeds on maturity of term deposits	1,948	(26,785)
Net cash inflow/(outflow) from investing activities	5,389	(22,996)
Cash flows from financing activities		
Repayment of lease liabilities	(13,733)	(6,839)
Repayment of borrowings	–	(10,424)
Net cash outflow from financing activities	(13,733)	(17,263)
Net (decrease)/increase in cash and cash equivalents	(478,012)	338,771
Cash and cash equivalents at beginning of period	1,035,696	697,830
Effect of exchange rate changes on cash and cash equivalents	(91)	(14)
Cash and cash equivalents at end of period (Note 32)	557,593	1,036,587

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 2020
(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, asset management, commodity trading, derivatives trading 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 20 August 2020.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(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 2020 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 2019, 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.

Following a review of its interim financial information, the Group reclassified comparative amounts according to the current presentation or classification, which would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS8.

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 2019, as described in those annual financial statements.

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

2.2 Impact of standards issued but not yet applied by the Group

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 2020

(All amounts in RMB'000 unless otherwise stated)

3 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 2019.

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.

3.1 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 or trustees 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.

3.2 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 discounted cash flow analysis model, Black-Scholes Model etc. Observable input are used at arm's length in spite of areas such as credit risk (both own and counterparty) require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

3 Estimates (Continued)

3.3 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.

3.4 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.

4 Revenue

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Net commission and fee income ⁽¹⁾	32,203	23,426
Net interest income ⁽²⁾	72,484	81,379
Net refunds of trading fees ⁽³⁾	53,338	30,005
	158,025	134,810

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

4 Revenue (Continued)

(1) Net commission and fee income

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Commission and fee income		
Futures brokerage service	148,765	144,593
Settlement and clearing service income from other futures firms	11,355	9,395
Asset management service	15	305
Investment consultancy service	13	9
	160,148	154,302
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	116,590	121,481
Settlement and clearing service expense to exchange-clearing organizations	11,355	9,395
	127,945	130,876
Net commission and fee income	32,203	23,426

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

4 Revenue (Continued)

(2) Net interest income

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Interest income		
Interest income from deposits with banks	74,381	79,340
Interest income from deposits with exchange-clearing organizations	21,004	8,854
Interest income from financial assets held under resale agreements	930	7,201
	96,315	95,395
Interest expense		
Interest expense to brokerage clients	22,506	11,092
Interest expense on lease liabilities	887	1,414
Interest expense on settlement and clearing services to other futures firms	438	333
Interest expense on financial assets sold under repurchase agreements	–	1,081
Interest expense on borrowings	–	96
	23,831	14,016
Net interest income	72,484	81,379

(3) Net refunds of trading fees

Net refunds of trading fees reflect the refunds of trading fees from futures exchanges to the Group, partially offset by the consequential return from the Group to its customers. To improve the sustainable development of the futures markets, the futures exchanges implement a practice to partially refund trading fees to their clearing members. Policies on the timing and calculation method of refunds are made and adjusted periodically at the discretion of the futures exchanges. In some cases, the Group further returns all or part of these refunds to its customers.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

5 (Losses)/Gains on physical commodities trading

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Sales proceeds	408,758	547,534
Costs of purchases	(445,741)	(543,240)
	(36,983)	4,294

6 Net investment gains

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Net realized gains/ (losses) of		
– Financial assets at fair value through profit or loss	–	4,390
– Financial liabilities at fair value through profit or loss	(23,360)	–
– Derivative financial instruments	53,539	40,237
Unrealized fair value changes of		
– Financial assets at fair value through profit or loss	(2,751)	(10,628)
– Financial liabilities at fair value through profit or loss	24,305	–
– Derivative financial instruments	8,902	(21,557)
– Physical commodities	43	–
Dividends from financial assets at fair value through profit or loss	6,861	14,982
	67,539	27,424

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

7 Other income

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Exchange service income	627	2,066
Cooperative hedging fees	–	724
Software service income	–	468
Other	84	454
	711	3,712

8 Staff costs

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Salaries and bonus	63,694	53,985
Pension and other social securities	6,092	13,323
Labour union charge and employee education charge	2,444	2,216
Other welfares	154	145
	72,384	69,669

