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LUZHENG FUTURES Company Limited 魯 証 期 貨 股 份 有 限 公 司

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

Announcement of Interim Results for the Six Months Ended 30 June 2017

The board of directors (the “**Board**”) of LUZHENG FUTURES Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2017 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2016. The results have been prepared in accordance with the International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting” issued by the International Accounting Standards Board and the disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

FINANCIAL HIGHLIGHTS

- During the Reporting Period, the Group achieved operating income of RMB216 million, which represented an increase of 34.16% as compared to RMB161 million for the corresponding period of 2016.
- During the Reporting Period, the Group achieved profit before income tax of RMB106 million, which represented an increase of 82.76% as compared to RMB58 million for the corresponding period of 2016.
- During the Reporting Period, profit of the Group for the period amounted to RMB82.108 million, which represented an increase of 98.33% as compared to RMB41.40 million for the corresponding period of 2016. Profit for the period attributable to shareholders of the Company amounted to RMB83.029 million, which represented an increase of 100.55% as compared to RMB41.40 million for the corresponding period of 2016.
- During the Reporting Period, earnings per share attributable to shareholders of the Company were RMB0.08, which represented an increase of 100% as compared to RMB0.04 for the corresponding period of 2016.
- The Board does not recommend the declaration or payment of any interim dividend for the six months ended 30 June 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

		Six months ended 30 June	
	Notes	2017 (Unaudited)	2016 (Unaudited)
Commission and fee income	5	120,044	184,402
Commission and fee expense	5	(86,722)	(133,230)
Net commission and fee income		33,322	51,172
Interest income	6	104,282	84,960
Interest expense	6	(6,366)	(9,536)
Net interest income		97,916	75,424
Gains on physical commodities trading	7	4,337	6,434
Net investment gains/(losses)	8	20,813	(1,958)
Other income	9	59,403	29,500
Operating income		215,791	160,572
Staff costs	10	(53,494)	(44,881)
Commission to brokerage agents		(4,702)	(9,281)
Introducing broker commission		(3,729)	(4,012)
Depreciation and amortization		(4,611)	(4,419)
Impairment losses		(5)	(122)
Other operating expenses	11	(39,795)	(40,417)
Operating expenses		(106,336)	(103,132)
Operating profit		109,455	57,440
Share of losses of investment in associates	16	(897)	(1,838)
Other (losses)/gains, net		(2,360)	2,219
Profit before income tax		106,198	57,821
Income tax expense	12	(24,090)	(16,421)
Profit for the period		82,108	41,400

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
— Changes in fair value	29	4,537	2,289
— Income tax effect on changes in fair value	29	(1,134)	(572)
— Amounts reclassified to profit or loss upon disposal or impairment	29	(244)	(540)
Currency translation differences		<u>(665)</u>	<u>544</u>
Other comprehensive income for the period, net of tax		<u>2,494</u>	<u>1,721</u>
Total comprehensive income for the period		<u><u>84,602</u></u>	<u><u>43,121</u></u>
Profit attributable to:			
— Shareholders of the Company		83,029	41,400
— Non-controlling interests		<u>(921)</u>	<u>—</u>
		<u><u>82,108</u></u>	<u><u>41,400</u></u>
Total comprehensive income attributable to:			
— Shareholders of the Company		85,523	43,121
— Non-controlling interests		<u>(921)</u>	<u>—</u>
		<u><u>84,602</u></u>	<u><u>43,121</u></u>
Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share)			
Basic/Diluted	14	<u><u>0.08</u></u>	<u><u>0.04</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	15	43,671	42,239
Intangible assets		11,799	7,787
Investments in associates	16	45,346	28,743
Other non-current assets		3,819	1,862
Available-for-sale financial assets	18	207,980	16,514
Deferred income tax assets	19	3,870	5,823
Refundable deposits	20	25,558	25,516
Total non-current assets		342,043	128,484
Current assets			
Physical commodities		86,815	72,560
Other current assets	21	187,782	136,825
Available-for-sale financial assets	18	198,139	533,718
Derivative financial assets	22	30,783	609
Financial assets at fair value through profit or loss	23	214,180	269,706
Financial assets held under resale agreements	24	166,748	12,199
Deposits with exchange-clearing organizations	25	2,485,211	2,196,722
Bank balances held for clients	26	3,269,754	3,855,245
Cash and bank balances	27	969,618	998,225
Total current assets		7,609,030	8,075,809
Total assets		7,951,073	8,204,293

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2017 (Unaudited)	31 December 2016 (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	183,017	176,354
Retained earnings		250,640	219,871
Total equity attributable to shareholders of the Company		2,086,187	2,048,755
Non-controlling interests	17	28,852	29,773
Total equity		2,115,039	2,078,528
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	19	3,722	76
Other non-current liabilities		928	1,783
Total non-current liabilities		4,650	1,859
Current liabilities			
Borrowings	30	30,000	—
Other current liabilities	31	170,955	76,505
Current income tax liabilities		9,474	23,555
Derivative financial liabilities	22	31,045	606
Financial liabilities at fair value through profit or loss	32	72,503	300,539
Accounts payable to brokerage clients		5,517,407	5,722,701
Total current liabilities		5,831,384	6,123,906
Total liabilities		5,836,034	6,125,765
Total equity and liabilities		7,951,073	8,204,293

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

(Unaudited)	Attributable to shareholders of the Company				Non-	Total equity
	Share capital (Note 28)	Share premium (Note 29)	Other reserves (Note 29)	Retained earnings	controlling interests (Note 17)	
Balance at 1 January 2017	1,001,900	650,630	176,354	219,871	29,773	2,078,528
Profit for the period	—	—	—	83,029	(921)	82,108
Other comprehensive income for the period	—	—	2,494	—	—	2,494
Total comprehensive income for the period	—	—	2,494	83,029	(921)	84,602
Net appropriation to reserves	—	—	4,169	(4,169)	—	—
Dividends recognized as distribution	—	—	—	(48,091)	—	(48,091)
Balance at 30 June 2017	<u>1,001,900</u>	<u>650,630</u>	<u>183,017</u>	<u>250,640</u>	<u>28,852</u>	<u>2,115,039</u>
Balance at 1 January 2016	1,001,900	650,630	148,266	177,565	—	1,978,361
Profit for the period	—	—	—	41,400	—	41,400
Other comprehensive income for the period	—	—	1,721	—	—	1,721
Total comprehensive income for the period	—	—	1,721	41,400	—	43,121
Net appropriation to reserves	—	—	3,685	(3,685)	—	—
Dividends recognized as distribution	—	—	—	(43,082)	—	(43,082)
Balance at 30 June 2016	<u>1,001,900</u>	<u>650,630</u>	<u>153,672</u>	<u>172,198</u>	<u>—</u>	<u>1,978,400</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before income tax	106,198	57,821
Adjustments for:		
Depreciation and amortization	4,611	4,419
Impairment losses	5	122
Net losses on disposal of property and equipment and intangible assets	27	35
Foreign exchange losses	3	97
Realized losses/(gains) from disposal of available-for-sale financial assets	3,978	(1,782)
Dividends and interest income from available-for-sale financial assets and term deposits	(20,785)	(5,698)
Share of losses of investment in associates	897	1,838
	94,934	56,852
Net decrease/(increase) in operating assets:		
Net decrease/(increase) in bank balances held for clients	585,491	(630,696)
Net (increase)/decrease in deposits with exchange-clearing organizations	(288,332)	452,327
Net decrease/(increase) in financial assets at fair value through profit or loss and derivative financial assets	25,352	(105,479)
Net increase in financial assets held under resale agreements	(154,549)	(30,717)
Net increase in other assets	(50,985)	(35,638)
Net (increase)/decrease in physical commodities	(14,255)	3,637
	102,722	(346,566)
Net (decrease)/increase in operating liabilities:		
Net decrease in accounts payable to brokerage clients	(205,294)	(35,256)
Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	31,649	174,863
Net increase in other liabilities	45,504	113,512
	(128,141)	253,119
Income tax paid	(32,573)	(9,743)
Net cash inflow/(outflow) from operating activities	36,942	(46,338)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Cash flows from investing activities		
Payment for investment in associates	(17,500)	(25,600)
Dividends and interest received from available-for-sale financial assets and term deposits	20,785	5,698
Purchases of property and equipment, intangible assets and other long-term assets	(12,061)	(228)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	4	11
Payment for purchases of available-for-sale financial assets and term deposits	(460,000)	(370,000)
Proceeds on maturity and disposal of available-for-sale financial assets and term deposits	602,629	197,705
Net cash inflow/(outflow) from investing activities	133,857	(192,414)
Cash flows from financing activities		
Proceeds from borrowings	30,000	—
Proceeds from subscription to consolidated structured entities by external investors	70,690	—
Payment for maturity of or redemption from consolidated structured entities to external investors	(299,936)	—
Net cash outflow from financing activities	(199,246)	—
Net decrease in cash and cash equivalents	(28,447)	(238,752)
Cash and cash equivalents at beginning of period	241,878	558,656
Effect of exchange rate changes on cash and cash equivalents	(3)	(97)
Cash and cash equivalents at end of period (Note 33)	213,428	319,807

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with IAS 34, ‘Interim Financial Reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (the “IFRS”).

2.1 Going-concern basis

The Group meets its day-to-day working capital requirements mainly through its self-owned funds. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group’s products; and (b) the availability of bank finance for the foreseeable future. The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

- (a) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

(i) *IFRS 9, 'Financial instruments'*

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale (AFS) financial assets appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.
- A FVOCI election is available for the equity instruments which are currently classified as AFS.
- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

(ii) *IFRS 15, 'Revenue from contracts with customers'*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

Management has identified the following areas that are likely to be affected:

- IT consulting services — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for the customer loyalty programme — IFRS 15 requires that the total consideration received must be allocated to the points and goods based on relative stand-alone selling prices rather than based on the residual value method; this could result in different amounts being allocated to the goods sold and delay the recognition of a portion of the revenue.
- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and
- rights of return — IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next six months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(iii) *IFRS 16, 'Leases'*

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

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB29,195 thousand, see note 34. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

4.1 *Impairment of available-for-sale financial assets*

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

4.2 *Fair value of financial instruments*

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

4.3 *Income taxes*

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

4.4 *Determination of consolidation scope*

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

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

A classified asset management scheme comprises two unit classes where the external investors hold the lower risk units that generate an expected rate of return, while the Group holds the entirety of the higher risk units that enjoy the residue interests of the asset management scheme. The holder of the higher risk units provides credit enhancement for the holders of the lower risk units by compensating them up to the net asset value of the higher risk units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. Moreover, the Group cannot withdraw its holdings within the operating period of the scheme. It is concluded that the Group is a principal of the schemes with the above features since inception.

