



**LUZHENG FUTURES COMPANY LIMITED**

**鲁证期货股份有限公司**

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

(Stock Code : 01461)

**2021** INTERIM REPORT



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# Corporate Profile

## REGISTERED NAME OF THE COMPANY

魯証期貨股份有限公司

LUZHENG FUTURES Company Limited

## REGISTERED OFFICE

15-16/F Securities Tower, No. 86 Jingqi Road  
Shizhong District, Jinan, Shandong Province, 250001  
the PRC

## HEAD OFFICE IN THE PRC

15-16/F Securities Tower, No. 86 Jingqi Road  
Shizhong District, Jinan, Shandong Province, 250001  
the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre  
No. 248, Queen's Road East, Wan Chai, Hong Kong

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhong Jinlong (*Chairman of the Board*)

Mr. Liang Zhongwei

### Non-executive Directors

Mr. Hu Kainan

Mr. Liu Xinyi

Mr. Ming Gang

Mr. Liu Feng

### Independent Non-executive Directors

Mr. Gao Zhu

Mr. Wang Chuanshun

Mr. Li Dapeng

Mr. Zheng Jianping

## AUTHORIZED REPRESENTATIVES

Mr. Zhong Jinlong

Room 602, Unit 1, Building 13

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

Shandong Province, the PRC

Mr. Liang Zhongwei

Room 301, Unit 1, Building 14

West Area of Yanzishan Village

Lixia District, Jinan

Shandong Province, the PRC

## JOINT COMPANY SECRETARIES

Mr. Liang Zhongwei

Ms. Ng Wing Shan

## AUDITORS

### PRC Auditor

PricewaterhouseCoopers Zhong Tian LLP

11/F, PricewaterhouseCoopers Center

Link Square 2

202 Hu Bin Road

Huangpu District, Shanghai, the PRC

### International Auditor

PricewaterhouseCoopers

*Certified Public Accountant*

22/F, Prince's Building

Central, Hong Kong

## LEGAL ADVISERS

### As to Hong Kong law:

Clifford Chance

27/F, Jardine House, One Connaught Place

Central, Hong Kong

## As to PRC law:

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

## PRINCIPAL BANKS

### China Construction Bank (Jinan Shizhong Sub-branch)

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

### Industrial and Commercial Bank of China (Jinan Lixia Sub-branch)

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

### Bank of China (Jinan Branch)

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

### Bank of Communications (Jinan Shizhong Sub-branch)

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

### Agricultural Bank of China (Jinan Wanda Plaza Branch)

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

## H SHARE REGISTRAR

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

## STOCK CODE

01461

## INVESTOR ENQUIRIES

Investors' Service Line : +86-531-81678006  
Fax : +86-531-81678006  
Website : <http://www.luzhengqh.com>  
E-mail : [investors@luzhengqh.com](mailto:investors@luzhengqh.com)

# Financial Highlights

Item	January-June 2021 (Unaudited)	January-June 2020 (Unaudited)	Increase/decrease of the period as compared to that of last year
<b>Operating Results (RMB'000)</b>			
Revenue and other incomes <sup>(1)</sup>	324,637	190,286	70.60%
Profit before income tax	110,838	63,064	75.75%
Profit for the period – Attributable to the Company's Shareholders	84,274	41,766	101.78%
Net cash from operating activities	137,264	-469,668	129.23%
<b>Earnings per Share (RMB/Share)</b>			
Basic earnings per Share	0.08	0.04	100.00%
Diluted earnings per Share	0.08	0.04	100.00%
<b>Profitability Indexes</b>			
Weighted average return on net asset <sup>(2)</sup>	3.71%	1.89%	Increased by 1.82 percentage points

Item	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)	Increase/decrease at the end of the period as compared to that of the end of last year
<b>Scale Indexes (RMB'000)</b>			
Total assets	15,415,759	12,925,647	19.26%
Total liabilities	13,115,979	10,686,253	22.74%
Accounts payable to brokerage clients	12,128,096	10,171,452	19.24%
Equity attributable to the Company's Shareholders	2,299,780	2,239,394	2.70%
<b>Total Share Capital (in thousands)</b>	<b>1,001,900</b>	1,001,900	–
Net asset per Share attributable to the Company's Shareholders (RMB/Share)	2.30	2.24	2.68%
Gearing ratio <sup>(3)</sup>	30.05%	18.69%	Increased by 11.36 percentage points

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

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

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

The financial information of the Group for the six months ended 30 June 2021 was extracted from pages 32 to 86 to this report, which set forth details of the basis of presentation for the unaudited consolidated financial statements. The financial statements of the Group for the six months ended 30 June 2021 were unaudited.

## NET CAPITAL AND RELEVANT CONTROL INDEXES OF THE COMPANY AS AT 30 JUNE 2021

Name of index	As at 30 June 2021 (Unaudited)	Regulatory Standards
Net capital (RMB'000)	896,606	30,000
Ratio between net capital and risk capital reserves	194.28%	100.00%
Ratio between net capital and net asset	40.93%	20.00%
Ratio between current assets and current liabilities	555.15%	100.00%
Ratio between liabilities and net assets	15.25%	150.00%
Clearing settlement funds (RMB'000)	288,821	14,000

Note: During the Reporting Period, various risk management indexes of the Company are in compliance with the relevant requirements set out in the "Administrative Measures on Futures Company's Regulatory Risk Management Index Scheme" (《期貨公司風險監管指標管理辦法》) of the CSRC.

# Management Discussion and Analysis

## I. MARKET REVIEW

### (i) Scales of Trading and Deposits

During the Reporting Period, the total trading volume in the futures market of China was 3.716 billion board lots (all of the followings are per side), representing a year-on-year increase of 47.37% with a total turnover of RMB286.33 trillion, representing a year-on-year increase of 73.05%, among which, the total trading volume of commodity futures and options was 3.656 billion board lots, representing a year-on-year increase of 47.91% with a total turnover of RMB226.39 trillion, representing a year-on-year increase of 94.76%. The total trading volume of financial futures and options was 60.5478 million board lots, representing a year-on-year increase of 20.85% with a total turnover of RMB59.94 trillion, representing a year-on-year increase of 21.77%. As at the end of the Reporting Period, equity held by clients across the country in the futures market exceeded RMB1 trillion, and amounted to RMB1,035.19 billion representing a year-on-year increase of 59.53%.

### (ii) Performance of Products

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

#### 1. Performance of commodities futures

In terms of agricultural products futures, the prices of agricultural products moved in upward oscillation in the first quarter of 2021 due to imported inflation factors and the weather. Due to overseas market's expectation for tightening monetary policy and the gradual clarification of agricultural product plantation areas, the price performances of agricultural products were mixed in the second quarter of 2021. Among them, prices of the oils and fats and soft commodity sectors sustained oscillation at a high; prices of aquaculture sector plummeted from a resistance level since the beginning of the second quarter of 2021.

In terms of metal futures, the market prices of black varieties showed a downward oscillation trend as the market was pessimistic about future demand before the Spring Festival came along. After the Spring Festival, market demand turned strong, and the market price of black varieties showed a powerful rise due to de-production of crude steel. Since the second quarter, as the sharp increase in domestic prices of industrial products such as steel and copper, aroused attention of the government, the State Council has repeatedly mentioned bulk commodities at its executive meetings. The National Development and Reform Commission, the Ministry of Industry and Information Technology, among others interviewed steel companies and asked the production restriction policy gave way to ensure supply and stabilize prices, leading to a significant drop in the prices of ferrous and non-ferrous metals.

In terms of energy and chemicals futures, the energy and chemical market experienced a general rise in prices driven by crude oil. At the beginning of 2021, with the improvement of the COVID-19 Pandemic (“**Pandemic**”) and the restrained increase in production by OPEC+ oil-producing countries, which coupled with the market’s optimistic expectation for the great demand in “March and April “, downstream companies made a lot of purchases to build up their inventories, the prices of polyester industry chain varieties rose rapidly around the Spring Festival. Although crude oil prices were still rallying since the second quarter of 2021, the price of chemical products did not rise further due to the less-than-expected improvement in terminal demand and the gradual recovery of foreign supplies, and most chemical products started wide-range fluctuation at high prices.

### 2. Performance of financial futures

The stock market ushered in a relatively stop-less rise after the beginning of the year of 2021 as the central economic work conference set the tone of not turning sharply in macro policies, and due to the fundamentals of rapid macroeconomic recovery. In particular, driven by the market’s blue-chip shares with big capitalization, the SSE 50 and the CSI 300 attempted at the previous historical highs. At the same time, although the bond market has been under pressure due to risk appetite, with the support of relatively easy and abundant liquidity, the bond market stabilized from a decline. After the Spring Festival, with the rapid increases in the inflation of bulk raw material, the profits of real economic entities, especially small, medium and micro enterprises, have been squeezed or even swallowed. The momentum of economic recovery since this round of the Pandemic gradually weakened. The bond market sentiment was boosted by this. After a rapid adjustment, the stock market fell into a relatively sluggish and oscillation trend.

### (iii) Development of the Market and the Industry

#### 1. The draft of the futures law was considered for the first time to regulate and promote the healthy development of the futures market

On 26 April 2021, the 28th meeting of the Standing Committee of the 13th National People’s Congress reviewed the Futures Law of the People’s Republic of China (Draft) for the first time. The draft focused on the basic systems concerning trading, settlement and clearance of futures, the protection system for futures traders, the supervision of companies engaged in futures business and futures service providers, the operation of futures trading venues and futures clearing institutions, the supervision and management of futures markets, and legal responsibilities. The draft consists of 14 chapters and 173 articles. The main contents include: clarified the purpose, principles and supervision system of this law; systematically stipulated the trading, settlement and clearance systems of futures; stipulated the basic system of other derivatives transactions; established the rights and interests protection system of futures traders; provided rules governing operation of futures operating institutions, futures trading venues, futures clearing institutions and futures service providers; clarified the supervision and management of the futures market, etc.

## **2. Guangzhou Futures Exchange was officially established**

Guangzhou Futures Exchange was officially established on 19 April 2021. It is China's first joint-ownership exchange, allowing foreign institutions to own shares in a futures exchange of Mainland China for the first time. Therefore, it is of great exploratory significance. Guangzhou Futures Exchange is positioned as an innovative futures exchange, and its purposes are serving the real economy, serving green development. Adhering to the goal of becoming an innovative, market-orientated and international company, it is of great significance to improving the capital market system of China.

## **3. The ability to serve the real economy continued to strengthen**

New varieties were listed at a much faster pace. During the Reporting Period, the CSRC approved the listing of live hog futures and peanut futures, as well as the listing of crude oil and palm oil futures options. As at the end of the Reporting Period, there were 70 futures products and 24 options products listed on the domestic futures markets. The coordinated development of on-exchange and over-the-counter commodity finance, futures options was further consolidated. Leveraging on futures' functions, there were as many as 556 A-share listed companies that issued hedging announcements in the first half of 2021, which exceeded the full-year number of 2020; the average daily transactions of legal persons in the national futures market accounted for nearly 40%, indicating that more and more institutions and industrial customers are using the futures market to manage risks.

## **4. Futures operating institutions actively fulfilled their social responsibilities and contributed to rural revitalization strategies**

As of the end of Reporting Period, in terms of paired assistance, 116 futures companies have signed 577 paired assistance agreements with 292 out-of-poverty counties (townships and villages). The futures industry contributed RMB969 million for paired assistance. In terms of professional assistance, the futures operating institutions have provided price protection for natural rubber, corn, soybeans, eggs, apples, cotton, sugar and other varieties in out-of-poverty areas in China through the "insurance + futures" model, with an insured value of approximately RMB31.477 billion. In terms of consumer assistance, the futures industry has signed a total of 1,019 purchase and sales contracts through consumer assistance, with a total commodity value of approximately RMB48.6249 million.

### 5. The futures market is promising in serving residents' asset allocation and wealth management

The futures market is an important investment place for global asset allocation and wealth management. It provides an important channel for the preservation and appreciation of medium and long-term investors such as public funds, corporate annuities, and insurance funds, and diversifies residents' investment channels and sources to earn financial income. At present, more and more institutional investors and medium and long-term investors have begun to flexibly use financial derivatives such as stock index futures to hedge risks and obtain returns. In 2021, the futures market will become significantly attractive for asset allocation. Customers' equity is growing steadily. It has now exceeded RMB1 trillion, which has doubled that as at the beginning of 2020; the size of holdings of public funds, corporate annuities, and insurance funds in the stock index futures market increased by 1 time, 1.5 times and 2.6 times respectively, as compared with that at the beginning of 2020.