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

9 Depreciation and amortization

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	4,718	5,418
Depreciation of property, plant and equipment	4,144	3,973
Amortization of long-term prepaid expenses	1,014	997
Amortization of intangible assets	610	1,097
	10,486	11,485

10 Other operating expenses

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Information system maintenance fees	9,965	6,749
Marketing and distribution expenses	8,481	5,841
Office expenses	6,639	6,595
Professional service expenses	2,205	4,824
Property maintenance fee	1,544	2,246
Consulting expenses	1,483	1,976
Rentals	1,317	1,983
Taxes and surcharges	904	629
Futures Investors Protection Fund	213	154
Other expenses	2,448	2,985
	35,199	33,982

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

11 Income tax expense

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Current tax	4,971	20,601
Deferred tax	16,388	(5,787)
	21,359	14,814

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	
	2020 (Unaudited)	2019 (Unaudited)
Profit before income tax	63,064	47,276
Tax calculated at tax rates applicable to profits in the respective area	16,440	14,732
Items deducted for tax purposes but not subtracted to arrive at taxable income	(983)	(690)
Tax losses for which no deferred income tax asset was recognized	2,240	–
Reversal of previously recognized deferred income tax assets	3,700	–
Income not subject to tax	(394)	–
Items not deductible for tax purposes	356	821
Adjustments in respect of prior years	–	(49)
	21,359	14,814

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

12 Dividends

No dividend in respect of the year ended 31 December 2019 of the Company is declared and recognized during the period of six months ended 30 June 2020 (2019: RMB55,105 thousand).

The board of directors do not draft any proposal of profit distribution in respect of the six months period ended 30 June 2020.

13 Earnings per share

13.1 Basic earnings per share

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

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Profit attributable to shareholders of the Company (in RMB thousands)	41,766	35,392
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.04	0.04

13.2 Diluted earnings per share

For the six months ended 30 June 2020, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (2019: same)

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

14 Property, plant and equipment

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
At 1 January 2020	40,073	8,788	46,488	95,349
Additions	–	584	983	1,567
Disposals	–	–	(1,050)	(1,050)
At 30 June 2020	40,073	9,372	46,421	95,866
Accumulated depreciation				
At 1 January 2020	(11,535)	(7,447)	(33,774)	(52,756)
Additions	(649)	(260)	(3,235)	(4,144)
Disposals	–	–	918	918
At 30 June 2020	(12,184)	(7,707)	(36,091)	(55,982)
Carrying amount				
At 30 June 2020	27,889	1,665	10,330	39,884

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

14 Property, plant and equipment (Continued)

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
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
Accumulated depreciation				
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)
Carrying amount				
At 30 June 2019	29,187	1,640	11,178	42,005

All buildings of the Group are located outside Hong Kong.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

15 Investments in associates

Set out below are the associates of the Group as at 30 June 2020 which have share capital consisting solely of ordinary shares held directly by the Group.

Nature of investments in associates as at 30 June 2020:

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") ⁽¹⁾	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") ⁽²⁾	Shanghai, the PRC	35%	Commodity trading	Equity
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司) ("Lu Clearing") ⁽³⁾	Jinan, the PRC	40%	Registration, settlement and derivatives clearing	Equity

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

15 Investments in associates (Continued)

(1) Rizhao BOT

The Group invested RMB35.4 million in Rizhao BOT aggregately. Rizhao BOT is located in Rizhao City, Shandong Province. The registered capital of Rizhao BOT is RMB120 million as at 30 June 2020. 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	
	2020 (Unaudited)	2019 (Unaudited)
At 1 January	27,634	25,000
Share of profits for the period	2,210	642
At 30 June	29,844	25,642
Summarized financial information of Rizhao BOT is as follows.		
Opening net assets	93,676	89,948
Profits for the period	7,491	2,176
Other comprehensive income	-	-
Closing net assets	101,167	92,124
Interest in the associate and carrying value	29,844	25,642

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

15 Investments in associates (Continued)

(2) Luzheng Fengtong

The Group invested RMB17.5 million in Luzheng Fengtong in 2017. The registered capital of Luzheng Fengtong is RMB100 million as at 30 June 2020. The Group holds 35% of its equity and accounts for the associate using equity method.