A non-classified asset management scheme comprises a single unit class where the Group holds a part of the units. The Group has the power to manage the scheme. The external investors cannot remove the Group from its role as the asset manager without course. By assessing the management fee and performance reward earned in capacity of the asset manager as well as the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

A private securities investment fund is established by a third-party asset manager where the Group holds all the units issued. The asset manager of the private security fund is mainly responsible for fund administration with very low management fee level, while the Group has a substantial power over fund investment. It is concluded that the Group is a principal of the fund with the above features since inception.

A trust scheme is established by a third-party asset manager where the Group holds a part of units issued. The asset manager of the trust scheme is mainly responsible for fund administration with very low management fee level, while the Group has a substantial power over fund investment. By assessing the investment return from the units held by the Group, it is concluded that the Group is a principal of the scheme if the Group's exposure to the variable return is significant.

5 Net commission and fee income

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Commission and fee income		
Futures brokerage service	115,502	174,706
Asset management service	3,884	6,851
Settlement and clearing service income from other futures firms	622	2,822
Investment consultancy	36	23
	<u>120,044</u>	<u>184,402</u>
Commission and fee expense		
Trading and clearing fees to exchange-clearing organizations	86,100	130,408
Settlement and clearing service expense to exchange-clearing organizations	622	2,822
	<u>86,722</u>	<u>133,230</u>

6 Net interest income

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Interest income		
Interest income from deposits with banks	98,870	78,942
Interest income from deposits with exchange-clearing organizations	2,953	6,018
Interest income from financial assets held under resale agreements	2,459	—
	<u>104,282</u>	<u>84,960</u>
Interest expense		
Interest expense to certain brokerage clients	5,592	8,362
Interest expense on settlement and clearing services to other futures firms	774	1,174
	<u>6,366</u>	<u>9,536</u>

7 Gains on physical commodities trading

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Sales proceeds	492,703	266,751
Costs of purchases	(488,366)	(260,317)
	<u>4,337</u>	<u>6,434</u>

A subsidiary of the Company involves in physical commodity trading activities. The sales proceeds and costs of purchases of physical commodities are recognized upon the transfer of risks and rewards of the ownership.

8 Net investment gains/(losses)

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Net realized (losses)/gains from disposal of available-for sale financial assets	(3,978)	1,782
Dividends and interest income from available-for-sale financial assets	6,439	5,698
Net realized gains/(losses) from disposal of financial assets		
at fair value through profit or loss	2,480	(1,297)
Dividends from financial assets at fair value through profit or loss	1,117	—
Net realized gains/(losses) from derivative financial instruments	5,964	(14,974)
Unrealized fair value change of financial instruments		
at fair value through profit or loss		
— Financial assets at fair value through profit or loss	7,305	1,172
— Derivative financial instruments	(3,022)	4,811
— Financial liabilities at fair value through profit or loss	4,508	850
	<u>20,813</u>	<u>(1,958)</u>

9 Other income

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Refunds of trading income ⁽¹⁾	51,535	27,409
Training service income	2,904	228
Consulting service income	1,562	—
Software service income	864	650
Cooperative hedging income	642	868
Other	1,896	345
	<u>59,403</u>	<u>29,500</u>

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

10 Staff costs

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Salaries and bonus	41,184	34,202
Other social security	5,353	4,736
Pension	4,922	4,263
Labour union funds and employee education funds	1,845	1,552
Other welfare	190	128
	<u>53,494</u>	<u>44,881</u>

11 Other operating expenses

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Office expenses	9,679	9,574
Marketing and distribution expenses	7,436	6,668
Rentals	6,304	5,764
Consulting expenses	4,677	4,928
Information system maintenance fees	4,368	4,381
Property maintenance fee	1,852	1,770
Professional service expenses	1,672	817
Business tax and surcharges	474	3,209
Futures Investors Protection Fund	165	1,144
Other expenses	3,168	2,162
	<u>39,795</u>	<u>40,417</u>

12 Income tax expense

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Current tax	19,664	15,246
Deferred tax (<i>Note 19</i>)	4,426	1,175
	<u>24,090</u>	<u>16,421</u>

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

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

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit before income tax	106,198	57,821
Tax calculated at tax rates applicable to profits in the respective area	26,392	15,407
Items deducted for tax purposes but not subtracted to arrive at taxable income	(1,042)	—
Adjustments in respect of prior years	(2,153)	—
Items not deductible for tax purposes	893	1,014
	24,090	16,421

13 Dividends

A dividend of RMB48,091 thousand in respect of the year ended 31 December 2016 of the Company was declared and recognised during the period of six months ended 30 June 2017 (for the six months period ended 30 June 2016: RMB43,082 thousand).

The board of directors has proposed not to declare any interim dividends in respect of the six months ended 30 June 2017.

14 Earnings per share

14.1 Basic earnings per share

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit attributable to shareholders of the Company (<i>in RMB thousands</i>)	83,029	41,400
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	1,001,900	1,001,900
Basic earnings per share (<i>in RMB</i>)	0.08	0.04

14.2 Diluted earnings per share

For the six months ended 30 June 2017, there were no potential diluted ordinary shares, so the diluted earnings per share was the same as the basic earnings per share (for the six months ended 30 June 2016: same).

15 Property, plant and equipment

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2017	40,073	9,661	29,756	79,490
Additions	—	767	3,577	4,344
Disposals	—	—	(640)	(640)
30 June 2017	40,073	10,428	32,693	83,194
Accumulated depreciation				
1 January 2017	(7,641)	(7,159)	(22,451)	(37,251)
Additions	(649)	(380)	(1,852)	(2,881)
Disposals	—	—	609	609
30 June 2017	(8,290)	(7,539)	(23,694)	(39,523)
Carrying amount				
30 June 2017	31,783	2,889	8,999	43,671
(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
Cost				
1 January 2016	40,073	9,661	29,482	79,216
Additions	—	—	228	228
Disposals	—	—	(1,120)	(1,120)
30 June 2016	40,073	9,661	28,590	78,324
Accumulated depreciation				
1 January 2016	(6,343)	(6,300)	(21,448)	(34,091)
Additions	(649)	(454)	(1,579)	(2,682)
Disposals	—	—	1,074	1,074
30 June 2016	(6,992)	(6,754)	(21,953)	(35,699)
Carrying amount				
30 June 2016	33,081	2,907	6,637	42,625

All buildings of the Group are located outside Hong Kong.

16 Investments in associates

Set out below are the associates of the Group as at 30 June 2017. The associates as listed below have share capital consisting solely of ordinary shares, which are held indirectly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at 30 June 2017:

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	35.0%	Commodity trading	Equity

(1) Rizhao BOT

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

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

The registered capital of Rizhao BOT is RMB120 million as at 30 June 2017. 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	
	2017 (Unaudited)	2016 (Unaudited)
At 1 January	28,743	5,811
Capital injection	—	25,600
Share of losses for the period	(897)	(1,839)
At 30 June	<u>27,846</u>	<u>29,572</u>
Summarized Financial Information		
Opening net assets	102,641	82,884
Capital contributions	—	—
Losses for the period	(3,042)	(6,232)
Other comprehensive income	—	—
Closing net assets	<u>99,599</u>	<u>76,652</u>
Interest in the associate and carrying value	<u>27,846</u>	<u>29,572</u>

(2) Luzheng Fengtong

The Group invested RMB17.5 million in an associate named Luzheng Fengtong for the period ended 30 June 2017.

The registered capital of Luzheng Fengtong is RMB100 million as at 30 June 2017. The Group holds 35% 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	
	2017 (Unaudited)	2016 (Unaudited)
At 1 January	—	—
Capital injection	17,500	—
At 30 June	17,500	—

Luzheng Fengtong has no operation activities for the period ended 30 June 2017.

17 Investments in subsidiaries and consolidated structured entities

17.1 General information of major subsidiaries

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

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Interest held	Directly/ Indirectly	Principal activities
Luzheng Economic and Trading Co., Ltd. (魯証經貿有限公司) ("Luzheng Trading")	Shenzhen, the PRC	24 April 2013	Limited company	RMB300,000,000/ RMB350,000,000	100%	Directly	Commodity trading, derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB30,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong	21 November 2013	Limited company	HKD47,754,468.62/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司)("Lu Clearing")	Jinan, the PRC	9 October 2016	Limited company	RMB50,000,000/ RMB150,000,000	40%	Indirectly	Registration, settlement and derivatives clearing

17.2 Non-controlling interests

Non-controlling interests amounting to RMB28,852 thousand is attributable to Shandong Trading Market Clearing House Co., Ltd as at 30 June 2017 (31 December 2016: RMB29,773 thousand).

17.3 Consolidated structured entities

As at 30 June 2017, net assets of consolidated structured entities (the “SEs”), the Group’s initial investment and maximum exposure arising from its investments in consolidated SEs are:

	Net assets	Initial investment	Maximum exposure
Investments in consolidated SEs by the Group:			
Xuanhuai Alpha No.2 ⁽¹⁾	41,846	40,000	41,846
AJC-Jiaxin No.2 ⁽²⁾	117,536	40,000	41,846
Wantai Jiaxin No.2 ⁽³⁾	112,536	40,000	41,846

(1) Xuanhuai Alpha No.2 is a private securities investment fund with the entire underlying investments in AJC-Jiaxin No.2.

(2) AJC-Jiaxin No.2 is a trust scheme with the entire underlying investments in Wantai Jiaxin No.2.

(3) Wantai Jiaxin No.2 is a collective asset management scheme with the underlying investments in stocks and listed financial futures in the PRC.