## II. GENERAL OPERATING RESULTS

During the Reporting Period, the Group realized operating income and other gains of RMB324.637 million and profit attributable to the Company's Shareholders of RMB84.274 million, representing a year-on-year increase of 70.60% and 101.78% as compared with RMB190.286 million and RMB41.766 million in the same period of last year, respectively. The improved performance was mainly due to the Group's active grasping of market opportunities to accelerate the development of the brokerage business by introducing new business models and new varieties and other measures; vigorously leveraging on the over-the-counter business; continued strengthening business synergy with the parent and subsidiary companies to reduce market expansion costs, and enhancing market competitiveness; promoting business initiatives in an orderly manner to improve operational efficiency, and rapidly growing various businesses.

As of the end of Reporting Period, the total assets of the Group were RMB15.416 billion, representing an increase of 19.26% as compared with RMB12.926 billion as at the end of 2020. The total liabilities of the Group were RMB13.116 billion, representing an increase of 22.74% as compared with RMB10.686 billion as at the end of 2020. The equity attributable to Shareholders of the Company was RMB2.300 billion, representing an increase of 2.70% as compared with RMB2.239 billion as at the end of 2020. The Group's gearing ratio (both total assets and total liabilities have excluded accounts payable to brokerage clients) was 30.05%, representing an increase of 11.36 percentage points as compared with 18.69% as at the end of 2020. During the Reporting Period, the Group's assets were good in quality and its financial position was healthy.

### III. ANALYSIS OF PRINCIPAL BUSINESS

The main businesses of the Group include commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management, basis trading, warehouse receipt services, cooperative hedging, market making business, over-the-counter derivatives business, information technology consulting services, and other business activities permitted by the CSRC.

#### (i) Futures and Options Brokerage Business

During the Reporting Period, the Group insisted on serving entities as the Company's strategic direction. It established special task forces for serving institutional clients in finance and industry, established a special database of key clients, and actively guided institutional clients to make full use of futures tools to manage operational risks, and helped market players to operate steadily and continuously tapped into the real economy; adhering to the working principle of "One Zhongtai", it established an effective working mechanism to promote business synergy between the two parties to transaction of securities futures, and enhancing investors' comprehensive financial service capabilities; adhering to a customer-centric corporate culture, it earnestly advanced transformation of the traditional brokerage business to a wealth management model; by introducing new business models and new varieties, it accelerated development and transformation of the brokerage business, and the main business indicators such as brokerage business income, customers' equity, trading turnover, and market share continued to rise. Among them, income from brokerage business was RMB240.117 million, representing a year-on-year increase of 68.60%.

During the Reporting Period, the Company improved its capability to serve clients by increasing its industry research capabilities about physical commodity sectors. Through vigorously tapping into physical commodity sectors, it continued to improve the Company's industry research level. At the same time, by combining futures and derivatives instruments with the actual production and operation of industrial customers, the Company identified customers' needs and provides customers with tailor-made risk management solutions to help customers to operate steadily and improve its customer service capabilities.

During the Reporting Period, the Company's option business continued to be at the forefront of the industry, ranking second in terms of stock options trading volume on the Shanghai Stock Exchange. In addition, the Group's over-the-counter derivatives business continued to advance steadily and maintained a leading position in the industry. In the first half of 2021, with the drastic volatility of the bulk commodity market, companies had a growing demand for over-the-counter derivatives for risk management. The over-the-counter business team of the Group actively responded to corporate needs and provided various over-the-counter option products to many large entities and financial institutions. Subject to strictly controlling business risks, the Group's over-the-counter derivatives business maintained a relatively high trading volume and generated solid profits.

During the Reporting Period, the Company continued to make efforts on building an online customer service system to enhance customer experience and optimize service procedures. At the same time, the Company continued to strengthen investor education. Through the investment education website and self-media matrix, various investment education publicity and activities were carried out to enhance the investor education and publicity; it strengthened Internet operations to provide more convenient service support for business development and customer maintenance.

During the Reporting Period, the Company took effective measures primarily in marketing management, institutional client development, promoting business collaboration, strengthening team building, improving middle and back office support capabilities, and digital transformation to promote business, which were constructive to the development of futures and options brokerage businesses.

### **(ii) Futures Investment Consulting Business**

During the Reporting Period, income from the Company's investment consulting business increased by 174.81% over the same period of last year. After reshuffling the work mechanism of the investment consulting business in the past two years, the foundation for the Company's consulting business is now far more solid with results. Firstly, it further consolidated the ideas and measures of research-driven business development, especially in terms of strengthening the research force with more employees; secondly, it set up the Shanghai branch of the institute to further improve the efficiency and standard of research achievements in supporting the business to make good use of the concentrated resource elements in Shanghai area; thirdly, it further consolidated the internal assessment and incentive mechanism of research services, and promoted the development of investment consulting business.

### **(iii) Risk Management Business**

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

During the Reporting Period, the Group's over-the-counter business continued to advance steadily, with a total nominal principal of RMB53.951 billion and 183 contracted customers were added, effectively providing comprehensive risk management service for various industrial chain entities and financial institutions such as banks, insurance, funds, etc.

## Management Discussion and Analysis

During the Reporting Period, the Group obtained market-making qualifications for 24 varieties of 4 futures exchanges, including 11 options market-making varieties, and 13 futures market-making varieties. The market-making varieties cover a wide range of industries, and market-making strategies are constantly optimized.

The Group actively promoted the development of the warehouse receipt service business, focusing on standard warehouse receipt business, supplemented by non-standard warehouse receipt business. The operation mode was mainly pledge of warehouse receipts, agreed repurchase, and delivery arbitrage, providing strong liquidity support for clients to revitalize their inventory, etc. It designed professional service plans based on the actual needs of customers, and continuously improved service quality and standards, so as to better serve companies engaged in real economy.

The Group actively conducted commodity trading in multiple industry chains, concentrating its capital, manpower and other resources on the development of the Group's dominant varieties. During the Reporting Period, the commodities trading offered by the Group mainly cover ferrous products such as rebar and hot coils, non-ferrous metals such as copper and silver, agricultural products such as grains and apples, and energy and chemical products such as thermal coal. The Group actively explored new basis trading models based on the existing commodity trading model, and tried to include options in basis trading, which further strengthened the cooperative relationship between the enterprise and its upstream and downstream partners, not only protects the profits of small and medium-sized enterprises, but also helps to enhance the Group's competitiveness in the industry.

### (iv) Information Technology

The Group firmly believes that information technology infrastructure and information systems are essential to the effective management and successful development of the business, and it continued to invest in information technology.

During the Reporting Period, the Company focused on increasing investment in information technology, improving information system service capabilities, and achieving support and empowerment for business development. Firstly, it operated in compliance with safety requirements, improved business and management efficiency, strengthened compliance management, to ensure the stable and safe operation of the system, secondly, it supported business innovation function, continued to optimize the performance of the quantitative system, and improved the service system; thirdly, it actively promoted technological innovations in cloud computing platforms and big data platforms, middle-office, and robotic process automation (RPA) technology, etc., promoted the Company's use of financial technology to empower business.

## IV. PROSPECTS AND FUTURE PLANS

### (i) Market Analysis

During the Reporting Period, despite the complex and volatile domestic and international environment, China's economy continued to recover steadily under the general requirements of normalized Pandemic prevention and control, production demand continued to grow, major macro indicators were in a reasonable range, and economic development showed a steady strengthening and steady improvement.

The economy continued to recover. During the Reporting Period, the gross domestic product is about RMB53,216.7 billion, representing a year-on-year increase of 12.7% based on comparable prices, or a decrease of 5.6 percentage points as compared with the first quarter of 2021. The two-year average growth rate was 5.3%, and the two-year average growth rate was 0.3% faster than the first quarter of 2021. By quarter, the gross domestic product of the first quarter of 2021 represents a year-on-year growth of 18.3%, the two-year average growth was 5.0%; the gross domestic product of the second quarter of 2021 represents a year-on-year growth of 7.9%, and the two-year average growth was 5.5%.

## Management Discussion and Analysis

Economic structure was adjusted and optimized. Firstly, industrial support was increased. In the first half of 2021, the contribution of the added value of the service industry to economic growth reached 53%, representing an increase of 2.1 percentage points from the first quarter of 2021; the proportion of the manufacturing industry was increased. In the first half of 2021, the value added of the manufacturing industry accounted for 27.9% of GDP, representing an increase of 1.3 percentage points over the same period of the previous year. Secondly, the consumption made more contribution. In the first half of 2021, the contribution of final consumption expenditure to economic growth reached 61.7%, representing an increase of 42.5 percentage points higher than the total capital formation; consumption of upgraded products increased rapidly. In the first half of 2021, the average two-year growth rate of retail sales of sports and entertainment products, communication equipments, and cosmetics of companies above designated size exceeded 10%. Thirdly, investment in disadvantaged areas registered rapid growth. In the first half of 2021, the two-year average growth of investment in high-tech industries and social sectors was 14.6% and 10.7% respectively, which were 10.2 and 6.3 percentage points faster than total investment respectively. Fourthly, the ratio of urban income to rural residents' income decreased. In the first half of 2021, the ratio of per capita disposable income of urban and rural residents was 2.61, representing a decrease of 0.07 from the same period of last year.

Innovation momentum continued to increase. First of all, number of new market players grew rapidly. As at the end of the Reporting Period, the number of legal person entities exceeded 30 million for the first time, representing a year-on-year increase of 16.6%. Secondly, new industries and new products saw rapid growth. In the first half of 2021, the added value of high-tech manufacturing above designated size increased by an average of 13.2% in two years, representing an increase of 0.9 percentage point from the first quarter. By product, in the first half of 2021, the output of new energy vehicles, industrial robots, and integrated circuits have all maintained rapid year-on-year growth. Thirdly, business of new operation models and new patterns were growing. In the first half of 2021, the online retail sales of physical goods increased by an average of 16.5% in two years, accounting for 23.7% of the total retail sales of consumer goods.

The protection of people's livelihood continued to improve. Firstly, the employment situation is generally stable. In the first half of 2021, the nationwide surveyed unemployment rate in cities and towns were at an average of 5.2%, representing a decrease of 0.6 percentage point from the same period of last year, and a decrease of 0.2 percentage point from the first quarter of 2021, which was lower than the expected target of around 5.5%. 6.98 million new jobs were created in cities and towns across the country, accounting for 63.5% of the annual target and tasks. As at the end of the Reporting Period, 180 million farmers went to work away from their hometowns, which has basically recovered to the level of the same period in 2019. Secondly, consumer prices rose moderately. In the first half of 2021, consumer prices rose by 0.5% year-on-year, representing a small growth rate. Thirdly, the growth of residents' income is basically consistent with economic growth. In the first half of 2021, the national per capita disposable income increased by 12% year-on-year in real terms, and the two-year average growth rate was 5.2%, basically in line with economic growth.

The Central Economic Work Conference held in December 2020 pointed out that, macro policies should remain consistent, stable and sustainable in 2021. It is necessary to continue a proactive fiscal policy and a prudent monetary policy, maintain the necessary support for economic recovery, and make policy operations more relevant and effective, without abrupt changes. A prudent monetary policy must keep the money supply and the growth rate of social financing in line with the nominal economic growth rate, and keep the macro leverage ratio basically stable. The executive meeting of the State Council of the PRC held in July 2021 pointed out that, in order to cope with the price rises of bulk commodities on the production and operation of enterprises, it is necessary to maintain the stability and effectiveness of monetary policy without providing excessive liquidity, and to apply monetary policies tools such as required reserve ratio (RRR) cuts in a timely manner to further strengthen financial support for the real economy, especially for small, medium and micro enterprises, and promote a steady decline in overall financing costs.

