

CFHL

Capital Finance Holdings Limited

首都金融控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8239)

Interim Report

2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (the “**Directors**”) of Capital Finance Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this report misleading.*

The board of directors (the “**Board**”) of Capital Finance Holdings Limited (the “**Company**”) is pleased to report the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three (the “**Quarterly Period**”) and six (the “**Interim Period**”) months ended 30 June 2017 together with the comparative figures in 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

	Note	Three months ended 30 June		Six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Continuing operation					
Revenue	4	18,148	32,841	34,349	70,622
Other income, and other gains and losses, net	4	1,275	1,093	2,918	3,539
Administrative and other expenses		(7,978)	(10,990)	(17,852)	(24,206)
Loss on early redemption of promissory notes	18(b)	—	—	—	(249)
Fair value gain on contingent consideration – consideration shares	20	—	—	—	1,141
(Provision for) Reversal of impairment on loans to customers	14(a)	(921)	(304)	(1,341)	410
Finance costs	5	(10,905)	(10,719)	(21,572)	(21,274)
(Loss) Profit before income tax from continuing operation	6	(381)	11,921	(3,498)	29,983
Income tax expense	7	(2,301)	(4,597)	(4,198)	(9,344)

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30 June 2017

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
(Loss) Profit for the period from continuing operation		(2,682)	7,324	(7,696)	20,639
Discontinued operation					
Profit for the period from discontinued operation	9	—	—	—	1,654
(Loss) Profit for the period		(2,682)	7,324	(7,696)	22,293
Attributable to:					
Owners of the Company		(3,107)	6,700	(8,821)	20,920
Non-controlling interests		425	624	1,125	1,373
		(2,682)	7,324	(7,696)	22,293
(Loss) Earnings per share attributable to owners of the Company	10				
From continuing and discontinued operations					
– Basic (Hong Kong cents)		(0.24)	0.57	(0.68)	1.79
– Diluted (Hong Kong cents)		(0.24)	0.57	(0.68)	1.40
From continuing operation					
– Basic (Hong Kong cents)		(0.24)	0.57	(0.68)	1.65
– Diluted (Hong Kong cents)		(0.24)	0.57	(0.68)	1.34

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) Profit for the period	(2,682)	7,324	(7,696)	22,293
Other comprehensive income (losses) for the period				
<i>Item that will be reclassified to profit or loss:</i>				
– Reclassification adjustment of exchange reserves on disposal of interests in foreign operations	—	—	—	3,654
– Exchange differences on translation of financial statements of foreign operations	11,298	(23,019)	16,355	(16,917)
Total other comprehensive income (losses) for the period, net of tax	11,298	(23,019)	16,355	(13,263)
Total comprehensive income (losses) for the period	8,616	(15,695)	8,659	9,030
Attributable to:				
Owners of the Company	7,844	(15,865)	7,035	7,994
Non-controlling interests	772	170	1,624	1,036
	8,616	(15,695)	8,659	9,030