18 Available-for-sale financial assets

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Non-current — Unlisted		
At fair value		
Trust schemes (Note 38.2)	201,324	—
Collective asset management schemes ⁽¹⁾ (Note 37.3.1 and 38.2)	5,256	15,114
At cost		
Investments in exchange memberships ⁽²⁾	1,400	1,400
	207,980	16,514
Current — Unlisted		
At fair value		
Collective asset management schemes ⁽¹⁾ (Note 37.3.1 and 38.2)	107,925	166,246
Trust schemes (Note 38.2)	80,208	137,560
Other wealth management product (Note 38.2)	10,006	—
Private securities investment funds (Notes 37.3.1 and 38.2)	—	129,875
Bank wealth management products	—	100,037
	198,139	533,718
	406,119	550,232

(1) As at 30 June 2017, the collective asset management schemes held by the Group amounted to RMB113,181 thousand, of which the cost and the changes of fair value amounted to RMB113,110 thousand and RMB71 thousand respectively. The changes of fair value included an impairment provision of RMB6,264 thousand (31 December 2016: the collective asset management schemes held by the Group amounted to RMB181,360 thousand, of which the cost and the changes of fair value amounted to RMB185,357 thousand and RMB-3,997 thousand respectively. The changes of fair value included an impairment provision of RMB6,264 thousand).

- (2) The Company is required to hold certain exchange membership seats. Exchange memberships include seats on the Shanghai Futures Exchange, Zhengzhou Commodity Exchange and Dalian Commodity Exchange. Exchange memberships are only transferrable after approved by the respective futures exchanges.
- (3) As at 30 June 2017, no securities of the Group were placed as collateral (31 December 2016: same).

19 Deferred income tax assets and liabilities

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

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)
Balance at beginning of period	5,747	1,969
Income statement charge (<i>Note 12</i>)	(4,547)	(1,125)
Tax charge relating to components of other comprehensive income (<i>Note 29</i>)	(1,052)	(392)
	<u>148</u>	<u>452</u>
Balance at end of period	<u>148</u>	<u>452</u>

- (2) *Gross movements in deferred income tax assets and liabilities*

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

	Impairment losses from available- for-sale financial assets	Changes in fair value of available- for-sale financial assets	Deductible tax Loss	Interest payable	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Tax impact arising from consolidated structured entities	Others	Total
(Unaudited)								
As at 1 January 2017	1,566	—	4,204	542	—	528	1,223	8,063
Income statement charge	—	—	(1,309)	(223)	9,446	(528)	(646)	6,740
Tax charge relating to components of other comprehensive income	—	—	—	—	—	—	—	—
As at 30 June 2017	<u>1,566</u>	<u>—</u>	<u>2,895</u>	<u>319</u>	<u>9,446</u>	<u>—</u>	<u>577</u>	<u>14,803</u>
(Unaudited)								
As at 1 January 2016	1,566	—	1,277	1,397	376	—	186	4,802
Income statement charge	—	—	302	(1,033)	(376)	—	468	(639)
Tax charge relating to components of other comprehensive income	—	—	—	—	—	—	—	—
As at 30 June 2016	<u>1,566</u>	<u>—</u>	<u>1,579</u>	<u>364</u>	<u>—</u>	<u>—</u>	<u>654</u>	<u>4,163</u>

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

	Changes in fair value of available- for-sale financial assets	Interest receivable from deposits	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Tax impact arising from consolidated structured entities	Others	Total
(Unaudited)						
As at 1 January 2017	509	1,577	154	—	76	2,316
Income statement charge	—	453	10,489	345	—	11,287
Tax charge relating to components of other comprehensive income	<u>1,052</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,052</u>
As at 30 June 2017	<u>1,561</u>	<u>2,030</u>	<u>10,643</u>	<u>345</u>	<u>76</u>	<u>14,655</u>
(Unaudited)						
As at 1 January 2016	931	1,307	—	580	15	2,833
Income statement charge	—	964	102	(580)	—	486
Tax charge relating to components of other comprehensive income	<u>392</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>392</u>
As at 30 June 2016	<u>1,323</u>	<u>2,271</u>	<u>102</u>	<u>—</u>	<u>15</u>	<u>3,711</u>

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

	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)
Deferred income tax assets	(10,933)	(1,803)
Deferred income tax liabilities	<u>(10,933)</u>	<u>(1,803)</u>

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

	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)
Deferred income tax assets	3,870	2,360
Deferred income tax liabilities	<u>3,722</u>	<u>1,908</u>

20 Refundable deposits

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Refundable deposits placed with the China Financial Futures Exchange	20,115	20,114
Refundable deposits placed with the China Securities Depository and Clearing	5,443	5,402
	<u>25,558</u>	<u>25,516</u>

21 Other current assets

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Prepayments	86,303	71,806
Receivable from redemption of asset management schemes	40,228	—
Accounts receivable ⁽¹⁾	32,958	56,034
Deposit for derivative trading	8,754	403
Interest receivable from deposits	8,454	6,325
Notes receivable	4,000	—
Other receivables	7,085	2,257
	<u>187,782</u>	<u>136,825</u>

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	<u>33,358</u>	<u>(400)</u>	<u>56,434</u>	<u>(400)</u>

22 Derivative financial instruments

	30 June 2017 (Unaudited)		
	Nominal amount	Fair Value	
		Assets	Liabilities
Futures			
Commodity futures ⁽¹⁾	813,053	—	8,415
Options			
Domestic exchange options ⁽¹⁾⁽²⁾	314,080	3,982	5,817
Overseas exchange options ⁽²⁾	143,998	3	181
Domestic OTC options ⁽²⁾	<u>1,955,218</u>	<u>30,780</u>	<u>30,864</u>
Less: Cash paid as settlement		<u>(3,982)</u>	<u>(14,232)</u>
Net position		<u>30,783</u>	<u>31,045</u>

		31 December 2016 (Audited)	
	Nominal amount	Fair Value Assets	Liabilities
Futures			
Commodity futures ⁽¹⁾	144,001	220	—
Options			
Domestic OTC options ⁽²⁾	80,353	609	606
Less: Cash paid as settlement		(220)	—
Net position		609	606

- (1) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in commodity futures and domestic exchange options were settled daily and the corresponding receipts and payments were included in clearing settlement funds.
- (2) The intrinsic value of the options as at 30 June 2017 amounted to RMB34,208 thousand (31 December 2016: RMB61 thousand), of which the underlying assets were commodities futures contracts (31 December 2016: same).

23 Financial assets at fair value through profit or loss

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Investment held for trading		
Listed equity securities	78,221	15,385
Listed open-ended funds	4,262	848
Financial assets designated at fair value through profit or loss		
Private securities investment funds	81,611	47,873
Trust schemes	29,994	70,939
Collective asset management schemes	15,090	134,661
Bank wealth management products	5,002	—
	214,180	269,706

24 Financial assets held under resale agreements

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Analysed by asset type:		
— Debt securities	111,000	12,199
— Warehouse receipts	55,748	—
	166,748	12,199

25 Deposits with exchange-clearing organizations

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Clients' margin deposits	2,260,221	2,058,809
Proprietary clearing settlement funds	126,810	126,653
Clients' unrestricted deposits	98,180	11,260
	<u>2,485,211</u>	<u>2,196,722</u>
Represented by		
Deposits with China Financial Futures Exchange	962,614	1,113,296
Deposits with Shanghai Future Exchange	641,181	445,758
Deposits with Dalian Commodity Exchange	562,205	483,947
Deposits with Zhengzhou Commodity Exchange	218,089	151,570
Deposits with China Securities Depository and Clearings	101,122	2,151
	<u>2,485,211</u>	<u>2,196,722</u>

26 Bank balances held for clients

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

27 Cash and bank balances

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Cash	38	92
Term deposit with banks	875,000	875,000
Demand deposit with banks	87,120	117,238
Deposit with securities and futures brokers	7,460	5,895
	<u>969,618</u>	<u>998,225</u>

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

28 Share capital

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

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Registered, issued and fully paid share capital	<u>1,001,900</u>	<u>1,001,900</u>

29 Share premium and other reserves

	Share premium	Surplus reserve	Other risk reserves ⁽¹⁾	Available- for-sale financial assets revaluation reserve ⁽²⁾	Currency translation differences	Total
(Unaudited)						
As at 1 January 2017	650,630	32,619	140,232	1,528	1,975	826,984
Amounts recognized in						
other comprehensive income	—	—	—	3,159	—	3,159
Appropriation to futures risk reserve	—	—	4,169	—	—	4,169
Utilization of futures risk reserve	—	—	—	—	—	—
Currency translation differences	—	—	—	—	(665)	(665)
As at 30 June 2017	650,630	32,619	144,401	4,687	1,310	833,647
(Unaudited)						
As at 1 January 2016	650,630	22,963	122,273	2,796	234	798,896
Amounts recognized in						
other comprehensive income	—	—	—	1,177	—	1,177
Appropriation to futures risk reserve	—	—	3,697	—	—	3,697
Utilization of futures risk reserve	—	—	(12)	—	—	(12)
Currency translation differences	—	—	—	—	544	544
As at 30 June 2016	650,630	22,963	125,958	3,973	778	804,302

(1) Other risk reserves

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

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

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

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

30 Borrowings

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Current		
Unsecured borrowings	<u>30,000</u>	<u>—</u>

On 27 May 2017, the Group issued Private Placement Note amounting to RMB30,000 thousand with a term of three months at a fixed coupon rate of 6.50% per annum (31 December 2016: nil).

31 Other current liabilities

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Dividends payable (<i>Note 13</i>)	48,091	—
Advance received for physical commodity trading	47,171	14,335
Salaries, bonus, allowance and benefits payables	28,796	48,314
Margin deposits received on OTC options	21,918	869
Settlement accounts pertaining to futures asset management schemes	5,749	5,999
Introducing broker commission payable	4,538	809
Notes payable	4,000	—
Interest payable	1,273	2,166
Other payables	9,419	4,013
	<u>170,955</u>	<u>76,505</u>

32 Financial liabilities at fair value through profit or loss

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Interests of holders of consolidated SEs	70,690	299,936
Payable to clients for cooperative hedging business	1,813	603
	<u>72,503</u>	<u>300,539</u>

33 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 2017 (Unaudited)	30 June 2016 (Unaudited)
Cash and bank balances (<i>Note 27</i>)	969,618	937,374
Proprietary deposit with exchange-clearing organizations (<i>Note 25</i>)	126,810	265,433
Less:		
Term deposit with original maturity over three months	(875,000)	(875,000)
Minimum clearing settlement funds required by exchange-clearing organizations	(8,000)	(8,000)
	<u>213,428</u>	<u>319,807</u>

34 Commitments and contingent liabilities

(1) Capital commitments

As at 30 June 2017, the Group was not involved in any material capital commitments (31 December 2016: same).