As at 30 June 2020, 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	
	2020 (Unaudited)	2019 (Unaudited)
At 1 January	18,619	18,643
Share of losses for the period	(275)	(165)
At 30 June	18,344	18,478
Summarized financial information of Luzheng Fengtong is as follows.		
Opening net assets	53,197	53,255
Losses for the period	(785)	(471)
Other comprehensive income	-	-
Closing net assets	52,412	52,784
Interest in the associate and carrying value	18,344	18,478

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

15 Investments in associates (Continued)

(3) Lu Clearing

The registered capital of Lu Clearing is RMB150 million as at 30 June 2020. The Group holds 40% of its equity and accounts for the associate using equity method.

As at 30 June 2020, The carrying amount of the associate is RMB10,566 thousand.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Opening net assets	30,424	40,374
Losses for the period	(2,466)	(4,556)
Other comprehensive income	-	-
Closing net assets	27,958	35,818

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

16 Investments in subsidiaries and consolidated structured entities

16.1 General information of major subsidiaries

Major subsidiaries of the Group are set out below. Unless specially stated, the Group's interests in these subsidiaries 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		Type of legal entity	Nominal value of issued and fully paid share capital/registered capital	Interest held	Directly/Indirectly	Principal activities
	of incorporation and operation	Date of incorporation					
Luzheng Capital Management Co., Ltd., originally named as "Luzheng Trading Co., Ltd." (魯証資本管理有限公司, 原名為“魯証經貿有限公司”) ("Luzheng Capital")	Shenzhen, the PRC	24 April 2013	Limited company	RMB750,000,000/ RMB750,000,000	100%	Directly	Commodity trading, derivatives trading
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong, the PRC	21 November 2013	Limited company	HKD84,449,920.83/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Jinova S.A.	Geneva, Switzerland	29 August 2018	Limited company	CHF3,000,000/ CHF3,000,000	100%	Indirectly	Derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Luzheng International Holding Limited (魯証國際控股有限公司) ("Luzheng International Holding")	Hong Kong, the PRC	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") ⁽¹⁾	Hong Kong, the PRC	17 May 2018	Limited company	HKD15,000,000/ HKD15,000,000	100%	Indirectly	Derivatives trading

(1) Luzheng International Futures is in the process of liquidation.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

17 Other non-current assets

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Right-of-use assets ⁽¹⁾	26,367	17,420
Leasehold improvement	1,549	1,211
Long-term prepaid expenses	145	266
	28,061	18,897

(1) Changes in right-of-use assets are analyzed as follows:

	Buildings
Cost	
At 1 January 2020	24,682
Additions	
– New lease contracts	16,157
Disposals	
– Modifications to lease agreements	(2,882)
At 30 June 2020	37,957
Accumulated depreciation	
At 1 January 2020	(7,262)
Additions	
– Charges	(4,718)
Disposals	
– Modifications to lease agreements	390
At 30 June 2020	(11,590)
Carrying amount	
At 30 June 2020	26,367

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

17 Other non-current assets (Continued)

(1) Changes in right-of-use assets are analyzed as follows (Continued):

	Buildings
Cost	
At 31 December 2018	N/A
Initial adption of IFRS16	32,866
At 1 January 2019	32,866
Additions	
– New lease contracts	13
Disposals	
– Modifications to lease agreements	(524)
At 30 June 2019	32,355
Accumulated depreciation	
At 31 December 2018	N/A
Initial adption of IFRS16	–
At 1 January 2019	–
Additions	
– Charges	(5,418)
Disposals	
– Modifications to lease agreements	73
At 30 June 2019	(5,345)
Carrying amount	
At 30 June 2019	27,010

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

18 Deferred income tax assets and liabilities

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
At 1 January	18,915	11,009
Income statement charge	(12,567)	5,941
At 30 June	6,348	16,950

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
At 1 January	11	2,438
Income statement charge	3,661	60
At 30 June	3,672	2,498