Looking forward to the second half of 2021, due to the uncertainty of the strain variation of the COVID-19, normal Pandemic prevention and control will have a certain interference to the global economic recovery. From the perspective of external demand, although the vaccination of the COVID-19 continues to promote the resumption of work and production overseas, objectively speaking, the asynchronous spread of Pandemic overseas and the huge difference in prevention and control results have left the supply chain around the world still under a long-term test. Therefore, although the prime period of China's foreign trade prosperity may have passed, the decline of the foreign trade prosperity is expected to slow down. From the perspective of domestic demand and investment, the support of investment mainly came from manufacturing and real estate development since this round of recovery. Looking ahead, subject to the constraints of credit funds, there is a high probability of smaller margin for investment in real estate development. Although financial resources are not tight, the development of infrastructure may need relay from foreign trade and consumption momentum to ensure the steady growth of the macro economy. Therefore, in terms of investment, there is a certain amount of potential for development of infrastructure; in terms of consumption, due to the highly infectious COVID-19, and normal Pandemic prevention and control requirements, the recovery of the offline consumer market has also been subject to different constraints. In addition, due to the decline in income directly caused by the Pandemic, the differentiation of social wealth and the impact of the precautionary saving mindset, the spending preference and power also restrict the recovery of the consumer market. Therefore, looking forward to the consumer market in the future, the recovery of the consumer market may sustain the previous trend, with a slow and a long recovery process.

## Management Discussion and Analysis

In the second half of 2021, the domestic economy will continue to recover, but at a slower pace, and the cycle of this round of economic recovery will also be prolonged due to the slowdown in the recovery.

### (ii) Development and Plan

The Group will continue to firmly grasp its existing advantages, take “serving the real economy” as its mission, and “becoming a leading integrated financial service provider in the field of futures and derivatives” as its goal to further promote the rapid development, transformation and upgrading of the Group.

In the second half of 2021, the Group will focus on strengthening work in the seven areas as follows: Firstly, to complete work in accordance with the work plans and tasks formulated at the beginning of 2021; secondly, to strengthen the marketing service team and enhance the research capabilities; thirdly, to increase the number of operating entities and optimize the business layout; fourthly, to increase efforts on acquiring financial institution customers and industrial customers; fifthly, to implement the collaborative work mechanism of “coordinated development, coordinated sales, and coordinated service”; sixthly, to do a solid work in compliance and risk control management to ensure the steady operation of the Group; seventhly, to adhere to the overall leadership of the Central Committee of the Communist Party of China to promote the organic unification of Communist Party building and management.

## V. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at the end of the Reporting Period, the equity attributable to the Company’s Shareholders was RMB2,300 million (of which share capital was RMB1,001.9 million, share premium was RMB651 million, and retained earnings were RMB357 million), representing an increase of 2.7% as compared with RMB2,239 million as at the end of 2020, which was mainly attributable to the increase in profits during the Reporting Period.

During the Reporting Period, the Group’s asset increased and maintained sound asset quality and liquidity. As at the end of the Reporting Period, the Group’s total assets after deducting accounts payable to brokerage clients reached RMB3,288 million, increasing by 19.37% as compared with the total assets of RMB2,754 million as at the end of 2020, after deducting the accounts payable to brokerage customers. Among which, funds deposited with the futures exchanges in the PRC accounted for 29.70%; cash and bank balance accounted for 28.80%; investment assets (including investments in associates and financial assets, especially investment in financial assets with strong liquidity) accounted for 27.12%; and the property and equipment and intangible assets accounted for 1.34%.

As at the end of the Reporting Period, the gearing ratio of the Group (both total assets and total liabilities less accounts payable to brokerage clients) was 30.05%, increasing by 11.36 percentage points as compared with that as at the end of 2020. The Group's operating leverage (the total assets less accounts payable to brokerage clients/equity attributable to the Company's Shareholders) was 1.43 times, increasing by approximately 16.26% as compared with 1.23 times as at the end of 2020. As at 30 June 2021, the Group's total liabilities were RMB13,116 million, among which, RMB12,128 million was accounts payable to brokerage clients. The remaining liabilities (net of accounts payable to brokerage clients) were RMB988 million, of which RMB146 million was derivative financial liabilities, RMB530 million was payable to over-the-counter option clients, RMB90 million was for staff cost payable, RMB23 million was lease liabilities. The Group has sufficient resources to repay the aforementioned liabilities. During the Reporting Period, the aging analysis of accounts payable was not applicable to the Group.

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

After taking into consideration of the available financial resources, including cash flow from operating activities, the Group has sufficient working capital to meet the capital demand for its business development.

The foreign currency assets and liabilities held by the Group are insignificant as compared with the total assets and total liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in Renminbi, and the proportion of income from foreign currency 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 GROUP

### (i) Equity Financing

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

### (ii) Bond Financing

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

### VII. MATERIAL INVESTMENTS OF THE GROUP

During the Reporting Period, the Group made additional capital contribution of RMB5 million to the joint venture Shandong Trading Market Clearing House Co., Ltd.

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

As at the end of the Reporting Period, the Group's physical commodities with a book value of RMB65,528 thousand were pledged to the futures exchange as a trading margin.

Except as disclosed above, during the Reporting Period, there was neither acquisition, disposal or replacement of the Group's material assets or business merger, nor any major external guarantee, mortgage, pledge, etc., that affected the Group's financial position and operating results. Details of contingent liabilities are set out in note 36 to the interim condensed financial information of this report.

### IX. EMPLOYEES, REMUNERATION POLICIES AND TRAINING

As at the end of the Reporting Period, the Group had a total of 555 employees. During the Reporting Period, the cost of employees of the Group amounted to approximately RMB130.7250 million, details of which are set out in note 8 to the condensed interim financial information of this report.

The Group established a remuneration system which allows management by sequence, links incentives and constraints to performance assessment. It is competitive as compared with its peers and features fairness within the Group. It has corresponding remuneration incentive policies for different talents. Under a strict performance assessment mechanism, it also increased incentives for excellent employees, which inspired the enthusiasm of the employees and continuously improved the Group's operating results. The remuneration of the employees of the Group consists of basic salary, performance wage, bonus, regional subsidies, degree allowances, sales commissions, dispatch subsidies, special incentives and insurance benefits. Basic salary is determined based on consolidated factors such as job duties, responsibilities, operation scale, salary offered by peers, the area where the business of the Group is located, as well as knowledge and experience of the employee; performance wage and bonuses are variable pay based on the performance appraisal results of various departments and employees; sales commissions are performance commissions payable to motivate salespersons to generate revenue.

The Group enters into employment contracts with each employee to establish employment relationships with them according to applicable laws and regulations of the PRC. The Group provides each employee with various social insurances and housing provident fund and company annuity. Payment of the above social insurances, housing provident fund and company annuity are administered by local companies.

During the Reporting Period, the Company continued to strengthen employee training. Firstly, the Company focused on the improvement of job competencies, and took the lead in building the basic job training system for the operating entities and the delivery liaison job training system. A total of 26 internal trainings, 5 live broadcast trainings offered by the associations and exchanges, and 1 “face-to-face” training on business handover with the exchange were organized. 20 micro-courses were given on the E-Learning platform to help employees to improve their job competencies, further enrich the Company’s curriculum system, and assisted Zhongtai Securities to build an institutional business manager training system; secondly, the Company focused on the extraction and transformation of advanced experience, increased sharing-based learning and seminars on topical exchanges. Thematic exchange was arranged for all the five training programs of the business entity leaders’ leadership enhancement, wealth management business exchanges (phase 2), and solution course development and presentation skills (phase 2), paying attention to the effectiveness of training; thirdly, the Company focused on the development of different talents, increased the selection and training of reserve talents, contributed to the improvement of middle and high-level leadership, and promoted the construction of learning organizations.

## X. RISK MANAGEMENT

### (i) Major Risks Affecting the Group’s Operation

Major risks affecting the Group’s operation include credit risk, market risk, liquidity risk, operational risk, compliance risk and reputational risk. The above risks are caused by various uncertainties in the business activities of the Group.

#### 1. Credit Risk

Credit risk refers to the risk resulting from the failure of a counterparty to timely perform its contractual obligations. The Group’s credit risk mainly comes from risk management business and futures brokerage business such as commodity trading and over-the-counter options.

In order to cope with credit risks, the Group has adopted the following risk management measures: (1) for credit risks related to the 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. Before signing a contract, the Group decides whether to sign a contract or agree to increase interest or commodity prices in a trading contract based on the rating results to compensate for the credit risk exposed to the Group; (2) for credit risks related to the futures brokerage business, when signing a brokerage contract with a client, the Group conducts risk rating on the clients based on their assets, professional knowledge on futures, trading experiences, risk appetite and risk tolerance, and provides appropriate services to its clients and implements corresponding risk management measures accordingly. Meanwhile, the Company requires its clients to maintain higher margin deposits than the minimum required by the futures exchanges in the PRC. When the customer's margin is insufficient, the relevant risk control personnel will strictly abide by the Company's internal control system based on the customer's past trading experience and reputation to close the position in a mandatory way, which can control the risk of negative equity on the books and retain high-quality customers.

### 2. Market Risk

Market risk refers to the risk of loss resulting from the changes in market price and interest rate. The Group is mainly exposed to equity asset price risk, commodity price risk, option pricing risk, hedging risk and interest rate risk.

In order to cope with market risks, the Group has adopted the following risk management measures: (1) the Group has established a systematic investment mechanism, continuously strengthens analysis of the financial market, and requires business departments to submit an application to the Company's management stating the transaction's nature, analysis of potential market risks and possible consequences, before proceeding with a new investment project; (2) the Group has adopted diversified trading strategies to avoid concentrated capital use, and reduce losses from systemic risks, strengthening research of interest rate and exchange rate risks to make decisions about capital use in a more forward-looking manner, asking the investment decision-making committee of its own funds to use standardized process to determine whether the plan is feasible; (3) quantitative indicators are used to track and monitor various risk limits in the transaction and risk control process. The Company increases monitoring of the exposure limit, concentration limit, preset warning line, the stop-loss line and the scale of holding positions. There is a dedicated employee in charge of monitoring to enhance risk hedging and reduce the loss caused when the market price fluctuates sharply or does not meet our expectations.

### 3. Liquidity Risk

Liquidity risk refers to the liquidity risk in which the available funds cannot meet the liabilities or funds repayment obligations in the operation, and the liquidity risk of inability to buy or sell futures, spot, and option contracts at market prices.

In order to cope with liquidity risks, the Group adopted the following risk management measures: (1) established a net capital risk assessment and monitoring system to continuously monitor the Company's net capital and other risk monitoring indicators; the Group strengthened real-time monitoring and management of large amounts of capital, in order to achieve centralized fund allocation and collaborative liquidity risk management; (2) conducted stress tests on risk monitoring indicators from time to time to simulate the impact of drastic market price fluctuations, severe shortage of market liquidity or major changes in the macroeconomic environment on the Company's important regulatory indicators and cash flow, and formulate preventive measures and emergency plans accordingly; (3) in the commodity trading and risk management business, the commodities that are actively traded in the spot market are selected for business, and the position ratio is strictly controlled in the option business to reduce the risk of trading liquidity.

### 4. Operational Risk

Operational risk refers to the risk of loss caused by a series of non-financial issues such as imperfect internal operating procedures, personnel, systems or external events.

In order to cope with operational risks, the Group has adopted the following risk management measures: (1) Developing and strictly implementing a documented internal control system and work process, which covers all business lines of the Company, including personnel administration, brokerage business, intermediary management, and transaction, settlement, delivery, compliance and internal control, risk control, legal affairs, anti-money laundering, customer service, financial management, information technology, research and development and investor education, asset management, options business, etc., and continues to expand and improve according to the updated laws and regulations, regulatory requirements and new business; (2) the Group continuously reviewed the risks of each business line, formed a checklist, and continuously improved the process, strengthened the accountability, improved the staff's business operation capability, striving to reduce the operational risks caused by internal operating procedures and personnel errors. It strictly implemented reward and punishment measures for entities or individuals that cause operational risks or effectively avoid operational risks, and actively reflected on and rectifying within the organization to prevent similar risks from recurring; (3) in order to avoid the moral hazard of employees, the Group adopted a human-oriented approach and established open, fair and just incentive measures concerning compensation, promotion and others, to create a good development environment for employees, strengthens employees' sense of responsibility and dedication to work, and conducted professional ethics training, formulated rules about the operation behavior of employees at work, prohibiting profit transmission and market manipulation behavior, and reduce the possibility of human operation risks; (4) the Group has a strict internal audit system, and an audit department regularly audits the reasonableness and legality and effectiveness of the Group's internal control system, treasury operation and financial revenue and expenditure of each business entity, functional departments and subsidiaries' business processes and job duties. It put forward opinions for rectifying violations and illegal issues discovered during the audit process and supervise the implementation of such proposals.