(2) Operating lease commitments

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

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Within 1 year	10,753	9,108
1 to 3 years	10,256	5,353
Over 3 years	8,186	9,385
	<u>29,195</u>	<u>23,846</u>

(3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 30 June 2017, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results, should unfavourable rulings have been handed down (31 December 2016: same).

35 Related party transactions

35.1 Related parties

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

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 30 June 2017:

<u>Significant related legal entities</u>	<u>The relationship with the Group</u>
Zhongtai Securities Co., Ltd. (originally known as Qilu Securities Co., Ltd., "Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Financial International Limited ("Zhongtai International")	Controlled by the controlling shareholder of the Company
Qilu Securities (Shanghai) Asset Management Co., Ltd. ("Qilu Asset Management")	Controlled by the controlling shareholder of the Company
Wanjia Funds Management Co., Ltd. ("Wanjia Funds")	Associate invested by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The largest and direct controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Controlled by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The indirect controlling shareholder of Zhongtai Securities
Laiwu Xintai Copper Industry Co., Ltd. ("Xintai Copper")	Controlled by Laiwu Steel
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. (originally known as Jinan Steel Co., Ltd., "Shandong Steel")	Controlled by Shandong Steel Group
Rizhao Board of Trade Co., Ltd. ("Rizhao Trade")	Associate invested by the Group
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. ("Luzheng Fengtong")	Associate invested by the Group
Shandong Red Bull Financial Service Co., Ltd. ("Shandong Red Bull")	Associate invested by Zhongtai Securities
Shandong Zhuofei Investment Management Co., Ltd. ("Zhuofei Investment")	Associate invested by Zhongtai Securities

35.2 Related party transactions and balances

35.2.1 The Company's direct controlling shareholder — Zhongtai Securities

Transactions during the period

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Income from providing futures brokerage service	264	88
Commission expense for stock trading	19	3
Introducing broker commission expense ⁽¹⁾	3,729	4,012
Rental expense	399	322
Interest expense	233	230

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

Balances at the end of the period/year

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
Accounts payable to brokerage clients	105,880	45,766
Deposit with Zhongtai Securities	226	37
Other current liabilities		
— Introducing broker commission payable	4,538	809
— Other payables	297	276
Other current assets		
— Prepaid rentals	135	75

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

Transactions during the period

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Interest income from bank deposit		
— Laishang Bank	17,226	6,230
Consulting Fee		
— Zhongtai International	—	190
Purchase of collective asset management schemes managed by Qilu Asset Management		
— Wengu 21 Days	1,420	1,900
— Qilu Jinquan Huijin	—	350
Purchase of listed open-ended fund managed by Wanjia Funds		
— Wanjia Funds-Xianjinbao	37,761	—
Purchase of other wealth management product managed by Zhuofei Investment		
— Shangpiaotong	10,000	—
Proceeds from disposal of listed open-ended fund and collective asset management schemes managed by Wanjia Funds		
— Wanjia Funds-Xianjinbao	34,327	—
— Wanjia Funds-Luzheng Futures-Tongxin	—	36
Proceeds from disposal of collective asset management schemes managed by Qilu Asset Management		
— Jinquan 7 Days	1,000	—
— Wengu 21 Days	—	30,895
— Qilu Jinquan Huijin	—	350
Purchase of physical commodities		
— Laigang Trade	—	5,084
— Laiwu Steel	528	—
Underwriting fee		
— Zhuofei Investment	11	—
Commission sales fee		
— Shandong Red Bull	87	—

Balance at the end of period/year

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Accounts payable to brokerage clients	2,911	53,467
Cash and bank balance		
— Laishang Bank	424,544	424,233
Listed open-ended fund managed by Wanjia Funds		
— Wanjia Funds-Xianjinbao	Financial asset at fair value through profit or loss	
	3,474	38
Collective asset management schemes managed by Qilu Asset Management		
— Wengu 21 Days	Available-for-sale financial assets	64,756
— Jintaishan No. 2	Available-for-sale financial assets	17,236
— Jinqian 7 Days	Available-for-sale financial assets	1,000
Other wealth management product managed by Zhuofei Investment		
— Shangpiaotong	Available-for-sale financial assets	—
Prepayments		
— Laiwu Steel	—	666
— Laigang Yongfeng	—	251
Consulting Fee payable		
— Qilu Asset Management	45	45

35.2.3 Key management personnel

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

	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Key management compensation	2,299	1,150

There is no loan or advance to key management during the six months ended 30 June 2017 and 30 June 2016.

36 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) Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- (c) Commodity trading and risk management: including physical commodity trading, futures trading and derivatives trading;
- (d) Headquarters and others: including headquarters operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the six months ended 30 June 2017 and 30 June 2016.

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

Six months ended 30 June 2016

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

37 Financial risk management

37.1 Risk management policies and structure

(1) Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximize the shareholders' value. The Group's risk management strategy is to identify and analyze the risks to which the Group is exposed, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Operating risks to which the Group is exposed to mainly include: credit risk, market risk, liquidity risk and capital management risk. The Group has designed a comprehensive system, internal control policies and procedures to identify, assess, monitor and manage the financial risks. The Group reviews the risk management policies and systems regularly, and revises according to the market environment, as well as changes in products and services. The Group is devoted to establish a control environment consisting of a clear framework, normative process and specific responsibilities.

(2) *Policies and structure for the Company*

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

Level 1: Board, Supervisory Committee

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

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

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

Level 3: Compliance and Internal Audit Departments

According to specific task allocation, Compliance and Internal Audit departments are responsible for designated risk control and monitor activities, which are divided into three stages: preventing control activities before event, controlling activities in the event and dissolving activities after the event.

Level 4: Frontline operation teams at the business departments and branches

The fourth level of risk control consists of risk management function in settlement department, risk management positions in asset management department and branches. These risk management functions are responsible for the execution of the detail risk management activities including detecting, evaluating, monitoring, controlling and reporting, and make sure all the policies and procedures of risk control are executed.

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

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

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

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

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

37.2 Credit risk

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

The Group's credit risks mainly come from financial assets which include bank balances, bank balances held for clients, deposits with exchange-clearing organizations, financial assets held under resale agreements, available-for-sale financial assets, refundable deposits and other current assets.

In terms of the default risk from its commodity trading and risk management business, the Group has established certain criteria in selecting the counterparty, including but not limited to inspection on the credit status and credit enhancement measures on a case-by-case basis, so as to determine its credit exposure to each counterparty. The Group also reviews the credit status of individual customers at least once in a year, including business performance, repayment ability, as well as industrial outlook in which the customers operate.

In terms of the Group's investment in debt instruments and trust schemes which are debt in nature, the Group assesses the credit status, credit enhancement measures and industrial outlook of the ultimate borrower before making investment decisions, and reviews investor reporting prepared by the trustee on a timely basis.

The Group's bank balances, bank balances held for clients are mainly deposited with state-owned commercial banks, joint-stock commercial banks and major city commercial banks. Meanwhile, deposits with exchange-clearing organizations and refundable deposits are all placed with authorized exchange-clearing organizations in the PRC, with a relatively low level of credit risk.

The Group's credit risk also arises from its futures brokerage service. Under clearing rules, a minimum margin requirement is set by the respective futures exchanges. Therefore a minimum margin deposit is to be placed with the futures company when an individual customer has a position. However, the Group has to fulfil the obligation on daily settlements by using its own funds if the customer margin deposit balance is insufficient and the customer fails to replenish the balance by the end of trading day. Credit risks are mainly associated to customer's inability to meet the daily settlement obligation.

To mitigate the credit risk from futures brokerage service, the Group usually requires the customers to maintain a margin deposit balance that is higher than the minimum margin required by futures exchanges. The Group also monitors each customer's credit status on a real-time basis and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. Since a daily fluctuation limit is set up for each futures product according to the trading rules, the Group's exposure under normal market conditions at the end of each trading day is generally not significant.

"Client Risk Ratio" is used by the Group to further quantify credit risk from brokerage service. The ratio is calculated as each customer's minimum required margin as a percentage of the customer's total interests (including both minimum required margin and unrestricted deposit). The Group may require extra margin call or collaterals once the ratio reaches 80%, and may even mandatorily reduce or liquidate the customer's position if the ratio exceeds 100%.

To mitigate risks, the Group also request the customers to provide standard warehouse warrants or government bonds as collateral where appropriate. An operating procedure for such collateral has been developed, and there is a guideline to specify the suitability of accepting such collateral. Fair value of the collateral is estimated by the Group with reference to the latest prices of the underlying physical commodities of standard warehouse warrants or the latest tradable prices of government bonds. As at 30 June 2017, the fair values of such collateral were RMB67,913 thousand (31 December 2016: nil).

(1) *Maximum credit risk exposure*

Before considering collaterals or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure is as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Refundable deposits	25,558	25,516
Other current assets	101,479	65,018
Available-for-sale financial assets	292,938	138,960
Financial assets held under resale agreements	166,748	12,199
Deposits with exchange-clearing organizations	2,485,211	2,196,722
Bank balances held for clients	3,269,754	3,855,245
Bank balances	969,618	998,225
	7,311,306	7,291,885

(2) *Credit risk from brokerage service*

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
Client Risk Ratio	Minimum margin required	Total client interests	Minimum margin required	Total client interests
Below 80%	1,642,940	5,044,876	1,514,284	5,124,705
80%–100%	513,340	556,452	542,686	596,549
Above 100%	16,578	15,160	1,839	1,447
	2,172,858	5,616,488	2,058,809	5,722,701
Coverage ratio		258%		278%

37.3 Market risk

Summary

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

37.3.1 Price risk

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

The Group's price risk exposure mainly relates to investments in equity securities, funds, derivatives, collective asset management schemes, private securities investment funds, wealth management products and trust schemes in nature of equity. The market prices of those financial instruments could lead to the fluctuation of investment value. A majority of these investments and the underlying assets of these investments are traded in relevant capital markets, such as domestic and overseas futures exchanges as well as domestic stock exchanges. The Group is faced with high market risk due to the volatility of those investments.

The Group's price risk management policy involves setting investment objectives, scales and loss-cut limits for each individual investment. Two main measures are adopted by management level to mitigate the risk: (a) holding an appropriately diversified investment portfolio, setting limits for investments in different type of investments and monitoring the investment portfolio to reduce the risk of concentration in any one specific commodity type, industry or issuer; (b) monitoring the fluctuation of market price and execution of investment limit management.