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

18 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	PP&E and intangible assets	Provisions	Total
(Unaudited)							
As at 1 January 2020	9,556	1,149	11,852	-	-	866	23,423
Income statement charge	(3,561)	108	(5,220)	-	352	-	(8,321)
As at 30 June 2020	5,995	1,257	6,632	-	352	866	15,102
(Unaudited)							
As at 1 January 2019	3,260	624	10,696	907	-	1,506	16,993
Income statement charge	4,640	(262)	3,096	-	-	(677)	6,797
As at 30 June 2019	7,900	362	13,792	907	-	829	23,790

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 2020 is attributable to RMB36,336 thousand by Zhongtai Hui Rong (The balance as at 30 June 2019 was attributable to RMB35,662 thousand by Zhongtai Hui Rong, RMB6,198 thousand by Jinova S.A and RMB3,145 thousand by Luzheng International Holding).

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

18 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 financial instruments at fair value through profit or loss and derivative financial instruments	Interest receivable	Others	Total
(Unaudited)				
As at 1 January 2020	293	4,215	11	4,519
Income statement charge	2,525	5,382	–	7,907
As at 30 June 2020	2,818	9,597	11	12,426
(Unaudited)				
As at 1 January 2019	3,507	4,907	8	8,422
Income statement charge	(130)	1,046	–	916
As at 30 June 2019	3,377	5,953	8	9,338

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

18 Deferred income tax assets and liabilities (Continued)

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

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
Deferred income tax assets	(8,754)	(6,840)
Deferred income tax liabilities	(8,754)	(6,840)

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

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
Deferred income tax assets	6,348	16,950
Deferred income tax liabilities	3,672	2,498

19 Refundable deposits

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Security deposit placed with the China Financial Futures Exchange	20,148	20,114
Security deposit placed with the China Securities Depository and Clearing	11,142	11,056
	31,290	31,170

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

20 Financial assets at fair value through profit or loss

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Non-current		
Income certificate	50,061	–
Current		
Asset management schemes ⁽¹⁾	128,688	66,250
Trust schemes	100,810	144,305
Bank wealth management products	60,646	–
Income certificates	53,615	–
Private securities investment funds	52,576	59,809
Listed equity securities	5	5
	396,340	270,369
	446,401	270,369

(1) 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 2020

(All amounts in RMB'000 unless otherwise stated)

21 Physical commodities

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Carrying amount	24,720	307,724
Change in fair value	1,575	1,532
	26,295	309,256

As at 30 June 2020, no trading commodities are placed as collateral of margin deposits on futures exchanges (31 December 2019: trading commodities with carrying amount of RMB229,225 thousand).

The Group's physical and commodities involves major 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 37.

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

(Unaudited)				
As at 30 June 2020	Level 1	Level 2	Level 3	Total
Physical commodities	–	26,295	–	26,295

(Audited)				
As at 31 December 2019	Level 1	Level 2	Level 3	Total
Physical commodities	–	309,256	–	309,256

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 2020
(All amounts in RMB'000 unless otherwise stated)

22 Other current assets

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Accounts receivable ⁽¹⁾	32,705	37,921
Deposit for derivatives trading	28,021	9,485
Prepayments	19,657	82,611
Notes receivable	–	4,000
Other receivables	11,232	27,711
	91,615	161,728

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	33,282	(2,639)	37,484	(2,548)
Over 3 months	2,333	(271)	3,347	(362)
	35,615	(2,910)	40,831	(2,910)

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

22 Other current assets (Continued)

(1) Accounts receivable (Continued)

The impairment allowance for accounts receivable as at 31 December 2019 reconciles to the closing impairment allowance as at 30 June 2020 as follows:

	Six months ended 30 June 2020 (Unaudited)
Closing impairment allowance as at 31 December 2019	(2,910)
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 2020	(2,910)

23 Derivative financial instruments

	30 June 2020 (Unaudited)		
	Notional amount	Fair value	
		Assets	Liabilities
Non-current			
OTC options	-	-	-
Current			
OTC options	3,065,519	25,841	31,077
Exchange traded options	1,164,639	17,950	24,092
Futures contracts ⁽¹⁾	3,530,453	-	-
Forward contracts	102,391	2,149	2,149
	7,863,002	45,940	57,318
	7,863,002	45,940	57,318