### 5. Compliance Risk

Compliance risks refer to risks of economic loss or reputation loss due to legal sanctions, regulatory measures, self-disciplinary sanctions imposed on the Group or its employees as a result of business activities or its employees' behaviors that violate laws, regulations, and regulatory rules.

In order to cope with compliance risk, the Group adopted the following risk management measures: (1) built up a comprehensive compliance management and organization system; appointed a chief risk officer who is responsible for the Company's risk management, internal control and compliance, auditing, etc.; (2) the Company established compliance risk control management personnel in various branches, headquarters functional departments and risk management subsidiaries to strengthen prior and in-process risk control; (3) the Company's compliance and risk control department and the audit department work under the guidance of the chief risk officer, and manage to reduce possibility of compliance risks by promptly interpreting the latest laws and regulations, organizing compliance training, giving compliance consulting, and conducting internal audits.

### 6. Reputational Risk

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

In order to cope with reputational risks, the Group adopts the following risk management measures: (1) always strives to protect the legitimate rights and interests of clients and investors, ensure timely handling of various complaints and disputes, continue to pay attention to negative information related to the Group, and collect early reputational risk warning information from various channels, and take risk response measures in a timely manner; (2) At the same time, the Group established a good internal reputational risk management system, to further improve the incentive and constraint mechanism and reduce the possibility of damage to the Group's reputation.

### (ii) Overall Risk Management Measures Adopted by the Group

#### 1. Establishing a scientific and effective risk management structure

The Board of Directors is the highest decision-making organ for risk management. It has a risk control committee and an Audit Committee to review and audit major risk issues; the Supervisory Committee is responsible for overseeing the Board's duty-performing towards risk management; the senior management is responsible for organizing and carrying out the Company's comprehensive risk management in the usual course of business; the chief risk officer is responsible for organizing, coordinating, and implementing various comprehensive risk management tasks; the compliance and risk control department is the central management department in charge of the Company's comprehensive risk management, responsible for implementing specific risk management tasks and evaluating their effectiveness; other functional departments and branches have their own compliance risk control personnel, responsible for organizing the identification, evaluation, response and reporting of various risks of their organization.

# Management Discussion and Analysis

## 2. Consistently improving the corporate governance structure

The Company continued to standardize the operating mechanism of the general meeting and improve the corporate governance structure to ensure that all Shareholders, especially small and medium Shareholders, enjoy equal status to protect the interests of small and medium Shareholders; ensure that the Board of Directors provides strategic guidance to the Company and effective supervision of the Company's operation and management. It gave full play to the role of the professional committees of the Board of Directors and the Company's independent non-executive Directors; gave full play to the monitoring role of the Supervisory Committee over the Board of Directors, the senior management and the Company's financial status; ensure timely and accurate disclosure of major matters related to the Company.

## 3. Consistently improving the overall risk management system

The Group continued to establish and improve a comprehensive risk management system, established a risk preference system including risk appetite, risk tolerance, and overall risk limits, and promoted the construction of a risk execution information system. The Group's risk management covers all departments and subsidiaries of the Group, penetrates into all business activities, throughout the business course, and summarizes the risk information and business information of each business branch and subsidiary of the Company as a unit, and conducts overall risk analysis and management, centralized supervision and reporting.

## 4. Consistently increasing risk awareness

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

# Corporate Governance

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

## SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has adopted the Model Code as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for the senior management. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they had complied with the standards specified in the Model Code during the Reporting Period. The Company has made specific inquiries to the senior management about their compliance with the guidelines on transactions of the Company's securities, and the Company did not notice any violation of the guidelines.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has appointed a sufficient number of independent non-executive Directors with appropriate professional qualifications, or appropriate accounting or relevant financial management expertise in accordance with the requirements of the Listing Rules. As at the end of Reporting Period, the Company appointed a total of four independent non-executive Directors, including Mr. Gao Zhu, Mr. Wang Chuanshun, Mr. Li Dapeng and Mr. Zheng Jianping.

### AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the Listing Rules. The primary responsibilities of the Audit Committee are reviewing and supervising the Company's financial reporting procedures, including making proposals on appointing or changing the external auditors; supervising the Company's internal audit system and its implementation; guiding and evaluating the work of the internal auditing department, and making suggestions as to the appointment and removal of the head of the internal auditing department of the Company; reviewing the financial information and its disclosure; reviewing and supervising the effective implementation of the financial reporting system, internal control system and risk management system of the Company; evaluating and discussing the relevant arrangements formulated by the Company including the whistle-blowing system for employees to report on any potential misconducts regarding the financial reporting, internal control and other aspects; reviewing and supervising the Company's Connected Transactions and commenting on the suitability of such Connected Transactions; and other matters that the Board of Directors has authorized it to deal with.

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

On 26 August 2021, the Audit Committee has reviewed and confirmed the Company's interim results announcement for the six months ended 30 June 2021, the 2021 interim report and the unaudited interim financial statements for the six months ended 30 June 2021 prepared in accordance with IAS 34 "Interim Financial Reporting".

### DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors have confirmed their responsibility for preparing financial statements of the Company. The financial information set out in this interim report is unaudited.

# Other Information

## SHARE CAPITAL

As at the end of Reporting Period, the total share capital of the Company was RMB1,001,900,000, divided into 1,001,900,000 Shares (including 724,810,000 Domestic Shares and 277,090,000 H Shares) with a nominal value of RMB1.00 each.

## PUBLICATION OF INTERIM RESULTS

The announcement of the interim results of the Group for the six months ended 30 June 2021 was published on the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.luzhengqh.com](http://www.luzhengqh.com)) on 26 August 2021.

## INTERIM DIVIDEND

When reviewing the interim results of Group for the six months ended 30 June 2021, the Board of Directors did not have any proposal of profit distribution.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

As at 30 June 2021, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executives of the Company) in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Type of Shares	Capacity	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of shareholding in the relevant class of Shares
Zhongtai Securities Co., Ltd. (formerly named as Qilu Securities Co., Ltd.) <sup>(1)</sup>	Domestic Shares	Beneficial owner	632,176,078 (long position)	63.10%	87.22%
Laiwu Steel Group Co., Ltd. <sup>(1), (2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
Shandong Steel Group Co., Ltd. <sup>(2)</sup>	Domestic Shares	Interest of controlled corporation	632,176,078 (long position)	63.10%	87.22%
CM International Capital Limited <sup>(3)</sup>	H Shares	Beneficial owner	18,211,000 (long position)	1.82%	6.57%
CMIG International Capital Limited (中民投國際資本有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) <sup>(3)</sup>	H Shares	Interest of controlled corporation	18,211,000 (long position)	1.82%	6.57%
Xu Guiqin	H Shares	Beneficial owner	18,276,000 (long position)	1.82%	6.59%

The calculation above is based on 724,810,000 Domestic Shares and 277,090,000 H Shares (1,001,900,000 Shares in total) issued by the Company as at 30 June 2021.

Notes:

- (1) Laiwu Steel Group Co., Ltd. directly holds approximately 41.32% of the equity interest in Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) and is the holding company of Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.). Therefore, Laiwu Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares held by Zhongtai Securities Co., Ltd. (previously known as Qilu Securities Co., Ltd.) for the purpose of Part XV of the SFO.
- (2) Laiwu Steel Group Co., Ltd. is owned as to 80.52% by Shandong Steel Group Co., Ltd. Therefore, Shandong Steel Group Co., Ltd. is deemed to be interested in the 632,176,078 (long position) Domestic Shares indirectly held by Laiwu Steel Group Co., Ltd. for the purpose of Part XV of the SFO.
- (3) CM International Capital Limited directly holds 18,211,000 (long position) H Shares of the Company. According to the form of disclosure of interest submitted by China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) to the Stock Exchange on 4 October 2018, CMIG International Capital Limited (中民投國際資本有限公司) holds 100% of the equity interest in CM International Capital Limited, and China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司) and CMI Financial Holding Corporation (a company wholly-owned by CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司, which is wholly-owned by China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司)), hold 31.5% and 68.5% of equity interests in CMIG International Capital Limited (中民投國際資本有限公司), respectively. Therefore, China Minsheng Investment Group Corp., Ltd. (中國民生投資股份有限公司), CMIG Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司), CMI Financial Holding Corporation and CMIG International Capital Limited (中民投國際資本有限公司) are deemed to be interested in the 18,211,000 (long position) H Shares of the Company held by CM International Capital Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2021, the Directors were not aware of any other person (except for Directors, Supervisors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company, which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

As at the end of the Reporting Period, save as disclosed below, there was no change to the information about the Directors, Supervisors and chief executives of the Company which are required to be disclosed under Rule 13.51B of the Listing Rules.

Mr. Liu Hongsong ceased to serve as a non-executive Director of the Company with effect from March 2021. For details, please refer to the Company's announcement dated 11 March 2021.

Mr. Wang Chuanshun ceased to serve as an independent Director of Shandong Aofu Environmental Technology Co., Ltd. (listed on the Shanghai Stock Exchange; stock code: 688021) with effect from March 2021. He ceased to serve as independent director of Shandong Taihe Water Treatment Technologies Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 300801) with effect from June 2021.

Mr. Liang Zhongwei ceased to serve as a director of LUZHENG INTERNATIONAL FUTURES LIMITED which was dissolved by member voluntary winding-up on 22 April 2021 with effect from April 2021.

Mr. Liu Xinyi was appointed as a non-executive Director of the Company with effect from 17 June 2021. His term of office commenced from 17 June 2021 and will end upon expiration of the third session of the Board of Directors of the Company. He is subject to re-election upon expiry of the term. Mr. Liu Xinyi does not receive any director allowances from the Company. For details, please refer to the Company's circular dated 28 May 2021 and announcement dated 17 June 2021.

# Report on Review of Interim Financial Information



羅兵咸永道

## TO THE BOARD OF DIRECTORS OF LUZHENG FUTURES COMPANY LIMITED

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

### Introduction

We have reviewed the interim financial information set out on pages 32 to 86, which comprises the interim condensed consolidated statement of financial position of LUZHENG FUTURES Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2021 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 August 2021

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
<b>Revenue</b>	4	<b>252,199</b>	158,025
Gains/(Losses) on physical commodities trading	5	<b>18,334</b>	(36,983)
Net investment gains	6	<b>51,616</b>	67,539
Other income	7	<b>2,046</b>	711
<b>Operating income</b>		<b>324,195</b>	189,292
Staff costs	8	<b>(130,725)</b>	(72,384)
Commission to brokerage agents		<b>(11,084)</b>	(5,492)
Introducing broker commission	37.2.1	<b>(6,301)</b>	(4,625)
Depreciation and amortization	9	<b>(8,763)</b>	(10,486)
Other operating expenses	10	<b>(59,268)</b>	(35,199)
Credit impairment losses		<b>(504)</b>	–
<b>Operating expenses</b>		<b>(216,645)</b>	(128,186)
<b>Operating profit</b>		<b>107,550</b>	61,106
Share of gains of investments in associates	15	<b>2,846</b>	964
Other gains, net		<b>442</b>	994
<b>Profit before income tax</b>		<b>110,838</b>	63,064
Income tax expense	11	<b>(26,564)</b>	(21,359)
<b>Profit for the period</b>		<b>84,274</b>	41,705

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(243)	721
<b>Other comprehensive income for the period, net of tax</b>		<b>(243)</b>	<b>721</b>
<b>Total comprehensive income for the period</b>		<b>84,031</b>	<b>42,426</b>
Profit attributable to:			
– Shareholders of the Company		84,274	41,766
– Non-controlling interests		–	(61)
		<b>84,274</b>	<b>41,705</b>
Total comprehensive income attributable to:			
– Shareholders of the Company		84,031	42,535
– Non-controlling interests		–	(109)
		<b>84,031</b>	<b>42,426</b>
<b>Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share)</b>			
<b>Basic/Diluted</b>	13	<b>0.08</b>	0.04