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

As at 30 June 2017, the financial instruments held by the Group subject to price risk mainly comprised collective asset management schemes, derivatives, listed equity securities, listed open-ended funds, private securities investment funds, wealth management products, trust schemes in nature of equity, interests of holders of consolidated SEs, payable to clients for cooperative hedging business.

Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, funds, derivatives and collective asset management schemes, private securities investment funds, wealth management products and trust schemes in nature of equity by 5%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Profit before income tax		
Increase by 5%	<u>6,420</u>	<u>5,689</u>
Decrease by 5%	<u>(3,641)</u>	<u>(5,689)</u>
	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Other comprehensive income before income tax		
Increase by 5%	<u>5,659</u>	<u>20,564</u>
Decrease by 5%	<u>(5,659)</u>	<u>(20,564)</u>

37.3.2 Interest rate risk

Interest rate risk is defined that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest bearing assets of Group are bank deposits, bank balances held for brokerage clients, deposits with exchange-clearing organizations and available-for-sale trust schemes. The interest rates of bank deposits are determined by the agreement established with banks based on current deposit rate, and the interest rate of deposits with exchange-clearing organizations is determined by the clearing organizations based on current deposit rate.

Finance departments of the Company and its subsidiaries monitor the interest rate risk continually, and make decision through adjusting current position based on latest market situation.

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

(Unaudited)	Within 1 month	1–3 months	3 months to 1 year	1 year to 5 years	Non- interest bearing	Total
As at 30 June 2017						
Refundable deposits	25,558	—	—	—	—	25,558
Other current assets	—	—	—	—	101,479	101,479
Available-for-sale financial assets	—	—	90,214	201,324	114,581	406,119
Derivative financial assets	—	—	—	—	30,783	30,783
Financial assets at fair value through profit or loss	—	—	—	—	214,180	214,180
Financial assets held under resale agreements	166,748	—	—	—	—	166,748
Deposits with exchange-clearing organizations	224,990	—	—	—	2,260,221	2,485,211
Bank balances held for clients	3,269,754	—	—	—	—	3,269,754
Cash and Bank balances	94,618	345,000	250,000	280,000	—	969,618
	<u>3,781,668</u>	<u>345,000</u>	<u>340,214</u>	<u>481,324</u>	<u>2,721,244</u>	<u>7,669,450</u>
Borrowings	—	(30,000)	—	—	—	(30,000)
Other current liabilities	—	—	—	—	(101,539)	(101,539)
Accounts payable to brokerage clients	(1,171,860)	—	—	—	(4,345,547)	(5,517,407)
Derivative financial liabilities	—	—	—	—	(31,045)	(31,045)
Financial liabilities at fair value through profit or loss	—	—	—	—	(72,503)	(72,503)
Other non-current liabilities	—	—	—	—	(928)	(928)
	<u>(1,171,860)</u>	<u>(30,000)</u>	<u>—</u>	<u>—</u>	<u>(4,551,562)</u>	<u>(5,753,422)</u>
Interest rate sensitivity gap	<u>2,609,808</u>	<u>315,000</u>	<u>340,214</u>	<u>481,324</u>	<u>(1,830,318)</u>	<u>1,916,028</u>

(Audited)	Within 1 month	1–3 months	3 months to 1 year	1 year to 5 years	Non- interest bearing	Total
As at 31 December 2016						
Refundable deposits	25,516	—	—	—	—	25,516
Other current assets	—	—	—	—	65,018	65,018
Available-for-sale financial assets	31,114	—	106,446	—	412,672	550,232
Derivative financial assets	—	—	—	—	609	609
Financial assets at fair value through profit or loss	—	—	—	—	269,706	269,706
Financial assets held under resale agreements	12,199	—	—	—	—	12,199
Deposits with exchange-clearing organizations	1,247,210	—	—	—	949,512	2,196,722
Bank balances held for brokerage clients	3,855,245	—	—	—	—	3,855,245
Cash and Bank balances	<u>163,225</u>	<u>—</u>	<u>555,000</u>	<u>280,000</u>	<u>—</u>	<u>998,225</u>
	<u>5,334,509</u>	<u>—</u>	<u>661,446</u>	<u>280,000</u>	<u>1,697,517</u>	<u>7,973,472</u>
Other current liabilities	—	—	—	—	(19,984)	(19,984)
Accounts payable to brokerage clients	(1,295,604)	—	—	—	(4,427,097)	(5,722,701)
Derivative financial liabilities	—	—	—	—	(606)	(606)
Financial liabilities at fair value through profit or loss	—	—	—	—	(300,539)	(300,539)
Other non-current liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,783)</u>	<u>(1,783)</u>
	<u>(1,295,604)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,750,009)</u>	<u>(6,045,613)</u>
Interest rate sensitivity gap	<u>4,038,905</u>	<u>—</u>	<u>661,446</u>	<u>280,000</u>	<u>(3,052,492)</u>	<u>1,927,859</u>

Sensitivity analysis

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

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Net interest income		
Increases by 50bps	<u>14,456</u>	<u>20,593</u>
Decreases by 50bps	<u>(14,456)</u>	<u>(20,593)</u>

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are re-priced in the middle of relevant period;

- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extend;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

37.3.3 Currency risk

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

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

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

37.4 Liquidity risk

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

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

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

After approved by the board of directors, the finance department decides the scale and the structure of a high quality liquid assets, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so as to improve the liquidity and the risk resistance.

The Group invests surplus cash above balance required for working capital management in time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the aforementioned forecasts. As at 30 June 2017, the Group held cash and cash equivalents of approximately RMB213 million that are expected to readily generate cash inflows for managing liquidity risk (31 December 2016: RMB242 million).

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of each reporting period.

The liquidity risk will be offset by the movement of deposits with exchange-clearing organizations and bank balances held for brokerage clients.

(Unaudited)	On demand	Within 1 month	1–3 months	3 months to 1 year	Above 1 year	Total
As at 30 June 2017						
Non-derivative cash flow						
Accounts payable to brokerage clients	5,517,407	—	—	—	—	5,517,407
Other current liabilities	43,491	49,510	4,000	4,538	—	101,539
Financial liabilities at fair value through profit or loss	1,813	—	—	70,690	—	72,503
Other non-current liabilities	—	—	—	—	928	928
Borrowings	—	—	30,493	—	—	30,493
	<u>5,562,711</u>	<u>49,510</u>	<u>34,493</u>	<u>75,228</u>	<u>928</u>	<u>5,722,870</u>
Derivative cash flow						
Derivative financial instruments settled on a gross basis						
(a) total inflow	<u>—</u>	<u>6,730</u>	<u>6,951</u>	<u>2,540</u>	<u>—</u>	<u>16,221</u>
(b) total outflow	<u>—</u>	<u>(6,409)</u>	<u>(9,259)</u>	<u>(8,031)</u>	<u>—</u>	<u>(23,699)</u>
(Audited)	On demand	Within 1 month	1–3 months	3 months to 1 year	Above 1 year	Total
As at 31 December 2016						
Non-derivative cash flow						
Accounts payable to brokerage clients	5,722,701	—	—	—	—	5,722,701
Other current liabilities	17,124	2,051	—	809	—	19,984
Financial liabilities at fair value through profit or loss	602	—	—	148,098	151,839	300,539
Other non-current liabilities	—	—	—	—	1,783	1,783
	<u>5,740,427</u>	<u>2,051</u>	<u>—</u>	<u>148,907</u>	<u>153,622</u>	<u>6,045,007</u>
Derivative cash flow						
Derivative financial instruments settled on a gross basis						
(a) total inflow	<u>—</u>	<u>348</u>	<u>153</u>	<u>—</u>	<u>—</u>	<u>501</u>
(b) total outflow	<u>—</u>	<u>(40)</u>	<u>(320)</u>	<u>(376)</u>	<u>—</u>	<u>(736)</u>

37.5 Capital management

The Group's objectives of capital management are:

- To safeguard the ability of the Company and its subsidiaries to continue as a going concern so that they could make profits and benefits for shareholders or other stakeholders;
- To support the stability and growth of the Company and its subsidiaries;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

According to the Notice of "Decision on Revising <Futures company's regulatory risk management index pilot scheme>" (《關於修改〈期貨公司風險監管指標管理試行辦法〉的決定》) issued by the CSRC on 21 February 2013, the Company is required to meet the following risk control requirements on a continual basis:

- The net capital shall be no less than RMB15,000 thousand;
- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 40%;
- The ratio of current assets divided by current liabilities shall be no less than 100%;
- The ratio of liabilities divided by net capital shall be no greater than 150%;
- The clearing settlement funds shall be greater than RMB8,000 thousand.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

The Group manages its capital risk through timely monitoring, evaluating, reporting and comparing with target position of capital management, and the Group takes on a series of measures such as assets growth control, structure adjustment, internal or external capital accumulation, to make sure all the requirements of monitoring could be met as well as continuous improvement across its business.

38 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.

38.1 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 brokerage clients, financial assets held under resale agreements, deposits with exchange-clearing organizations, refundable deposits, and accounts payable to brokerage clients, their fair values approximate their carrying amounts.

38.2 Financial instruments measured at fair value

The table below analyzes financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

Level I — Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level II — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level III — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the financial assets and liabilities that are measured at fair value as at 30 June 2017 and 31 December 2016.