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

23 Derivative financial instruments (Continued)

	31 December 2019 (Audited)		
	Notional amount	Fair value	
		Assets	Liabilities
Non-current			
OTC options	686,580	84	–
Current			
OTC options	5,727,614	23,526	27,154
Exchange traded options	1,451,291	21,840	16,680
Futures contracts ⁽¹⁾	4,244,032	–	–
Forward contracts	238,443	8,178	766
	11,661,380	53,544	44,600
	12,347,960	53,628	44,600

(1) **Futures contracts**

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
Commodities futures	3,530,453	(6,522)	4,244,032	(10,974)
Financial futures	–	–	–	–
Less: Cash paid as settlement		6,522		10,974
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".

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

24 Financial assets held under resale agreements

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Analysed by asset type:		
– Debt securities	309,900	–
– Warehouse receipts ⁽¹⁾	68,599	30,256
	378,499	30,256

(1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 30 June 2020, the Group has accepted collateral with a fair value of RMB81,771 thousand (31 December 2019: RMB33,518 thousand).

25 Deposits with exchange-clearing organizations

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Clients' deposits		
– Clients' margin deposits	3,101,949	2,512,348
– Clients' unrestricted deposits	1,777,604	466,947
Proprietary clearing settlement funds	279,421	755,729
	5,158,974	3,735,024
Represented by		
Deposits with Dalian Commodity Exchange	1,393,262	944,782
Deposits with Shanghai Futures Exchange	1,298,009	1,023,219
Deposits with Zhengzhou Commodity Exchange	781,729	633,759
Deposits with China Financial Futures Exchange	748,162	683,361
Deposits with China Securities Depository and Clearing	603,712	411,326
Deposits with Shanghai International Energy Exchange	334,100	38,577
	5,158,974	3,735,024

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

26 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 brokerage 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.

27 Cash and bank balances

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Cash	26	58
Term deposit with banks	281,516	288,296
Demand deposit with banks	289,679	278,312
Deposit with securities and futures brokers	2,467	10,798
Less:		
Credit impairment allowance	(599)	(599)
	573,089	576,865

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

As at 30 June 2020, the Group's term deposits with banks with carrying amount of RMB6,000 thousand are in restricted use (31 December 2019: RMB6,000 thousand).

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

28 Share capital

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	1,001,900	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".

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

29 Share premium and other reserves

	Other reserves				Total
	Share premium	Surplus reserve	Other risk reserves ⁽¹⁾	Currency translation differences	
(Unaudited)					
As at 1 January 2020	650,630	62,749	193,219	3,069	909,667
Appropriation to futures risk reserve	–	–	3,930	–	3,930
Currency translation differences	–	–	–	769	769
As at 30 June 2020	650,630	62,749	197,149	3,838	914,366
(Unaudited)					
As at 1 January 2019	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)
As at 30 June 2019	650,630	57,662	184,764	1,852	894,908

(1) 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.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

30 Other non-current liabilities

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Lease liabilities	11,984	8,433
Other non-current liabilities	5,259	5,021
	17,243	13,454

31 Other current liabilities

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Payable to counterparties of OTC derivatives	97,396	175,013
Salaries, bonus, allowance and benefits payables	38,578	44,017
Lease liabilities	13,588	8,176
Advance for physical commodity trading	12,946	10,241
Payable to Futures Investors Protection Fund	231	335
Other payables	18,403	28,900
	181,142	266,682

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

32 Cash and cash equivalents

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Cash and bank balances (Note 27)	573,089	576,865
Proprietary clearing settlement funds (Note 25)	279,421	755,729
Less:		
Term deposits with original maturity over three months	(281,516)	(283,497)
Minimum clearing settlement funds required by exchange-clearing organizations	(14,000)	(14,000)
Add:		
Credit impairment allowance	599	599
	557,593	1,035,696

33 Commitments and contingent liabilities

(1) Capital commitments

Other than what has been disclosed in Note 15 (2), the Group is not involved in any material capital commitments as at 30 June 2020 (31 December 2019: same).