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

# Condensed Consolidated Statement of Financial Position

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2021 (Unaudited)	31 December 2020 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	37,438	38,245
Intangible assets		6,524	6,768
Investments in associates	15	49,081	41,235
Other non-current assets	17	24,904	22,559
Deferred income tax assets	18	844	856
Refundable deposits	19	37,733	31,346
Derivative financial assets	23	104	–
Financial assets at fair value through other comprehensive income		1,400	1,400
Financial assets at fair value through profit or loss	20	186,458	163,621
<b>Total non-current assets</b>		<b>344,486</b>	<b>306,030</b>
<b>Current assets</b>			
Physical commodities	21	189,147	114,533
Other current assets	22	214,071	122,423
Contract assets		–	6,462
Derivative financial assets	23	191,159	90,291
Financial assets at fair value through profit or loss	20	451,559	376,146
Financial assets held under resale agreements	24	11,745	305,038
Deposits with exchange-clearing organizations	25	6,735,741	6,196,152
Bank balances held for clients	26	6,331,133	4,723,619
Cash and bank balances	27	946,718	684,953
<b>Total current assets</b>		<b>15,071,273</b>	<b>12,619,617</b>
<b>Total assets</b>		<b>15,415,759</b>	<b>12,925,647</b>

# Condensed Consolidated Statement of Financial Position

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2021 (Unaudited)	31 December 2020 (Audited)
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	28	1,001,900	1,001,900
Share premium	29	650,630	650,630
Other reserves	29	290,444	282,453
Retained earnings		356,806	304,411
<b>Total equity attributable to shareholders of the Company</b>		<b>2,299,780</b>	2,239,394
Non-controlling interests		-	-
<b>Total equity</b>		<b>2,299,780</b>	2,239,394
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	18	22,720	6,242
Other non-current liabilities	30	26,468	28,615
Derivative financial liabilities	23	31,049	1,913
<b>Total non-current liabilities</b>		<b>80,237</b>	36,770
<b>Current liabilities</b>			
Other current liabilities	31	728,147	312,592
Provisions	32	13,768	29,219
Contract liabilities	33	50,776	20,446
Current income tax liabilities		27	6,614
Derivative financial liabilities	23	114,928	109,160
Accounts payable to brokerage clients	34	12,128,096	10,171,452
<b>Total current liabilities</b>		<b>13,035,742</b>	10,649,483
<b>Total liabilities</b>		<b>13,115,979</b>	10,686,253
<b>Total equity and liabilities</b>		<b>15,415,759</b>	12,925,647

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

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

(Unaudited)	Attributable to shareholders of the Company					Non-controlling interests	Total equity
	Share capital (Note 28)	Share premium (Note 29)	Other reserves (Note 29)	Retained earnings			
<b>Balance at 1 January 2021</b>	<b>1,001,900</b>	<b>650,630</b>	<b>282,453</b>	<b>304,411</b>	<b>-</b>	<b>2,239,394</b>	
Profit for the period	-	-	-	84,274	-	84,274	
Other comprehensive income for the period	-	-	(243)	-	-	(243)	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(243)</b>	<b>84,274</b>	<b>-</b>	<b>84,031</b>	
Net appropriation to reserves	-	-	8,234	(8,234)	-	-	
Dividends relating to 2020	12	-	-	(23,645)	-	(23,645)	
<b>Balance at 30 June 2021</b>	<b>1,001,900</b>	<b>650,630</b>	<b>290,444</b>	<b>356,806</b>	<b>-</b>	<b>2,299,780</b>	
<b>Balance at 1 January 2020</b>	<b>1,001,900</b>	<b>650,630</b>	<b>259,037</b>	<b>272,634</b>	<b>461</b>	<b>2,184,662</b>	
Profit for the period	-	-	-	41,766	(61)	41,705	
Other comprehensive income for the period	-	-	769	-	(48)	721	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>769</b>	<b>41,766</b>	<b>(109)</b>	<b>42,426</b>	
Net appropriation to reserves	-	-	3,930	(3,930)	-	-	
Acquire equity of non-controlling shareholders	-	-	-	-	(352)	(352)	
<b>Balance at 30 June 2020</b>	<b>1,001,900</b>	<b>650,630</b>	<b>263,736</b>	<b>310,470</b>	<b>-</b>	<b>2,226,736</b>	

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

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>110,838</b>	63,064
Adjustments for:		
Depreciation and amortization	8,763	10,486
Credit impairment losses	504	–
Interest expense on lease liabilities	995	887
Net losses on disposal of property and equipment and intangible assets	16	27
Net gains on modification of lease agreements	–	(32)
Foreign exchange (gains)/losses	(6)	91
Interest income from term deposits	(5,780)	(5,920)
Share of gains of investments in associates	(2,846)	(964)
	<b>112,484</b>	67,639
<b>Net increase in operating assets:</b>		
Net increase in bank balances held for clients	(1,607,514)	(207,208)
Net increase in deposits with exchange-clearing organizations	(678,269)	(1,900,258)
Net increase in financial assets at fair value through profit or loss and derivative financial assets	(199,222)	(168,344)
Net decrease in contract assets	6,462	–
Net decrease/(increase) in financial assets held under resale agreements	293,293	(348,243)
Net (increase)/decrease in other assets	(96,061)	70,234
Net (increase)/decrease in physical commodities	(74,614)	282,961
	<b>(2,355,925)</b>	(2,270,858)
<b>Net increase in operating liabilities:</b>		
Net increase in accounts payable to brokerage clients	1,956,644	1,836,844
Net increase/ (decrease) in derivative financial liabilities	34,904	(11,844)
Net increase in contract liabilities	30,330	–
Net decrease in provisions	(15,451)	–
Net increase/(decrease) in other liabilities	386,578	(81,817)
	<b>2,393,005</b>	1,743,183
<b>Income tax paid</b>	<b>(12,300)</b>	(9,632)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>137,264</b>	(469,668)

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
<b>Cash flows from investing activities</b>		
Payment for acquisition of equity of non-controlling shareholders	–	(352)
Payment for investment in an associate	(5,000)	–
Interest received from term deposits	4,812	5,953
Purchases of property and equipment, intangible assets and other long-term assets	(3,860)	(2,818)
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	2	658
Payment for purchases of term deposits	(280,000)	–
Proceeds on maturity of term deposits	280,000	1,948
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(4,046)</b>	<b>5,389</b>
<b>Cash flows from financing activities</b>		
Repayment of lease liabilities	(4,216)	(13,733)
<b>Net cash outflow from financing activities</b>	<b>(4,216)</b>	<b>(13,733)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>129,002</b>	<b>(478,012)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>811,805</b>	<b>1,035,696</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>6</b>	<b>(91)</b>
<b>Cash and cash equivalents at end of period (Note 35)</b>	<b>940,813</b>	<b>557,593</b>

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(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. By February 2007 the Company’s registered capital arrived at 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 December 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). By September 2012, after a series of share transfers and capital injections, the Company’s registered capital reached RMB640 million. In December 2012, upon approval by relevant government authorities, the Company was converted from a limited liability company into a joint-stock company. After the conversion, the registered share capital of the Company was RMB750 million and its name changed to the current one.

The Company completed its initial public offering on The Stock Exchange of Hong Kong Limited on 7 July 2015. The share capital of the Company was increased to RMB1,001.90 million.

The Company holds the futures business licence No. 31190000 and business licence No. 91370000614140809E. The registered address of the Company is Floor 15 and 16, No. 86 Jingqi Road, Shizhong District, Jinan, Shandong Province.

The Company and its subsidiaries (the “Group”) are principally engaged in financial futures brokerage, commodity futures brokerage, futures investment consultancy, asset management, basis trading, warehouse receipt services, cooperative hedging services, market-making services, over-the-counter derivatives business, information technology consulting services and other business activities as permitted by the CSRC.

This condensed consolidated interim financial information is approved for issue by the board of directors of the Company on 26 August 2021.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standards (the "IAS") 34 Interim Financial Reporting.

The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020, and any public announcement made by the Company during the interim reporting period.

The Group continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements.

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

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

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

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

## 4 REVENUE

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Net commission and fee income <sup>(1)</sup>	36,616	32,203
Net interest income <sup>(2)</sup>	86,210	72,484
Net refunds of trading fees <sup>(3)</sup>	129,373	53,338
	<b>252,199</b>	158,025

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 4 REVENUE (Continued)

### (1) Net commission and fee income

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
<b>Commission and fee income</b>		
Futures brokerage service	170,381	118,622
Options brokerage service	53,218	30,143
Settlement and clearing service income from other futures firms	12,798	11,355
Investment consultancy service	24	13
Asset management service	–	15
	<b>236,421</b>	160,148
<b>Commission and fee expense</b>		
Trading and clearing fees to exchange-clearing organizations	187,007	116,590
Settlement and clearing service expense to exchange-clearing organizations	12,798	11,355
	<b>199,805</b>	127,945
<b>Net commission and fee income</b>	<b>36,616</b>	32,203

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 4 REVENUE (Continued)

### (2) Net interest income

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
<b>Interest income</b>		
Interest income from deposits with banks	97,876	74,381
Interest income from deposits with exchange-clearing organizations	24,792	21,004
Interest income from financial assets held under resale agreements	813	930
	<b>123,481</b>	96,315
<b>Interest expense</b>		
Interest expense to brokerage clients	35,962	22,506
Interest expense on lease liabilities	995	887
Interest expense on settlement and clearing services to other futures firms	314	438
	<b>37,271</b>	23,831
<b>Net interest income</b>	<b>86,210</b>	72,484

### (3) Net refunds of trading fees

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 5 GAINS/ (LOSSES) ON PHYSICAL COMMODITIES TRADING

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Sales proceeds	674,409	408,758
Costs of purchases	(656,075)	(445,741)
	18,334	(36,983)

## 6 NET INVESTMENT GAINS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Net realized gains/ (losses) of		
– Financial assets at fair value through profit or loss	4,901	–
– Financial liabilities at fair value through profit or loss	–	(23,360)
– Derivative financial instruments	1,686	53,539
Unrealized fair value changes of		
– Financial assets at fair value through profit or loss	7,979	(2,751)
– Financial liabilities at fair value through profit or loss	–	24,305
– Derivative financial instruments	32,708	8,902
– Physical commodities	(1,051)	43
Dividends from financial assets at fair value through profit or loss	5,393	6,861
	51,616	67,539

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 7 OTHER INCOME

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Exchange service income	1,360	627
Other	686	84
	2,046	711

## 8 STAFF COSTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Salaries and bonus	104,219	63,694
Pension	11,681	1,093
Other social securities	9,221	4,999
Labour union charge and employee education charge	3,868	2,444
Other welfares	1,736	154
	130,725	72,384

The increase of staff costs is mainly due to the increase in the staff performance bonuses which is brought by the Group performance improved during the reporting period.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 9 DEPRECIATION AND AMORTIZATION

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	4,007	4,718
Depreciation of property, plant and equipment	3,396	4,144
Amortization of intangible assets	722	610
Amortization of long-term prepaid expenses	638	1,014
	8,763	10,486

## 10 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Marketing and distribution expenses <sup>(1)</sup>	16,813	8,481
Information system maintenance fees	9,623	9,965
Insurance expenses	9,334	45
Office expenses	7,397	6,639
Consulting expenses	6,502	1,483
Property maintenance fee	1,697	1,544
Rentals	1,580	1,317
Professional service expenses	1,575	1,258
Taxes and surcharges	1,412	904
Auditors' remuneration		
– PwC	501	576
– Other auditors	–	371
Futures Investors Protection Fund	330	213
Other expenses	2,504	2,403
	59,268	35,199

(1) The increase of marketing and distribution expenses is mainly due to the increase of the Group's marketing and introduction costs to online promoters.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 11 INCOME TAX EXPENSE

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Current tax	10,074	4,971
Deferred tax	16,490	16,388
	<b>26,564</b>	21,359

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

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

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 and regions. The major reconciliation items are as follows.