	Level 1	Level 2	Level 3	Total
(Unaudited)				
As at 30 June 2017				
Financial assets at fair value				
through profit or loss				
– Collective asset management schemes ⁽¹⁾	—	15,090	—	15,090
– Trust schemes ⁽¹⁾	—	29,994	—	29,994
– Private securities investment funds ⁽¹⁾	—	81,611	—	81,611
– Bank wealth management product	—	5,002	—	5,002
– Listed equity securities	78,221	—	—	78,221
– Listed open-ended funds	4,262	—	—	4,262
Derivative financial assets				
– Options	—	30,783	—	30,783
Available-for-sale financial assets				
– Collective asset management schemes ⁽¹⁾	—	113,181	—	113,181
– Trust schemes ⁽²⁾	—	—	281,532	281,532
– Other wealth management product ⁽³⁾	—	—	10,006	10,006
	<u>82,483</u>	<u>275,661</u>	<u>291,538</u>	<u>649,682</u>
Financial liabilities at fair value through profit or loss	—	(72,503)	—	(72,503)
Derivative financial liabilities				
– Options	—	(31,045)	—	(31,045)
	<u>—</u>	<u>(103,548)</u>	<u>—</u>	<u>(103,548)</u>

(Audited)	Level 1	Level 2	Level 3	Total
As at 31 December 2016				
Financial assets at fair value through profit or loss				
– Collective asset management schemes ⁽¹⁾	—	134,661	—	134,661
– Trust schemes ⁽¹⁾	—	70,939	—	70,939
– Private securities investment funds ⁽¹⁾	—	47,873	—	47,873
– Listed equity securities	15,385	—	—	15,385
– Listed open-ended funds	848	—	—	848
Derivative financial assets				
– OTC Options	—	609	—	609
Available-for-sale financial assets				
– Collective asset management schemes ⁽¹⁾	—	181,360	—	181,360
– Trust schemes ⁽²⁾	—	—	137,560	137,560
– Private securities investment funds ⁽¹⁾	—	129,875	—	129,875
– Bank wealth management products	—	100,037	—	100,037
	<u>16,233</u>	<u>665,354</u>	<u>137,560</u>	<u>819,147</u>
Financial liabilities at fair value through profit or loss	—	(300,539)	—	(300,539)
Derivative financial liabilities				
– OTC Options	—	(606)	—	(606)
	<u>—</u>	<u>(301,145)</u>	<u>—</u>	<u>(301,145)</u>

- (1) As at 30 June 2017, collective asset management schemes, trust schemes in nature of equity and private securities investment funds that are classified as level 2 in fair value hierarchy, are issued and managed by the Company, Qilu Asset Management and other non-related financial institutions, as well as unregulated private fund managers, with the underlying investments mainly in stocks and bonds that are listed on stock exchanges, bonds that are quoted on the interbank market and listed financial and commodity futures in the PRC. Fair value of the asset management schemes, trust schemes in nature of equity and private securities investment funds are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk as disclosed in Note 37.3.1.
- (2) As at 30 June 2017, trust schemes that are classified as level 3 in fair value hierarchy are issued by financial institutions, with the underlying investments mainly in loans and receivables. Such trust schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within trust schemes where principal and return of senior tranche is guaranteed by junior tranche investors. Fair value of the trust schemes is determined using discounted cash flows that are estimated based on expected future cash flows of the trust schemes discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 37.2 (1) and 37.3.2.

- (3) As at 30 June 2017, other wealth management product that is classified as level 3 in fair value hierarchy is managed by Shangdong Zhuofei Investment Management Co., Ltd. (山東卓斐投資管理有限公司) and registered in Wuxi Financial Asset Trading Center Co., Ltd. (無錫金融資產交易中心有限公司), with the underlying investments mainly in the income right of notes receivable issued by Zhongjin Ansheng Commercial Factoring (Shenzhen) Co., Ltd. (中金安盛商業保理(深圳)有限公司). The other wealth management product generates an expected rate of return to their investors, achieved through investment income from underlying instruments. Its fair value is determined using discounted cash flows that are estimated based on expected future cash flows of the other wealth management product discounted at a rate that reflects management's best estimation of the expected risk level. They are mainly exposed to credit risk and interest rate risk as disclosed in Notes 37.2 (1) and 37.3.2.

For the six months ended 30 June 2017, there was no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (31 December 2016: same).

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

(c) Valuation methods for specific investments

As at 30 June 2017 and 31 December 2016, the Group's valuation methods for specific investments are as follows:

- (i) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (ii) For exchange-listed open-ended funds, fair value is determined based on the closing price of the listed funds as at the reporting date or the most recent trading date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (iii) For collective asset management schemes, trust schemes in the nature of equity, private securities investment funds and bank wealth management products, fair value is determined based on the net asset value as at the reporting date.
- (iv) For OTC options, fair value is determined based on the Black-Scholes (BS) Model. The key parameters are obtained through the observable market.

(d) *Financial instruments in Level 3*

The following table presents the changes in Level 3 instruments for the period/year ended 30 June 2017 and 31 December 2016.

(Unaudited)	Available-for-sale financial assets
Balance at 1 January 2017	137,560
Increase	291,538
Decrease	<u>(137,560)</u>
Balance at 30 June 2017	<u><u>291,538</u></u>
Total gains or losses for the year included in profit or loss for assets held at end of period under “Net investment gains”	<u><u>1,736</u></u>
Change in unrealized gains or losses for the period included in profit or loss for assets held at end of period	<u><u>—</u></u>
(Audited)	Available-for-sale financial assets
Balance at 1 January 2016	132,910
Increase	11,387
Decrease	<u>(6,737)</u>
Balance at 31 December 2016	<u><u>137,560</u></u>
Total gains or losses for the year included in profit or loss for assets held at end of year under “Net investment gains”	<u><u>11,387</u></u>
Change in unrealized gains or losses for the year included in profit or loss for assets held at end of year	<u><u>—</u></u>

39 Offsetting financial assets and financial liabilities

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

As at 30 June 2017					Net amount of financial assets/ (liabilities) presented in the statements of financial position
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets/ (liabilities)	Cash received/ (paid) as settlement	
Derivative financial instruments					
— Futures	—	(8,415)	(8,415)	8,415	—
— Domestic exchange options	3,982	(5,816)	(1,834)	1,834	—
	<u>3,982</u>	<u>(14,231)</u>	<u>(10,511)</u>	<u>10,249</u>	<u>—</u>

As at 31 December 2016					Net amount of financial assets/ (liabilities) presented in the statements of financial position
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets/ (liabilities)	Cash paid as settlement	
Derivative financial instruments					
— Futures	—	220	220	(220)	—
	<u>—</u>	<u>220</u>	<u>220</u>	<u>(220)</u>	<u>—</u>

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.

40 Unconsolidated structured entities

Unconsolidated SEs of the Group mainly include collective asset management schemes, private securities investment funds, bank wealth management products, other wealth management product and trust schemes. In the opinion of the Directors of the Company, the Group does not have power over these SEs, and consequently, does not consolidate these SEs.

As at 30 June 2017, the interests in unconsolidated structured entities held by the Group included investment recognized as available-for-sale financial assets and financial assets at fair value through profit or loss. The related carrying amount and the maximum exposure were as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Available-for-sale financial assets	404,719	548,832
Financial assets at fair value through profit or loss	131,697	254,283
	536,416	803,115

For the period ended 30 June 2017, the income from these unconsolidated SEs held by the Group was as follows:

	Six months ended 30 June 2017 (Unaudited)	2016 (Unaudited)
Net investment gains	2,974	8,327

As at 30 June 2017, the Group had no financial support provided to these unconsolidated SEs, and there was no plan of providing financial support by the Group to these unconsolidated SEs (30 June 2016: same).

41 Subsequent events

As at 27 July 2017, the dividend of RMB48,091 thousand in respect of the year ended 31 December 2016 was paid by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

(I) Scales of Trading and Deposits

During the Reporting Period, the total trading volume in the national futures market was 1.48 billion board lots (all of the followings are per side), representing a year-on-year decrease of 35.5% with a total turnover of RMB85.9 trillion, representing a year-on-year decrease of 13.52%. Policy aiming to curb speculation through the raise of deposits and handling charges with respect to several commodity futures since the mid of 2016 showed no sign of loose. The activities of commodity futures decreased significantly as compared with those of last year. The total trading volume of commodity futures was 1.47 billion board lots, representing a year-on-year decrease of 35.8% with a total turnover of RMB73.3 trillion, representing a year-on-year decrease of 18.6%. Due to the relaxation of policy restrictions on stock index futures, the activities of financial futures slightly bounced. In the first half of 2017, the trading volume of financial futures were 12.789 million board lots, representing a year-on-year increase of 33.9% with a total turnover of RMB12.6 trillion, representing a year-on-year increase of 35.2%. As of 30 June 2017, the deposit in the futures market was approximately RMB409.5 billion, representing a year-on-year increase of 2.31%.

(II) Performance of Products

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

1. Performance of agricultural products futures

During the Reporting Period, agricultural products futures were affected by unfavorable fundamentals, resulting in a relatively weak overall performance. In particular, fluctuation was witnessed in products such as fats and to a lesser extent sugar, meals and corns. The performance of fats in the future would hit the bottom gradually, while the performance of meals would remain weak as influenced by beans of the United States. Special attention should be attached to the output of beans of the United States and palm oil in Southeast Asia. Sugar would gradually take the lead in the peak season and its performance would be favorable. The overall performance of corn and starch would remain subdued as continuously impacted by policy.

2. Performance of metal futures

During the Reporting Period, under the background that supply-side structural reform was implemented in the PRC and the further implementation of policies aiming at eliminating obsolete production capacity and promoting environmental protection, ferrous metals and coal futures had strong performance and scaled new heights in prices. However, the performance of non-ferrous metals diverged. Strong performance of aluminum continued to be supported by the favorable supply-side structural reform while the shortage in supply of zinc has caused fluctuation to prices when higher level was achieved. The performance of copper was relatively strong in spite of the strike in overseas mines.

3. Performance of energy and chemicals futures

During the Reporting Period, the price of domestic energy and chemicals futures fell. Since crude oil prices started to fall in mid February of 2017, the prices of chemical products fell and the declines in natural rubber, methanol and pure terephthalic acid were more obvious. Supported by the stabilization of crude oil prices and the favorable development of domestic economy, the prices of chemicals began to stabilize in May and bounced in June 2017.

4. Performance of financial futures

During the Reporting Period, domestic economy continuously improved. Despite the persistent hike in the interest rates of the United States, Renminbi was basically stable. With the progress of supply-side structural reform, significant divergence was witnessed in the domestic stock market, in which the price of stock of traditional industries (finance, coal and steel and iron) kept rising while the price on GEM of Shenzhen Stock Exchange fell. In respect of treasury bond futures, factors such as asset price bubbles in China and series of interest rates hikes by the Federal Reserve of the United States had made the Central Bank of the PRC resort to tighten the monetary policy which was primarily reflected in the market in the end of 2016. There was no prevailing trend in the first half of 2017, the price of treasury bond futures fluctuated at the low range and banks were not permitted to conduct treasury bond futures trading. Trading activities in the market was relatively sluggish. The position and trading volume for five-year treasury bonds and ten-year treasury bonds were relatively stable and showed no sign of obvious change.