(2) Contingent liabilities

The Group receives a number of complaints from retail investors who incurred substantial losses from five asset management schemes managed by the Group, questioning its non-compliance with its duties and conducts as the manager. The five asset management schemes were established from 2017 to 2018 and distributed by a joint stock commercial bank. All of them are now in liquidation process.

In 2020, several investors have submitted demands for arbitrations to Jinan Arbitration Commission, claiming an aggregate compensation of RMB22,194 thousand from the Group. As at 30 June 2020, all these arbitrations are in suspension since related legal investigations regarding underlying investments of these schemes have not been completed. Based on the information and evidence available and present, the Group disclaims any significant misconduct in performing its duties, and considers the possibility of an outflow of resources low.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions

34.1 Related parties

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant 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 2020:

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
Qilu Zhongtai Property Co., Ltd. ("Qilu Zhongtai Property")	Controlled 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
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
Lu Clearing	Associate invested by the Group
Rizhao BOT	Associate invested by the Group
Luzheng Fengtong	Associate invested by the Group

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (Continued)

34.2 Related party transactions and balances

34.2.1 The Company's direct controlling shareholder

Transactions during the period

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Introducing broker commission expense ⁽¹⁾	4,625	4,260
Commission income from futures brokerage service	2,557	3,588
Rental expense	50	231
Interest expense	–	1,559
Commission expense for stock trading	–	184

(1) 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 those clients.

Balances at the end of the period/year

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Other current assets		
– Rental prepayment	–	65
Deposit with securities brokers	454	167
Other current liabilities		
– Introducing broker commission payable	4,625	9,511
– Other payables	43	43
Accounts payable to brokerage clients	343,587	343,790

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (Continued)

34.2 Related party transactions and balances (Continued)

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

Transactions during the period

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Commission income from futures brokerage service	358	618
Interest income from bank deposit		
– Laishang Bank	5,920	5,992
Interest expense		
– Laigang Yongfeng	43	–
Purchase of asset management schemes managed by Zhongtai Asset Management		
– No.6012 FOF	20,000	–
– Jinqian 7 Days	1,000	–
– Wengu 21 Days	500	–
Proceeds from disposal of asset management schemes managed by Zhongtai Asset Management		
– Wengu 21 Days	–	3,500
Revenue of sales of physical commodities		
– Laigang Yongfeng	–	738
Purchase of physical commodities		
– Laigang Yongfeng	15,635	42,117
– Shandong Steel Rizhao	–	173
Sales proceeds of equipments and services		
– Lu Clearing	8	–
Rental expense		
– Qilu Zhongtai Property	204	–
Rental income		
– Lu Clearing	142	–
Investment income from OTC derivatives		
– Yongfeng Trade	36	–
– Luzheng Fengtong	480	–

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (Continued)

34.2 Related party transactions and balances (Continued)

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

Balance at the end of period/year

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Accounts payable to brokerage clients	25,200	16,542
Cash and bank balance		
– Laishang Bank	282,809	280,007
Asset management schemes managed by Zhongtai Asset Management		
– Wengu 21 Days	65,250	64,750
– No.6012 FOF	20,612	–
– Jinqian 7 Days	2,500	1,500
Other current assets		
Prepayments		
– Laigang Yongfeng	726	–
– Qilu Zhongtai Property	88	–
Other receivables		
– Luzheng Fengtong	480	–
– Lu Clearing	142	265
– Yongfeng Trade	36	–
Other current liabilities		
Consulting fee payable		
– Zhongtai Asset Management	45	45
Other payables		
– Luzheng Fengtong	291	–

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

34 Related party transactions (Continued)

34.2 Related party transactions and balances (Continued)

34.2.3 Key management personnel

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

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Key management compensation	3,896	3,412

There is no loan or advance to key management for the six months ended 30 June 2020 and 2019.