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit before income tax	110,838	63,064
Tax calculated at tax rates applicable to profits in the respective area	27,706	16,440
Items deducted for tax purposes but not subtracted to arrive at taxable income	(2,058)	(983)
Tax losses for which no deferred income tax asset was recognized	39	2,240
Reversal of previously recognized deferred income tax assets	-	3,700
Income not subject to tax	(603)	(394)
Items not deductible for tax purposes	1,474	356
Adjustments in respect of prior years	6	-
	<b>26,564</b>	21,359

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 12 DIVIDENDS

A dividend of RMB23,645 thousand in respect of the year ended 31 December 2020 of the Company is declared and provided during the period of six months ended 30 June 2021 (2020: No dividend is declared and provided).

The board of directors do not propose any profit distribution in respect of the six months period ended 30 June 2021.

## 13 EARNINGS PER SHARE

### 13.1 Basic earnings per share

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to shareholders of the Company (in RMB thousands)	84,274	41,766
Weighted average number of ordinary shares in issue (in thousands)	1,001,900	1,001,900
Basic earnings per share (in RMB)	0.08	0.04

### 13.2 Diluted earnings per share

For the six months ended 30 June 2021, there are no potential diluted ordinary shares, so the diluted earnings per share is the same as the basic earnings per share (2020: same)

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 14 PROPERTY, PLANT AND EQUIPMENT

(Unaudited)	Buildings	Motor vehicles	Electronics and other equipment	Total
<b>Cost</b>				
At 1 January 2021	40,073	4,509	46,934	91,516
Additions	-	-	2,607	2,607
Disposals	-	-	(3,026)	(3,026)
At 30 June 2021	40,073	4,509	46,515	91,097
<b>Accumulated depreciation</b>				
At 1 January 2021	(12,779)	(3,465)	(37,027)	(53,271)
Additions	(648)	(208)	(2,540)	(3,396)
Disposals	-	-	3,008	3,008
At 30 June 2021	(13,427)	(3,673)	(36,559)	(53,659)
<b>Carrying amount</b>				
At 30 June 2021	26,646	836	9,956	37,438

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 14 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

All buildings of the Group are located outside Hong Kong.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 15 INVESTMENTS IN ASSOCIATES

Set out below are the associates of the Group as at 30 June 2021 which have share capital consisting solely of ordinary shares held directly by the Group.

Nature of investments in associates as at 30 June 2021:

Name of entity	Place of business/ country of		Principal activities	Measurement method
	incorporation	% of ownership interest		
Shandong Board of Trade Co., Ltd. (formally named as Rizhao Board of Trade Co., Ltd.) (山東大宗商品交易中心有限公司, 曾用名為日照大宗商品交易中心有限公司) ("Shandong BOT") <sup>(1)</sup>	Rizhao, the PRC	29.5%	Commodity trading	Equity
Shanghai Luzheng Fengtong Economic and Trade Co., Ltd. (上海魯証鋒通經貿有限公司) ("Luzheng Fengtong") <sup>(1)(2)</sup>	Shanghai, the PRC	35%	Commodity trading	Equity
Shandong Trading Market Clearing House Co., Ltd. (山東交易市場清算所有限公司) ("Lu Clearing") <sup>(1)</sup>	Jinan, the PRC	34.96%	Registration, settlement and derivatives clearing	Equity

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 15 INVESTMENTS IN ASSOCIATES (Continued)

### (1) Shandong BOT, Luzheng Fengtong and Lu Clearing

The tables below provide summarised financial information for Shandong BOT, Luzheng Fengtong and Lu Clearing. The information disclosed reflects the amounts presented in the financial statements of the three associates instead of the Group's share of those amounts.

	Shandong BOT		Luzheng Fengtong		Lu Clearing	
	30 June	31 December	30 June	31 December	30 June	31 December
	2021	2020	2021	2020	2021	2020
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Current assets	324,219	139,269	54,865	57,569	2,164,470	1,674,552
Non-current assets	37,485	40,962	75	177	6,591	6,615
Total assets	361,704	180,231	54,940	57,746	2,171,061	1,681,167
Current liabilities	314,704	144,652	601	560	2,134,456	1,652,219
Non-current liabilities	671	721	-	-	-	-
Total liabilities	315,375	145,373	601	560	2,134,456	1,652,219
Net assets	46,329	34,858	54,339	57,186	36,605	28,949
Group's share in %	29.5%	29.5%	35.0%	35.0%	34.96%	40.0%
Interest in the associate and carrying value	13,667	10,283	19,019	20,015	16,395	10,937

Reconciliation to carrying amounts	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January	10,283	27,634	20,015	18,619	10,937	11,537
Capital injection	-	-	-	-	5,000	-
Share of profits/ (losses) for the period	3,384	2,210	(996)	(275)	458	(971)
At 30 June	13,667	29,844	19,019	18,344	16,395	10,566
Revenue	199,864	394,387	290	10	6,745	2,338
Profits/ (Losses) for the period	11,471	7,491	(2,847)	(305)	1,156	(2,466)
Total comprehensive income	11,471	7,491	(2,847)	(305)	1,156	(2,466)

(2) On 31 May 2021, the shareholders' meeting of Luzheng Fengtong decides to deregister Luzheng Fengtong and starts to the process of liquidation.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
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## 16 INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiary	Country/place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Interest held	Directly/ Indirectly	Principal activities
Luzheng Capital Management Co., Ltd., originally named as "Luzheng Trading Co., Ltd." (魯証資本管理有限公司, 原名為「魯証經貿有限公司」) ("Luzheng Capital")	Shenzhen, the PRC	24 April 2013	Limited company	RMB750,000,000/ RMB750,000,000	100%	Directly	Commodity trading, derivatives trading
Zhongtai Hui Rong (Hong Kong) Co., Ltd. (中泰匯融(香港)有限公司) ("Zhongtai Hui Rong")	Hong Kong, the PRC	21 November 2013	Limited company	HKD84,449,920.83/ HKD118,820,000	100%	Indirectly	Commodity trading, derivatives trading
Jinova S.A. <sup>(1)</sup>	Geneva, Switzerland	29 August 2018	Limited company	CHF3,000,000/ CHF3,000,000	100%	Indirectly	Derivatives trading
Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司) ("Luzheng Information")	Jinan, the PRC	15 February 2015	Limited company	RMB34,000,000/ RMB50,000,000	100%	Directly	Information technology services, software development
Luzheng International Holding Limited (魯証國際控股有限公司) ("Luzheng International Holding")	Hong Kong, the PRC	16 April 2018	Limited company	HKD20,000,000/ HKD30,000,000	100%	Directly	Investment holding

(1) Jinova S.A is in the process of liquidation. It has no material operations or profit of loss during the six months ended 30 June 2021.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 17 OTHER NON-CURRENT ASSETS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Right-of-use assets <sup>(1)</sup>	22,440	20,012
Leasehold improvement	1,535	1,598
Long-term prepaid expenses	929	949
	<b>24,904</b>	<b>22,559</b>

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

	Buildings	
	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
<b>Cost</b>		
At 1 January	33,009	24,682
Additions	6,435	16,157
Less	(8,854)	(2,882)
At 30 June	<b>30,590</b>	<b>37,957</b>
<b>Accumulated depreciation</b>		
At 1 January	(12,997)	(7,262)
Additions	(4,007)	(4,718)
Less	8,854	390
At 30 June	<b>(8,150)</b>	<b>(11,590)</b>
<b>Carrying amount</b>		
At 30 June	<b>22,440</b>	<b>26,367</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 18 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
At 1 January	856	18,915
Income statement charge	(12)	(12,567)
At 30 June	844	6,348

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
At 1 January	6,242	11
Income statement charge	16,478	3,661
At 30 June	22,720	3,672

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 18 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

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

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

	Deductible tax loss	Interest payable	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Impairment	Accrued expenses	Depreciation and amortization	Total
(Unaudited)							
<b>As at 1 January 2021</b>	-	1,518	7,840	1,025	450	856	11,689
Income statement charge	2,624	1,076	7,556	126	139	(12)	11,509
<b>As at 30 June 2021</b>	<b>2,624</b>	<b>2,594</b>	<b>15,396</b>	<b>1,151</b>	<b>589</b>	<b>844</b>	<b>23,198</b>
(Unaudited)							
<b>As at 1 January 2020</b>	9,556	1,149	11,852	866	-	-	23,423
Income statement charge	(3,561)	108	(5,220)	-	-	352	(8,321)
<b>As at 30 June 2020</b>	<b>5,995</b>	<b>1,257</b>	<b>6,632</b>	<b>866</b>	<b>-</b>	<b>352</b>	<b>15,102</b>

Deferred income tax assets are recognized for tax loss carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 30 June 2021, the unused tax losses incurred by Luzheng International Holding, Zhongtai Hui Rong and Jinova S.A. were not recognized in deferred tax assets as they are not likely to generate sufficient taxable profit in the foreseeable future (31 December 2020: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 18 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

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

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

	Changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments	Changes in fair value of physical commodities	Interest receivable	Others	Total
(Unaudited)					
<b>As at 1 January 2021</b>	12,191	1,657	3,216	11	17,075
Income statement charge	17,683	(263)	10,579	–	27,999
<b>As at 30 June 2021</b>	<b>29,874</b>	<b>1,394</b>	<b>13,795</b>	<b>11</b>	<b>45,074</b>
(Unaudited)					
<b>As at 1 January 2020</b>	293	–	4,215	11	4,519
Income statement charge	2,525	–	5,382	–	7,907
<b>As at 30 June 2020</b>	<b>2,818</b>	<b>1,432</b>	<b>9,597</b>	<b>11</b>	<b>12,426</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 18 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

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

	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
Deferred income tax assets	(22,354)	(8,754)
Deferred income tax liabilities	(22,354)	(8,754)

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

	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
Deferred income tax assets	844	6,348
Deferred income tax liabilities	22,720	3,672

## 19 REFUNDABLE DEPOSITS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Security deposit placed with the China Financial Futures Exchange	26,416	20,116
Security deposit placed with the China Securities Depository and Clearing	11,317	11,230
	37,733	31,346

## Notes to the Interim Condensed Financial Information

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### 20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
<b>Non-current</b>		
Private securities investment funds	102,451	49,693
Income certificates	51,068	101,014
Asset management schemes <sup>(1)</sup>	20,025	–
Trust scheme	12,914	12,914
	<b>186,458</b>	163,621
<b>Current</b>		
Income certificates	165,939	113,346
Private securities investment funds	135,495	60,434
Asset management schemes <sup>(1)</sup>	119,139	115,636
Bank wealth management products	20,977	40,831
Mutual funds	9,999	–
Listed equity securities	10	7
Trust schemes	–	45,892
	<b>451,559</b>	376,146
	<b>638,017</b>	539,767

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 21 PHYSICAL COMMODITIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Carrying amount	183,571	107,906
Change in fair value	5,576	6,627
	189,147	114,533

As at 30 June 2021, trading commodities with carrying amount of RMB65,528 thousand are placed as collateral of margin deposits on futures exchanges (31 December 2020: RMB3,159 thousand).

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

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its physical commodities into the three levels prescribed under IFRS 13. An explanation of each level is provided in Note 40.

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

(Unaudited) As at 30 June 2021	Level 1	Level 2	Level 3	Total
Physical commodities	–	189,174	–	189,174

  

(Audited) As at 31 December 2020	Level 1	Level 2	Level 3	Total
Physical commodities	–	114,533	–	114,533

There are no transfers between any level during the period.

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

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
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## 22 OTHER CURRENT ASSETS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Prepayments	109,227	25,891
Accounts receivable <sup>(1)</sup>	61,739	48,047
Deposit for derivatives trading	15,249	27,687
Other receivables	27,856	20,798
	<b>214,071</b>	<b>122,423</b>

### (1) ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Amount	Impairment allowance	Amount	Impairment allowance
Less than 3 months	47,814	(207)	42,126	(433)
3 months to 1 year	8,019	(276)	5,465	(195)
Over 1 year	7,969	(1,580)	2,519	(1,435)
	<b>63,802</b>	<b>(2,063)</b>	<b>50,110</b>	<b>(2,063)</b>

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 23 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount	30 June 2021	
		(Unaudited) Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options	526,456	104	31,049
<b>Current</b>			
OTC options	12,326,598	160,602	70,020
Exchange traded options	11,994,899	22,801	36,768
Futures contracts <sup>(1)</sup>	7,056,992	–	–
Forward contracts	985,860	7,756	8,140
	32,364,349	191,159	114,928
	32,890,805	191,263	145,977
	Notional amount	31 December 2020	
		(Audited) Fair value	
		Assets	Liabilities
<b>Non-current</b>			
OTC options <sup>(1)</sup>	102,000	–	1,913
<b>Current</b>			
OTC options	11,658,641	76,286	75,862
Exchange traded options	1,166,341	10,955	30,820
Futures contracts <sup>(1)</sup>	3,981,594	–	–
Forward contracts	344,110	3,050	2,478
	17,150,686	90,291	109,160
	17,252,686	90,291	111,073

## Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
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### 23 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(1) FUTURES CONTRACTS

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
Commodities futures	6,688,832	(10,925)	3,981,594	(7,874)
Financial futures	368,160	12,641	-	-
Less: Cash (received)/ paid as settlement		(1,716)		7,874
Net position		-		-

The Group settles its gains or losses from its open futures position on a daily basis, with the corresponding receipts and payments included in “deposits with exchange-clearing organizations”.