(III) Development of the Industry

Firstly, the competent regulatory authority has taken its first step in restoring the normal trade for stock index futures after having imposed comprehensive restrictions on it for one and a half year. Since 17 February 2017, China Financial Futures Exchange adjusted the regulatory criteria for daily transaction of stock index futures from 10 board lots to 20 board lots, while the daily transaction volume for hedging trades is free from such restriction. Non-hedging trade deposits of CSI 300 and SSE 50 stock index futures has been adjusted to 20%, while that for CSI 500 has been adjusted to 30%. Handling charges

rate for CSI 300, SSE 50 and CSI 500 stock index futures has been adjusted to 0.92‰ of the turnover.

Secondly, the listing of soybean meal options and sugar options marked that the domestic derivative market in China has entered into a higher stage of development. Futures, options and swaps are three main derivative instruments in mature international market. The listing of soybean meal options and sugar options has filled the gap of the commodity options of China and optimized the structure and system of derivatives market as well as diversified the instruments and strategies of risk management market. Exchange-traded options provide diversified and refined risk management instruments for industrial enterprises and facilitate industrial upgrade. Exchange-traded options, with such two agricultural products as pilot tests, may serve to subsidize farmers through option premium or insurance-like premium. Such measures would not affect the mechanism for establishing the price of agricultural products and would help to release financial burden of subsidies, and this has significant meaning to the agricultural market reform in China.

II. GENERAL OPERATING RESULTS

During the Reporting Period, on the basis that the Group had significant increase in the market share of its traditional businesses, its transactional businesses such as the risk management business have achieved gradual growth and the Group's capability in capital management has also had improvement. The Group achieved operating income of RMB216 million and profit for the period of RMB82.108 million, representing an increase of 34.16% and 98.33% respectively as compared with RMB161 million and RMB41.40 million in the corresponding period of last year. Such increase is mainly attributable to the following factors: (1) the gain of the Company attributable to the deduction of trading fees increased substantially as compared with the same period of last year; (2) the revenue of Luzheng Economic and Trade Co., Ltd. ("**Luzheng Trading**"), a wholly-owned subsidiary of the Company, for the six months ended 30 June 2017 increased substantially as compared with the same period of last year; and (3) the interest income of the Company increased substantially year-on-year as a result of the centralized management of funds and the upward trend of interest rate in the industry.

As at 30 June 2017, the Group's total assets amounted to RMB7,951 million, decreasing by 3.08% from RMB8,204 million as at the end of 2016. The Group's total liabilities were RMB5,836 million, decreasing by 4.73% from RMB6,126 million as at the end of 2016. Net assets attributable to the Company's shareholders were RMB2,086 million, increasing by 1.81% from RMB2,049 million as at the end of 2016. The gearing ratio of the Group (total assets and total liabilities less accounts payable to brokerage clients) was 13.09%, decreasing by 3.15 percentage points as compared with that as at the end of 2016. During the Reporting Period, the Group held quality assets and maintained a good financial position.

III. ANALYSIS OF PRINCIPAL BUSINESS

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

(I) Futures Brokerage Business

During the Reporting Period, the Group recorded brokerage business revenue of RMB159.16 million, representing an increase of 23.35% year-on-year; the total turnover reached RMB0.84 trillion, decreased by 20% year-on-year. The average daily interests achieved RMB5,923 million, representing an increase of 3.35% year-on-year; the market share in trading amounts of futures was 1.16%, representing an increase of 9.43% year-on-year.

Equity scale reflects the clients' assets scale held by a futures company, which guarantees revenue for the brokerage business and provides market foundation for innovative businesses. During the Reporting Period, the client interests of the Company decreased from RMB5,810 million as at the end of 2016 to RMB5,473 million as at the end of June 2017, representing a decrease of 5.80%.

During the Reporting Period, the Company continued exploring corporate clients and professional investors. Although they have generally lower trading frequency, corporate clients and professional investors maintain a higher level of account balance compared to retail clients, and they have greater personalized demand for value-added services which mainly focus on commodity trading and risk management. As the Company strived to keep providing high quality services to institutional clients, as at 30 June 2017, the average daily interests of institutional clients (including special legal person clients) reached RMB3,265 million, accounting for 59.66% of the total interests of the Company of RMB5,473 million, maintaining at the same level as last year.

The Company kept focusing on marketing and promoting account opening on the Internet. During the Reporting Period, quantity of Internet account opened on the Internet kept increasing. The number of client accounts opened on the Internet amounted to 2,740, representing 87% of the total 3,161 new clients of the Company (excluding special legal person and institutional clients) (the “**Internet account opening ratio**”), increasing by 34 percentage points as compared to the Internet account opening ratio of 53% in the corresponding period of last year.

During the Reporting Period, the Company continued promoting the management model of branches in key regions and is under the process of setting up Wuhan branch, East China branch, Jinan branch and Nanjing branch, with an aim to concentrate in making use of its edges of locations and resources, reducing the scope of management, strengthening the management and control of the sales departments, and facilitating the synergy of the business.

(II) Futures Asset Management Business

During the Reporting Period, the Group's operating income from asset management business was RMB10.296 million, increasing by RMB2.187 million or 26.97% as compared with RMB8.1090 million in the same period of last year. The asset management business accounts for 4.77% of the total operating income, decreasing from 5.05% of the same period of last year.

During the Reporting Period, the Company launched the management of 10 new asset management schemes (nine collective asset management schemes and one private asset management scheme), and the initial entrusted equity increased by RMB818 million. As such, the number of asset management products managed by the Company has reached 26 (24 collective asset management schemes and two private asset management schemes). As at 30 June 2017, the total amount of assets managed by the Company was RMB1,914 million. Currently, the investment scope of the asset management products of the Company covers commodity futures, financial futures, stocks, fixed income products,

securities investment funds and collective asset management schemes, etc. The successful issue and operation of asset management products have brought clients profits and obtained market recognition. The brand effect of the asset management of the Company began to manifest.

During the Reporting Period, the Company closely cooperated with relevant financial institutions and successfully issued the asset management schemes of Fund of Funds (“FOF”) Series, whose scale of management was RMB443 million, and became the leader of FOF in the industry.

During the Reporting Period, the Company continuously strengthened the building of asset management teams and continued to introduced high-level talents with overseas educational background, which effectively reinforced the investment team of the Company. Meanwhile, the Company was devoted to strengthen cooperation with financial institutions such as banks and securities firms, built and improved the development of the information technology system on asset management trading and risk control.

(III) Commodity Trading and Risk Management Business

During the Reporting Period, the Group’s profit before income tax from commodities trading and risk management business was RMB10.003 million, representing a year-on-year growth of RMB15.039 million.

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

In terms of commodity trading, the Group actively conducted commodity trading in multiple industry chains, including a wide range of products on multiple industry chains such as oils and fats, ferrous metals, plastics and chemicals, etc., with spot trading turnover of RMB1.273 billion. During the Reporting Period, hedging and arbitrage position of the Group amounted to 231.9 thousands board lots in total, with a turnover of RMB10.594 billion. As a result, the market channels of the Group were further expanded and the number of clients was further increased, the market influence was further strengthened, and other businesses of the Group also obtained better support.

In terms of OTC derivatives business, the Group entered into master agreements with more than 100 enterprises and institutions for its OTC derivatives business, which further expanded its business scope and diversified its business. The master agreements covered products including rebar, hot rolled coils, iron ores, soybean meal and corn, etc., with a turnover of OTC derivatives trading of RMB140 million and a nominal amount of RMB4,000 million.

IV. PROSPECTS AND FUTURE PLANS

(I) Market Analysis

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

The listing of soybean meal options and sugar options in the first half of 2017 helped to improve the price identification function of the futures market and has added new momentum for serving agriculture, rural areas and farmers and other real economies by futures. Meanwhile, it would also facilitate the innovative development of the business of futures companies and continuously enhance the ability of futures market to serve the real economy.

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

The development of innovative businesses such as OTC options, assets management and risk management marked the futures industry has gradually shifted towards a structure based on professional competence, coordinated development of multiple businesses as well as a more diversified business model. The competition of traditional agency businesses intensified, followed by the gradual decline in the proportion of revenue and the gradual increase in the proportion of innovative businesses.

Along with the internationalization of Renminbi, the marketization of the interest rate and exchange rate and the further opening of the domestic capital market, the mainland futures operators will accelerate the pace of development of the international business. The development prospects of the futures market proposed new requirements on the scales of invested capital of futures operators. The capability of replenishment capital has become an important factor affecting the futures operators' core competitiveness. The futures market will continue the boom of listing as well as mergers and acquisitions.

(II) Development Plan

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

In the second half of 2017, the Group will further enhance its efforts in the following eight aspects: firstly, enhancing the awareness of compliance and risk control and strengthening compliance and risk control management; secondly, promoting business transformation and increasing the scale and strengths of the brokerage business; thirdly, tracing back to the origin of asset management business and highlighting the features of futures industry; fourthly, strengthening the industry-leading position and increasing the scale of OTC business; fifthly, consolidating the risk management business with finance business as a breakthrough; sixthly, upgrading the level of technology services to lead and accelerate the business development; seventhly, enhancing the training of business learning to promote the professional competence; eighthly, alleviating the poverty in a professional way and strengthening the construction of the Communist Party of China.

V. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the profitability of the Group continued to enhance. As of 30 June 2017, the equity attributable to the Company’s shareholders were RMB2,086 million, increasing by 1.81% from RMB2,049 million as at the end of 2016, which is mainly attributable to the profits achieved and dividends distributed during the Reporting Period.

During the Reporting Period, the Group’s asset scale decreased slightly and maintained sound asset quality and liquidity. As of 30 June 2017, the Group’s total assets after deducting accounts payable to brokerage clients reached RMB2,434 million, decreasing by 1.93% as compared with RMB2,482 million as at the end of 2016. Among which, cash and bank balance accounted for 39.84%; treasury deposited with the futures exchanges in the PRC accounted for 10.81%; investment assets (including investments in associates and financial assets, especially investment in financial assets with strong liquidity) accounted for 26.92%; and the property and equipment and intangible assets accounted for 2.26%.