35 Segment analysis

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

- (a) Futures brokerage: including commodities futures brokering services and financial futures brokering service;
- (b) 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 was no change in the basis during the six months ended 30 June 2020 and 2019.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

35 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 2020					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	
Revenue						
– external	149,548	2,071	15	6,391	–	158,025
– internal	(7,133)	–	–	–	7,133	–
Losses on physical commodities trading						
– external	–	(36,983)	–	–	–	(36,983)
Net investment gains						
– external	–	62,485	–	5,054	–	67,539
– internal	–	7,133	–	–	(7,133)	–
Other income						
– external	–	152	–	559	–	711
– internal	–	–	–	431	(431)	–
Total operating income	142,415	34,858	15	12,435	(431)	189,292
Total operating expenses	(56,238)	(22,111)	(1,360)	(48,734)	257	(128,186)
– external	(56,238)	(22,111)	(1,360)	(48,477)	–	(128,186)
– internal	–	–	–	(257)	257	–
Share of gains/ (losses) of investments in associates	–	1,935	–	(971)	–	964
Other gains, net	–	191	–	803	–	994
Profit/ (Loss) before income tax	86,177	14,873	(1,345)	(36,467)	(174)	63,064
Total assets	9,028,441	956,604	2,395	1,950,211	(1,224,253)	10,713,398
Total liabilities	(8,690,424)	(193,564)	(240)	(27,995)	425,561	(8,486,662)
Supplemental information						
Depreciation and amortization	3,157	1,498	25	6,063	(257)	10,486
Capital expenditure	6,205	13,347	–	616	–	20,168

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

35 Segment analysis (Continued)

(Unaudited)	Six months ended 30 June 2019					Elimination	Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others			
Revenue							
– external	122,710	2,724	305	9,071	–		134,810
– internal	(2,162)	1,491	–	–	671		–
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	–	724	–	2,988	–		3,712
– internal	–	–	–	–	–		–
Total operating income	120,548	28,583	290	20,819	–		170,240
Total operating expenses	(52,195)	(17,213)	(3,359)	(50,046)	–		(122,813)
– 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)
Profit/ (Loss) before income tax	68,353	11,920	(3,069)	(29,928)	–		47,276
Total assets	8,002,835	1,045,295	(2,571)	1,564,998	(1,070,111)		9,540,446
Total liabilities	7,127,644	461,914	1,240	211,064	(471,991)		7,329,871
Supplemental information							
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 2020

(All amounts in RMB'000 unless otherwise stated)

36 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 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 2019.

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

37 Fair value of financial assets and liabilities

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

37.1 Financial instruments not measured at fair value

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

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

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (Continued)

37.2 Financial instruments measured at fair value

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 2020 and 31 December 2019 on a recurring basis:

(Unaudited)	Level 1	Level 2	Level 3	Total
As at 30 June 2020				
Financial assets at fair value through profit or loss				
– Asset management schemes	–	108,533	20,155	128,688
– Trust schemes	–	80,146	20,664	100,810
– Private securities investment funds	–	52,576	–	52,576
– Listed equity securities	5	–	–	5
– Bank wealth management products	–	–	60,646	60,646
– Income certificates	–	–	103,676	103,676
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	25,841	–	25,841
– Exchange traded options	17,950	–	–	17,950
– Forward contracts	–	2,149	–	2,149
	17,955	269,245	206,541	493,741
Derivative financial liabilities				
– OTC options	–	(31,077)	–	(31,077)
– Exchange traded options	(24,092)	–	–	(24,092)
– Forward contracts	–	(2,149)	–	(2,149)
	(24,092)	(33,226)	–	(57,318)

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (Continued)

37.2 Financial instruments measured at fair value (Continued)

(Audited)	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Financial assets at fair value				
through profit or loss				
– Asset management schemes	–	66,250	–	66,250
– Trust schemes	–	67,636	76,669	144,305
– Private securities investment funds	–	59,809	–	59,809
– Listed equity securities	5	–	–	5
Financial assets at fair value through other comprehensive income				
	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	23,610	–	23,610
– Exchange traded options	21,840	–	–	21,840
– Forward contracts	–	8,178	–	8,178
	21,845	225,483	78,069	325,397
Financial liabilities at fair value				
through profit or loss				
– Payable to a holder of a consolidated SE	–	–	(24,305)	(24,305)
– Others	–	(257)	–	(257)
Derivative financial liabilities				
– OTC options	–	(27,154)	–	(27,154)
– Exchange traded options	(16,680)	–	–	(16,680)
– Forward contracts	–	(766)	–	(766)
	(16,680)	(28,177)	(24,305)	(69,162)

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 2020.