### 24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Analysed by asset type:		
– Warehouse receipts <sup>(1)</sup>	11,745	82,463
– Debt securities	-	222,575
	11,745	305,038

(1) The Group receives warehouse receipts as collateral which can be re-pledged. As at 30 June 2021, the Group has accepted collateral with a fair value of RMB12,940 thousand (31 December 2020: RMB135,280 thousand).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

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## 25 DEPOSITS WITH EXCHANGE-CLEARING ORGANIZATIONS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Clients' deposits		
– Clients' margin deposits	5,133,132	4,440,011
– Clients' unrestricted deposits	1,313,788	1,335,027
Proprietary clearing settlement funds	288,821	421,114
	6,735,741	6,196,152
<b>Represented by</b>		
Deposits with Dalian Commodity Exchange	1,649,144	1,852,382
Deposits with Shanghai Futures Exchange	1,628,378	1,295,054
Deposits with Zhengzhou Commodity Exchange	1,014,339	705,514
Deposits with China Financial Futures Exchange	1,584,420	1,630,254
Deposits with China Securities Depository and Clearing	584,761	497,085
Deposits with Shanghai International Energy Exchange	274,699	215,863
	6,735,741	6,196,152

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
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## 26 BANK BALANCES HELD FOR CLIENTS

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

## 27 CASH AND BANK BALANCES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Cash	23	25
Term deposit with banks	581,354	280,362
Demand deposit with banks	340,005	394,770
Deposit with securities and futures brokers	25,940	9,896
Less:		
Credit impairment allowance	(604)	(100)
	<b>946,718</b>	684,953

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

As at 30 June 2021, there are no term deposits with banks with restricted use (31 December 2020: Nil).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

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## 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 2021 (Unaudited)	31 December 2020 (Audited)
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900
Share capital		
Domestic shares	724,810	724,810
H shares	277,090	277,090
	<b>1,001,900</b>	1,001,900

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
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## 29 SHARE PREMIUM AND OTHER RESERVES

	Other reserves				Total
	Share premium	Surplus reserve	Other risk reserves <sup>(1)</sup>	Currency translation differences	
(Unaudited)					
<b>As at 1 January 2021</b>	<b>650,630</b>	<b>69,573</b>	<b>211,452</b>	<b>1,428</b>	<b>933,083</b>
Appropriation to futures risk reserve	–	–	8,233	–	8,233
Currency translation differences	–	–	–	(242)	(242)
<b>As at 30 June 2021</b>	<b>650,630</b>	<b>69,573</b>	<b>219,685</b>	<b>1,186</b>	<b>941,074</b>
(Unaudited)					
<b>As at 1 January 2020</b>	650,630	62,749	193,219	3,069	909,667
Appropriation to futures risk reserve	–	–	3,930	–	3,930
Currency translation differences	–	–	–	769	769
<b>As at 30 June 2020</b>	650,630	62,749	197,149	3,838	914,366

### (1) OTHER RISK RESERVES

In accordance with the requirements of the Notice of the MOF on Issuing the Tentative Provisions for the Financial Management of Commodities Futures Trading (Caishang [1997] No. 44) issued on 3 March 1997, the futures risk reserve is appropriated based on 5% of the commission and fee income from futures brokerage and clearing service net of relevant expenses payable to futures exchanges, for the purpose of covering potential losses in the future. When actual losses occur, the loss amount is charged to the current profit or loss, with the same amount being transferred from futures risk reserve to retained earnings simultaneously. Appropriation for futures risk reserve is recorded as profit distribution, whilst the utilization of futures risk reserve is recorded as the reversal of the reserve.

# Notes to the Interim Condensed Financial Information

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## 30 OTHER NON-CURRENT LIABILITIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Lease liabilities	15,470	19,824
Other non-current liabilities	10,998	8,791
	26,468	28,615

## 31 OTHER CURRENT LIABILITIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Payable to counterparties of OTC derivatives	529,921	189,503
Salaries, bonus, allowance and benefits payables	90,105	83,444
Dividends payables to shareholders	23,645	–
Lease liabilities	7,821	253
Payable to Futures Investors Protection Fund	371	539
Other payables	76,284	38,853
	728,147	312,592

## 32 PROVISIONS

The Group acted as the asset manager of five asset management schemes which were established between November 2017 and May 2018 and all distributed by a joint stock commercial bank. These schemes incurred certain losses and subsequently commenced their liquidation process in December 2018. Since 2019, the Group received a number of complaints from investors of the schemes, alleging the Group's non-compliance and misconducts as asset manager. Based on the information and evidence available and present, the Group disclaims any significant misconduct of its duties as asset manager.

To properly cope with above issue, the Group is working with the distributor to negotiate with these investors holding the schemes at liquidation commencement date and made a provision of RMB29,219 thousand as at 31 December 2020. By 30 June 2021 the Group has reached agreement with some investors, and paid RMB15,451 thousand accordingly. The remaining balance of RMB13,768 thousand represents the best estimate of the Group's exposure to the investors who have not reached the agreement. The Group also believes the possibility of outflow of resources to other parties involved is very low.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 32 PROVISIONS (Continued)

The Group is taking active actions as asset manager including arbitrations and legal actions to further reduce losses.

The movement of provisions during the period is as follows.

	Six months ended 30 June 2021
As at 31 December 2020	29,219
Paid during the period	(15,451)
As as at 30 June 2021	13,768

## 33 CONTRACT LIABILITIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Advance for physical commodity trading	50,776	20,446

## 34 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at exchange-clearing organizations by the Company. Most of these balances are non-interest bearing.

The majority of the accounts payable balances are repayable on demand except for certain balances relating to margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral are repayable on demand.

# Notes to the Interim Condensed Financial Information

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## 35 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 2021 (Unaudited)	31 December 2020 (Audited)
Cash and bank balances (Note 27)	946,718	684,953
Proprietary clearing settlement funds (Note 25)	288,821	421,114
Less:		
Term deposits with original maturity over three months	(281,330)	(280,362)
Minimum clearing settlement funds required by exchange-clearing organizations	(14,000)	(14,000)
Add:		
Credit impairment allowance	604	100
	940,813	811,805

## 36 COMMITMENTS AND CONTINGENT LIABILITIES

### (1) Contingencies

By 30 June 2021, 2 investors of five asset management schemes described in Note 32 submit demands for arbitrations to Jinan Arbitration Commission claiming RMB1.68 million against the Group; By the date of issuance of these financial statements, an investor submits demand for arbitration claiming RMB1.15 million against the Group. In addition, by 30 June 2021, the remaining investors under negotiation suffer a total loss of RMB362 million; By the date of issuance of these financial statements, the remaining investors still under negotiation suffer a total loss of RMB348 million. There are no other material contingencies involved by the Group.

# Notes to the Interim Condensed Financial Information

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## 37 RELATED PARTY TRANSACTIONS

### 37.1 Related parties

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

The below table lists the Group's significant related legal entities and the holdings of the Group's major shareholders as at 30 June 2021:

Significant related legal entities	The relationship with the Group
Zhongtai Securities Co., Ltd. ("Zhongtai Securities")	The controlling shareholder of the Company
Zhongtai Securities (Shanghai) Asset Management Co., Ltd. ("Zhongtai Asset Management")	Controlled by the controlling shareholder of the Company
Qilu Zhongtai Property Co., Ltd. ("Qilu Zhongtai Property")	Controlled by the controlling shareholder of the Company
Shandong Yongtong Industrial Co., Ltd. ("Shandong Yongtong")	Controlled by the controlling shareholder of the Company
Zhongtai International Securities Co., Ltd. ("Zhongtai International Securities")	Controlled by the controlling shareholder of the Company
Laiwu Steel Group Co., Ltd. ("Laiwu Steel")	The controlling shareholder of Zhongtai Securities
Shandong Laigang Yongfeng Steel Co., Ltd. ("Laigang Yongfeng")	Associate invested by Laiwu Steel
Shandong Steel Group Co., Ltd. ("Shandong Steel Group")	The ultimate controlling shareholder of Zhongtai Securities
Yongfeng Group Co., Ltd. ("Yongfeng Group")	The shareholder of the Company
Shandong Yongfeng International Trade Co., Ltd. ("Yongfeng Trade")	Controlled by Yongfeng Group
Laiwu Iron and Steel Group Lunan Mining Co., Ltd. ("Lunan Mining")	Controlled by Laiwu Steel
Laishang Bank Co., Ltd. ("Laishang Bank")	Associate invested by Laiwu Steel
Laiwu Iron and Steel Group Xintai Copper Co., Ltd. ("Xintai Copper")	Associate invested by Laiwu Steel
Shandong Steel Co., Ltd. ("Shandong Steel")	Controlled by Shandong Steel Group
Shandong Steel Group Rizhao Co., Ltd. ("Shandong Steel Rizhao")	Controlled by Shandong Steel Group
Lu Clearing	Associate invested by the Group
Shandong BOT	Associate invested by the Group
Luzheng Fengtong	Associate invested by the Group

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 37 RELATED PARTY TRANSACTIONS (Continued)

### 37.2 Related party transactions and balances

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

##### Transactions during the period

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Commission income from futures brokerage service	1,130	2,557
Introducing broker commission expense <sup>(1)</sup>	6,301	4,625
Rental expense	50	50
Interest expense	1,445	–
Depreciation of right-of-use assets	24	–
Investment losses from OTC derivatives	(12,952)	–

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

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Derivative financial assets	868	3,554
Right-of-use asset	833	–
Deposit with securities brokers	36	106
Accounts payable to brokerage clients	468,234	498,852
Derivative financial liabilities	15,260	685
Dividends payable	14,919	–
Other current liabilities		
– Introducing broker commission payable	7,939	10,922
– Other payables	43	43
Lease Liabilities	839	–

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 37 RELATED PARTY TRANSACTIONS (Continued)

### 37.2 Related party transactions and balances (Continued)

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

##### *Transactions during the period*

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Commission income from futures brokerage service	70	358
Interest income from bank deposit		
– Laishang Bank	4,816	5,920
Interest expense		
– Laigang Yongfeng	–	43
Purchase of asset management schemes managed by Zhongtai Asset Management	17,000	21,500
Purchase of mutual fund managed by Zhongtai Asset Management	10,000	–
Rental expense		
– Qilu Zhongtai Property	145	204
Rental income		
– Lu Clearing	254	142
Investment income from OTC derivatives		
– Yongfeng Trade	1,649	36
– Luzheng Fengtong	–	480

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 37 RELATED PARTY TRANSACTIONS (Continued)

### 37.2 Related party transactions and balances (Continued)

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

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Accounts payable to brokerage clients	41,081	15,036
Cash and bank balance		
– Laishang Bank	581,863	282,997
Asset management schemes managed by Zhongtai Asset Management	108,865	66,953
Right-of-use asset	338	–
Lease Liability	336	–
Other current assets		
– Laigang Yongfeng	21,214	949
– Shandong Steel	6,370	–
– Qilu Zhongtai Property	3	88
– Lu Clearing	–	254
Other current liabilities		
– Zhongtai Asset Management	–	45

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 37 RELATED PARTY TRANSACTIONS (Continued)

### 37.2 Related party transactions and balances (Continued)

#### 37.2.3 Key management personnel

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Key management compensation	4,369	3,896

There is no loan or advance to key management for the six months ended 30 June 2021 and 2020.