The total gearing ratio of the Group remained at a relatively low level. As at the end of the Reporting Period, the gearing ratio of the Group (total assets and total liabilities less accounts payable to brokerage clients) was 13.09%, decreasing by 3.15 percentage points as compared with that as at the end of 2016. The Group’s degree of operating leverage (the total assets less accounts payable to brokerage clients/equities attributable to the Company’s shareholders) was 1.17 times, decreasing by about 3.31% as compared to 1.21 times as at the end of 2016. As of 30 June 2017, the Group’s total liabilities were RMB5.836 billion, among which, RMB5.517 billion was accounts payable to brokerage clients. The remaining liabilities (net of accounts payable to brokerage clients) were RMB319 million, of which interests of holders of consolidated structured entities were RMB71 million, dividends payable were RMB48 million and advance for physical commodity trading was RMB47 million. The aforementioned liabilities were due within one year, and the Group has the ability to repay

such liabilities. During the Reporting Period, the aging analysis of accounts payable was not applicable to the Group. As at 30 June 2017, the total equity attributable to the Company's shareholders was RMB2.086 billion, of which share capital was RMB1.00190 billion, share premium was RMB650.63 million and retained earnings were RMB250.64 million. On 27 May 2017, Luzheng Trading issued RMB30 million targeted financing facility with a term of three months and a fixed coupon rate of 6.50% paid at maturity.

The Company dynamically monitors net capital regulatory indicators on real time basis. A simulation test and stress test will be done on regulatory indicators such as net capital before any material capital investment is made to ensure the Company's ongoing compliance with regulatory indicators.

Given the available financial resources, including cash flow from operating activities, the Group's working capital is able to meet the capital demand for its business development. During the Reporting Period, the Company did not charge any of its assets.

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

VI. MATERIAL FINANCING OF THE COMPANY

(I) Equity financing

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

(II) Bond financing

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

VII. INVESTMENTS DURING THE REPORTING PERIOD

(I) Use of Proceeds

As at 30 June 2017, the listing funds raised by the Company were used in accordance with the purposes set out in the prospectus of the Company dated 23 June 2015 (the “Prospectus”), as follows:

Unit: RMB’000

Name of committed projects	Change of projects	Invested amount of funds raised during the Reporting Period	Actual accumulated invested amount of funds raised	Percentage	Reason of change and description of processes of change of funds raised
Establishment of light sales department and recruitment of personnel	No	453	453	0.07%	N/A
Additional funding for Luzheng Trading	No	50,000	180,000	27.84%	N/A
Purchase of information technology infrastructure and software	No	1,471	21,471	3.32%	N/A
Replenishment of working capital	No	0	64,600	10.00%	N/A

For the purpose of enhancing the efficiency of capital use, as of 30 June 2017, the Company invested the remaining capital raised into short-term financial products, or deposited in large commercial banks by way of term deposits. The Company planned to use such capital when appropriate in accordance with the agreed net capital raised and purposes set out in the Prospectus.

(II) Progress of Investments in Subsidiaries and Joint Stock Companies

In accordance with the use of listing funds raised set out in the Prospectus, the Company made a capital contribution of RMB50 million to Luzheng Trading on 28 March 2017.

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

During the Reporting Period, there was neither acquisition, disposal or replacement of the Group’s material assets or business merger, nor any major off-balance-sheet items or contingent liabilities matters such as major external guarantee, mortgage, pledge, etc. that may affect the Group’s financial position and operating results.

IX. EMPLOYEES, REMUNERATION POLICIES AND TRAINING

As at the end of the Reporting Period, the Group had a total of 448 employees.

The Group established a remuneration system with different sequencing management, encouraging linkage with performance assessment, well balance of external competitiveness and internal fairness. It established the corresponding remuneration incentive policies for different talents. Under a strict performance assessment mechanism, it also increased incentives for excellent employees, which inspired the enthusiasm of the staffs and improved the Group's operating results. The remuneration of the employees of the Group consists of four parts including basic salary, performance wage, bonus and benefits. The Group enters into employment contract with each employee to establish employment relationship with them according to applicable laws and regulations of the PRC. The Company provides each employee with various social insurances (pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and housing fund and make prompt and full payments of the above social insurances and housing fund according to the PRC laws and regulations.

The Group has designed specific training programs for all business lines and strengthened training programs to provide regular and continual training for its employees. The Group sticks to the principles of combining knowledge training and practical training, reasonably allocating training resources and continuously increasing training on innovative businesses to improve training results. During the Reporting Period, the Group organized several trainings on OTC derivatives businesses, stocks and options, commodity options, etc. and conducted a knowledge competition on innovative businesses.

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 and operational risk.

1. Credit Risk

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

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

For credit risks related to the Company's futures brokerage business, the Company conducts risk rating on the Company's clients based on his/her/its assets, professional knowledge on futures, trading experiences, risk appetite and risk tolerance, and provide appropriate services to its clients and implement corresponding risk management measures accordingly. Meanwhile, the Company requires its clients to maintain higher margin deposits than those required by the futures exchanges in China. Clients are required to replenish their margin deposits within a specific period of time if such margin deposits fall short, otherwise, the Company will close out the position. At the same time, the futures exchanges in the PRC impose the daily price up and down limit, which also effectively limits the risk exposure of the Company's clients and the Company.

2. *Market Risk*

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

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

- (1) establishing a systematic investment mechanism, under which the Group's research team provides investment recommendations and the Group's operation team provides market guidance to the research team;
- (2) requiring the Group's operation team to submit an application to the Group's management before every transaction, with details on possible market risks, consequences and maximum risk tolerance level as well as the nature of the proposed transaction;
- (3) evaluating the Group's risk exposure by quantitative measures, and utilizing risk control measures such as hedging and stop-loss to mitigate the damages when the market conditions deviate from the Group's expectations.

3. *Liquidity Risk*

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

For liquidity risk, the Group (1) strengthens the real-time monitoring and management of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management; (2) has established a risk evaluation and monitor system on net capital; (3) conducts comprehensive or special stress tests on the risk control indexes on a regular or ad hoc basis and conducts sensitivity analysis before making any significant business decisions, such as significant business expansion and large assets acquisition, which could affect the

risk control indexes; and (4) selects those commodities that are more actively traded for commodity trading and risk management business, or selects the contracts with the largest or second-largest open interest within similar futures contracts in futures trading.

4. Compliance Risk

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

In response to compliance risk, the Company has built up a comprehensive compliance management and organization system; appointed a chief risk officer; established the compliance department and the audit department with full-time compliance management staff; and conducted supervision and control on the business overall compliance through means such as compliance review, compliance training, compliance consultation and internal audit, etc.

5. Operational Risk

Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system. To minimize the operational risk, the Group (1) implements strict operation control mechanisms to reduce the risks of technical irregularities or human error and enhance the efficiency and capability of operational risk management; (2) regularly conducts internal audit and evaluates the efficiency and capability of operational risk management; and (3) sets aside 5% of its net commission and service charge income of futures brokerage business as risk reserve fund each month.

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

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

The Company sets up a four-level risk management structure: the first level comprises the Board and the Supervisory Committee; the second level comprises the Risk Control Committee, the Audit Committee, the Asset Management Investment Decision Committee and Treasury Operations Investment Decision Committee; the third level is the pre-, on-going and post-risk management systems set up by the compliance department and the audit department; and the fourth level is the frontline operational risk management system at the Company's business departments and branches.

2. *Consistently improving the corporate governance structure*

The Company consistently normalizes the operation of the general meeting to ensure that all shareholders, especially minority shareholders, can enjoy equal positions and protect the interest of minority shareholders. It normalizes and improves the operation of the Board and gives full play to all Board committees and independent non-executive directors. It gives full play to the monitoring role of the supervisory committee on the Board and management.

3. *Consistently improving the overall risk management system*

The Company sticks to the principle of implementing a risk management system covering all departments of the Company, all business processes and the whole process of each business to consistently improve the ability to identify and prevent risks among all employees, strengthen the risks awareness of all employees, foster an excellent risks management culture and ensure the realization of the overall target of the Company in risk management.

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

The compliance department of the Company has been actively participating in the preparatory process of innovative businesses, including participating in the preparation of all systems and processes, the establishment of the risks management system, and the establishment of the systems, processes, positions and response mechanisms of innovative businesses. It pushes ahead the implementation of all systems, processes and the risk management principles through the appraisal and approval beforehand, the independent supervision during the process and the internal audit of the audit department to conduct risk management throughout the whole process of various innovative businesses.

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

With the continuous expansion of the scope of commodity trading and risks management business and the increase of clients under cooperation, the Company will consistently improve due diligence and classified management on clients and implement a system of due diligence and classified management on clients which matches the positioning and business model of the Company. It will promote the principle of “know your clients” and consistently improve the credit risk management capability and conduct credit risks appraisal on clients to control the credit risks of clients.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

INTERIM DIVIDEND

The Board does not recommend the declaration or payment of any interim dividend for the six months ended 30 June 2017.

COMPLIANCE WITH THE REQUIREMENTS OF CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company had complied with all code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, 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 Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code for all directors (the “**Directors**”) and supervisors of the Company (the “**Supervisors**”) to conduct transactions of the Company’s securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company’s securities for senior management. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code during the Reporting Period. The Company has made specific inquiries to senior management about their compliance with the guidelines on transactions of the Company’s securities, and did not notice any violation of the guidelines.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed and confirmed the Company’s interim results announcement for the six months ended 30 June 2017, the 2017 interim report and the unaudited interim financial statements for the six months ended 30 June 2017 prepared in accordance with IAS 34 “Interim Financial Reporting”.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

This results announcement has been published on the HKExnews website of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) (www.hkexnews.hk) and the Company’s website (www.luzhengqh.com).

The Company’s 2017 interim report containing all information (including unaudited financial statements) required under the Listing Rules will be dispatched to the shareholders of the Company and published on the HKExnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.luzhengqh.com) in due course.

By order of the Board
LUZHENG FUTURES Company Limited
Chen Fang
Chairman

Jinan, the PRC
28 August 2017

As at the date of this announcement, the Board comprises Mr. Chen Fang and Mr. Liang Zhongwei as executive Directors, Mr. Lv Xiangyou, Mr. Yin Ge, Mr. Li Chuanyong and Mr. Liu Feng as non-executive Directors, and Mr. Gao Zhu, Mr. Yu Xuehui, Mr. Wang Chuanshun, and Mr. Li Dapeng as independent non-executive Directors.