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (Continued)

37.2 Financial instruments measured at fair value (Continued)

(1) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as exchange traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted marked 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, OTC derivatives) is determined using valuation techniques which maximize 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 2020, 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 values 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, Binomial 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 six months ended 30 June 2020, there are no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (2019: same).

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (Continued)

37.2 Financial instruments measured at fair value (Continued)

(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 2020, trust schemes, bank wealth management schemes, asset management schemes and income certificates 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 2020 and 31 December 2019.

(Unaudited)	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
Balance at 1 January 2020	1,400	76,669	(24,305)
Transfer from level 2	-	-	-
Acquisition	-	183,268	
Disposal	-	(50,000)	
Unrealized (losses)/gains recognized in net investment gains	-	(4,796)	24,305
Balance at 30 June 2020	1,400	205,141	1,400
Including: unrealized losses recognized in profit or loss attributable to balances held at end of period	-	(4,796)	-

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (Continued)

37.2 Financial instruments measured at fair value (Continued)

(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	Financial liabilities at fair value through profit or loss
Balance at 1 January 2019	1,400	362,310	(29,841)
Acquisition	-	-	-
Disposal	-	(279,419)	-
Unrealized (losses)/gains recognized in net investment gains	-	(6,222)	5,536
Balance at 31 December 2019	1,400	76,669	(24,305)
Including: unrealized losses recognized in profit or loss attributable to balances held at end of year	-	(6,222)	(24,305)

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 2020	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – trust schemes, asset management schemes, bank wealth management products, income certificates	205,141	Expected rate of return	3.45% – 7.00%	The higher the expected rate of return, the higher the fair value
		Expected recovery date	17 August 2020- 15 June 2022	The earlier the recovery date, the higher the fair value
		Discount rates that correspond to the expected risk level	3.3%-5.29%	The lower the discount rate, the higher the fair value

Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

38 Offsetting financial assets and financial liabilities

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

As at 30 June 2020					
(Unaudited)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	–	(6,522)	(6,522)	6,522	–

As at 31 December 2019					
(Audited)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	Net amounts of financial assets/ (liabilities) presented in the statement of financial position
Derivative financial instruments	–	(10,974)	(10,974)	10,974	–

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 2020

(All amounts in RMB'000 unless otherwise stated)

39 Unconsolidated structured entities (“SEs”)

Unconsolidated SEs of the Group mainly include asset management schemes, private securities investment funds, bank wealth management products and trust schemes. The Group does not have power over these SEs, and consequently does not consolidate these SEs.

As at 30 June 2020, 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 2019: same). The related carrying amount and the maximum exposure are as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Financial assets at fair value through profit or loss	342,720	270,364

For the six months ended 30 June 2020, the income from these unconsolidated SEs held by the Group is as follows:

	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Net investment gains	3,717	8,744

As at 30 June 2020, the Group provided no financial support to these unconsolidated SEs, and there was no plan of providing financial support by the Group to these unconsolidated SEs (2019: same).

Definitions

“Audit Committee”	the audit committee of the Board of Directors
“Board of Directors” or “Board”	the board of directors of the Company
“China Financial Futures Exchange”	China Financial Futures Exchange (中國金融期貨交易所)
“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)
“Dalian Commodity Exchange”	Dalian Commodity Exchange (大連商品交易所)
“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

Definitions

“Luzheng Capital”	Luzheng Capital Management Co., Ltd. (魯証資本管理有限公司), previously know as Luzheng Trading Co., Ltd. (魯証經貿有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 24 April 2013
“Main Board”	the Main Board 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
“Reporting Period”	the period for the six months ended 30 June 2020
“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
“Shanghai Futures Exchange”	Shanghai Futures Exchange (上海期貨交易所)
“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
“Zhengzhou Commodity Exchange”	Zhengzhou Commodity Exchange (鄭州商品交易所)