## 38 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 futures and options brokering service;
- (b) Commodity trading and risk management: including physical commodities trading, futures trading and OTC derivatives trading;
- (c) Futures asset management: including portfolio management and maintenance, investment advisory and transaction execution services;
- (d) Treasury and others: including treasury operations and investment income, interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there are no changes in the basis during the six months ended 30 June 2021 and 2020.

Expenses for each segment mainly contains depreciation cost allocated based on the area of the office, actual expense of salaries, bonus, and other relevant staff cost which is directly related.

The Group mainly operates in Shandong Province, the PRC.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 38 SEGMENT ANALYSIS (Continued)

(Unaudited)	Six months ended 30 June 2021					Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others	Elimination	
Revenue						
– external	240,430	5,712	–	6,057	–	252,199
– internal	(313)	–	–	–	313	–
Losses on physical commodities trading						
– external	–	18,334	–	–	–	18,334
Net investment gains						
– external	–	33,343	–	18,273	–	51,616
– internal	–	249	–	–	(249)	–
Other income						
– external	–	514	–	(2,654)	–	(2,140)
– internal	–	–	–	4,586	(399)	4,187
<b>Total operating income</b>	<b>240,117</b>	<b>58,152</b>	<b>–</b>	<b>26,261</b>	<b>(335)</b>	<b>324,195</b>
<b>Total operating expenses</b>	<b>(124,143)</b>	<b>(39,446)</b>	<b>(534)</b>	<b>(52,430)</b>	<b>412</b>	<b>(216,645)</b>
– external	124,143	39,446	534	50,034	–	214,662
– internal	–	–	–	2,396	(412)	1,984
Share of gains of investments in associates	–	2,388	–	458	–	2,846
Other gains, net	–	105	–	337	–	442
<b>Profit/ (Loss) before income tax</b>	<b>115,470</b>	<b>21,199</b>	<b>(534)</b>	<b>(25,374)</b>	<b>77</b>	<b>110,838</b>
<b>Total assets</b>	<b>13,165,563</b>	<b>1,536,946</b>	<b>23</b>	<b>2,117,238</b>	<b>(1,404,011)</b>	<b>15,415,759</b>
<b>Total liabilities</b>	<b>(12,808,518)</b>	<b>(793,585)</b>	<b>(13,844)</b>	<b>(110,897)</b>	<b>610,865</b>	<b>(13,115,979)</b>
<b>Supplemental information</b>						
Depreciation and amortization	4,674	2,135	8	2,281	(335)	8,763
Impairment (provision)/reversal	–	–	–	–	–	504
Capital expenditure	7,201	168	–	2,707	–	10,076

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 38 SEGMENT ANALYSIS (Continued)

(Unaudited)	Six months ended 30 June 2020					Elimination	Total
	Futures brokerage	Commodity trading and risk management	Futures asset management	Treasury and others			
Revenue							
– external	149,548	2,071	15	6,391	–		158,025
– internal	(7,133)	–	–	–	7,133		–
Losses on physical commodities trading							
– external	–	(36,983)	–	–	–		(36,983)
Net investment gains							
– external	–	62,485	–	5,054	–		67,539
– internal	–	7,133	–	–	(7,133)		–
Other income							
– external	–	152	–	559	–		711
– internal	–	–	–	431	(431)		–
<b>Total operating income</b>	142,415	34,858	15	12,435	(431)		189,292
<b>Total operating expenses</b>	(56,238)	(22,111)	(1,360)	(48,734)	257		(128,186)
– external	(56,238)	(22,111)	(1,360)	(48,477)	–		(128,186)
– internal	–	–	–	(257)	257		–
Share of gains/(losses) of investments							
in associates	–	1,935	–	(971)	–		964
Other gains, net	–	191	–	803	–		994
<b>Profit/ (Loss) before income tax</b>	86,177	14,873	(1,345)	(36,467)	(174)		63,064
<b>Total assets</b>	9,028,441	956,604	2,395	1,950,211	(1,224,253)		10,713,398
<b>Total liabilities</b>	(8,690,424)	(193,564)	(240)	(27,995)	425,561		(8,486,662)
<b>Supplemental information</b>							
Depreciation and amortization	3,157	1,498	25	6,063	(257)		10,486
Capital expenditure	6,205	13,347	–	616	–		20,168

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 39 FINANCIAL RISK MANAGEMENT

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

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

The interim condensed consolidated financial information do not include financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020.

There have been no changes in the risk management policies and structures since 31 December 2020.

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021  
(All amounts in RMB'000 unless otherwise stated)

## 40 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.

### 40.1 Financial instruments not measured at fair value

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

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

### 40.2 Financial instruments measured at fair value

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

- Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level III – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 40.2 Financial instruments measured at fair value (Continued)

The following table presents the Group's financial assets and financial liabilities measured and recognized at fair value at 30 June 2021 and 31 December 2020:

(Unaudited)	Level 1	Level 2	Level 3	Total
<b>As at 30 June 2021</b>				
Financial assets at fair value through profit or loss				
– Asset management schemes	–	139,164	–	139,164
– Trust schemes	–	–	12,914	12,914
– Private securities investment funds	–	237,946	–	237,946
– Listed equity securities	10	–	–	10
– Mutual funds	9,999	–	–	9,999
– Bank wealth management products	–	–	20,977	20,977
– Income certificates	–	–	217,007	217,007
Financial assets at fair value through other comprehensive income	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	160,706	–	160,706
– Exchange traded options	22,801	–	–	22,801
– Forward contracts	–	7,756	–	7,756
	32,810	545,572	252,298	830,680
Derivative financial liabilities				
– OTC options	–	101,069	–	101,069
– Exchange traded options	36,768	–	–	36,768
– Forward contracts	–	8,140	–	8,140
	36,768	109,209	–	145,977

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 40.2 Financial instruments measured at fair value (Continued)

(Audited)	Level 1	Level 2	Level 3	Total
As at 31 December 2020				
Financial assets at fair value				
through profit or loss				
– Asset management schemes	–	115,636	–	115,636
– Trust schemes	–	45,892	12,914	58,806
– Private securities investment funds	–	110,127	–	110,127
– Listed equity securities	7	–	–	7
– Bank wealth management products	–	–	40,831	40,831
– Income certificates	–	–	214,360	214,360
Financial assets at fair value through other comprehensive income				
	–	–	1,400	1,400
Derivative financial assets				
– OTC options	–	76,286	–	76,286
– Exchange Traded options	10,955	–	–	10,955
– Forward contracts	–	3,050	–	3,050
	10,962	350,991	269,505	631,458
Derivative financial liabilities				
– OTC options	–	(77,775)	–	(77,775)
– Exchange Traded options	(30,820)	–	–	(30,820)
– Forward contracts	–	(2,478)	–	(2,478)
	(30,820)	(80,253)	–	(111,073)

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 40.2 Financial instruments measured at fair value (Continued)

#### (1) 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.

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

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

As at 30 June 2021, asset management schemes, trust schemes and private securities investment funds classified as level 2 in fair value hierarchy, are issued and managed by Zhongtai Asset Management, non-related financial institutions, as well as unregulated private fund managers. Underlying investments of these SEs are mainly in exchange traded securities and derivatives in the PRC. Fair value of these investments are determined based on their net asset values as at the reporting date, which are calculated by their respective managers based on the fair value of the underlying investments in each portfolio. They are mainly exposed to price risk.

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

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

For the six months ended 30 June 2021, there are no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group (2020: same).

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 40.2 Financial instruments measured at fair value (Continued)

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

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

As at 30 June 2021, trust schemes, bank wealth management schemes and income certificates that are classified as level 3 in fair value hierarchy are issued by financial institutions. Such schemes typically generate an expected rate of return to their investors, achieved through investment income from underlying instruments and possibly a structuring design within the schemes where principal and return of senior tranche is guaranteed by junior tranche investors. The discounted cash flow model is used to determine the fair value of those schemes, where the expected future cash flows are discounted at rates that reflect management's best estimation of the expected risk level. They are mainly exposed to credit risk and market risk.

The following table presents the changes in level 3 instruments for the period/year ended 30 June 2021 and 31 December 2020.

(Unaudited)	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
Balance at 1 January 2021	1,400	268,105	-
Transfer from level 2	-	-	-
Acquisition	-	30,000	-
Disposal	-	(53,635)	-
Unrealized gains recognized in net investment gains	-	6,428	-
Balance at 30 June 2021	1,400	250,898	-
Including: unrealized gains recognized in profit or loss attributable to balances held at end of period	-	6,428	-

# Notes to the Interim Condensed Financial Information

For the six months ended 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

## 40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 40.2 Financial instruments measured at fair value (Continued)

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

(Audited)	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
Balance at 1 January 2020	1,400	76,669	(24,305)
Acquisition	-	264,425	-
Disposal	-	(76,669)	-
Unrealized gains recognized in net investment gains	-	3,680	24,305
Balance at 31 December 2020	1,400	268,105	-
Including: unrealized gains recognized in profit or loss attributable to balances held at end of year	-	3,680	-

Financial instruments	Fair value at 30 June 2020	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – trust schemes, bank wealth management products, income certificates	250,898	Expected rate of return	3.35%-4.20%	The higher the expected rate of return, the higher the fair value
		Expected recovery date	29 June 2021-12 December 2022	The earlier the recovery date, the higher the fair value
		Discount rates that correspond to the expected risk level	3.2%-6.28%	The lower the discount rate, the higher the fair value

## Notes to the Interim Condensed Financial Information

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(All amounts in RMB'000 unless otherwise stated)

### 41 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

(Unaudited)	As at 30 June 2021				Net amounts of financial assets/ (liabilities) presented in the statement of financial position
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	
Derivative financial instruments	12,641	(10,925)	1,716	(1,716)	-

(Audited)	As at 31 December 2020				Net amounts of financial assets/ (liabilities) presented in the statement of financial position
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities	Net amounts of financial assets	Cash paid as settlement	
Derivative financial instruments	-	(7,874)	(7,874)	7,874	-

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

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

# Notes to the Interim Condensed Financial Information

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(All amounts in RMB'000 unless otherwise stated)

## 42 UNCONSOLIDATED STRUCTURED ENTITIES (“SEs”)

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

As at 30 June 2021, the interests in unconsolidated structured entities held by the Group included investment recognized as financial assets at fair value through profit or loss (31 December 2020: same). The related carrying amount and the maximum exposure are as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Financial assets at fair value through profit or loss	421,000	325,400

For the six months ended 30 June 2021, the income from these unconsolidated SEs held by the Group is as follows:

	Six months ended 30 June 2021 (Unaudited)	2020 (Unaudited)
Net investment gains	18,038	3,717

As at 30 June 2021, the Group provided no financial support to these unconsolidated SEs, and there was no plan of providing financial support by the Group to these unconsolidated SEs (2020: same).

# Definitions

“Audit Committee”	the audit committee of the Board of Directors
“Board of Directors” or “Board”	the board of directors of the Company
“China”, “PRC” or “Country” or “Mainland China”	the People’s Republic of China which, for the purposes of this report, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Company”	LUZHENG FUTURES Company Limited (魯証期貨股份有限公司), a company reorganized in the PRC on 10 December 2012 with limited liability (previously known as Shandong Quanxin Futures Brokerage Co., Ltd. (山東泉鑫期貨經紀有限公司), renamed as Luzheng Futures Brokerage Co., Ltd. (魯証期貨經紀有限公司), and then renamed as LUZHENG FUTURES CORPORATION LIMITED (魯証期貨有限公司)), and its H Shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01461)
“Corporate Governance Code”	Corporate Governance Code in Appendix 14 to the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the issued ordinary Shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed in Renminbi and credited as fully paid
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign ordinary Share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzheng Capital”	Luzheng Capital Management Co., Ltd. (魯証資本管理有限公司), previously know as Luzheng Trading Co., Ltd. (魯証經貿有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 24 April 2013

## Definitions

“Luzheng Information Technology”	Luzheng Information Technology Co., Ltd. (魯証信息技術有限公司), the Company’s wholly-owned subsidiary established in the PRC with limited liability on 15 February 2015
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules
“Reporting Period”	the period for the six months ended 30 June 2021
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, comprising the Domestic Shares and the H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company