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	1,690	1,763
Intangible assets	12	—	—
Goodwill	13	—	—
Available-for-sale financial assets		8,061	7,815
Deferred tax assets		3,264	2,833
Total non-current assets		13,015	12,411
Current assets			
Loans to customers	14	463,464	376,056
Trade receivables	15	173	167
Prepayments, deposits and other receivables	16	27,310	6,019
Tax recoverable		9	—
Cash and cash equivalents		61,792	154,012
Total current assets		552,748	536,254
Current liabilities			
Accrued expenses, other payables and deposits received		13,517	15,087
Amount due to a shareholder	17	2,000	—
Tax payable		1,955	2,085
Interest-bearing borrowings		—	11,834
Total current liabilities		17,472	29,006
Net current assets		535,276	507,248
Total assets less current liabilities		548,291	519,659
Non-current liabilities			
Promissory notes	18	19,047	19,779
Convertible bonds – liability component	19	505,502	518,324
Total non-current liabilities		524,549	538,103
Net assets (liabilities)		23,742	(18,444)
Capital and reserves			
Issued capital	21	13,012	11,812
Reserves		(6,073)	(45,435)
Equity attributable to owners of the Company		6,939	(33,623)
Non-controlling interests		16,803	15,179
Total equity (capital deficiency)		23,742	(18,444)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Reserves							Equity attributable to owners of the Company	Non-controlling interests	Total	
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Convertible bonds reserve	Statutory reserve				Accumulated losses
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
At 1 January 2017 (Audited)	11,812	543,717	131,109	120,794	(87,640)	754,090	16,784	(1,524,289)	(33,623)	15,179	(18,444)
Loss for the period	—	—	—	—	—	—	—	(8,821)	(8,821)	1,125	(7,696)
Other comprehensive income											
Item that will be reclassified to profit or loss											
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	15,856	—	—	—	15,856	499	16,355
Total other comprehensive income for the period	—	—	—	—	15,856	—	—	—	15,856	499	16,355
Total comprehensive income for the period	—	—	—	—	15,856	—	—	(8,821)	7,035	1,624	8,659
Transactions with owners											
Conversion of convertible bonds (Note 21 (iii))	1,200	73,111	—	—	—	(40,784)	—	—	33,527	—	33,527
Total transactions with owners	1,200	73,111	—	—	—	(40,784)	—	—	33,527	—	33,527
At 30 June 2017 (Unaudited)	13,012	616,828	131,109	120,794	(71,784)	713,306	16,784	(1,533,110)	6,939	16,803	23,742

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2016

	Reserves									Equity attributable to owners of the Company	Non-controlling interests	Total
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Convertible bonds reserve	Other reserve	Statutory reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016 (Audited)	11,547	534,438	131,109	120,794	(40,837)	754,090	9,544	13,936	(1,267,035)	267,586	15,335	282,921
Profit for the period	—	—	—	—	—	—	—	—	20,920	20,920	1,373	22,293
Other comprehensive loss												
Item that will be reclassified to profit or loss												
Reclassification adjustment of exchange reserve on disposal of interests in foreign operations	—	—	—	—	3,654	—	—	—	—	3,654	—	3,654
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	(16,580)	—	—	—	—	(16,580)	(337)	(16,917)
Total other comprehensive loss for the period	—	—	—	—	(12,926)	—	—	—	—	(12,926)	(337)	(13,263)
Total comprehensive income for the period	—	—	—	—	(12,926)	—	—	—	20,920	7,994	1,036	9,030
Transactions with owners												
Issue of new shares upon fulfillment of guaranteed profit (Note 21 (i))	265	9,279	—	—	—	—	(9,544)	—	—	—	—	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,778)	(1,778)
Total transactions with owners	265	9,279	—	—	—	—	(9,544)	—	—	—	(1,778)	(1,778)
At 30 June 2016 (Unaudited)	11,812	543,717	131,109	120,794	(53,763)	754,090	—	13,936	(1,246,115)	275,580	14,593	290,173

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
OPERATING ACTIVITIES			
Cash used in operations		(79,198)	(60,453)
Interest received		453	395
Income taxes paid		(4,762)	(9,449)
Interest paid		(75)	(440)
Net cash used in operating activities		(83,582)	(69,947)
INVESTING ACTIVITIES			
Proceeds from disposal of the Auto-serve Group, net of cash disposed of	22	—	20,992
Purchases of property, plant and equipment	11	(515)	(545)
Net cash (used in) from investing activities		(515)	20,447
FINANCING ACTIVITIES			
Proceeds from interest-bearing borrowings		2,261	14,010
Repayments of interest-bearing borrowings		(14,244)	(6,305)
Advance from a shareholder		2,000	—
Repayment of principal of promissory notes		—	(15,000)
Dividends paid to non-controlling interests		—	(1,778)
Net cash used in financing activities		(9,983)	(9,073)
Net decrease in cash and cash equivalents		(94,080)	(58,573)
Cash and cash equivalents at beginning of the period		154,012	119,091
Effect of foreign exchange rate changes, net		1,860	(1,867)
Cash and cash equivalents at end of the period		61,792	58,651
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		61,792	58,651

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Capital Finance Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and continues as an exempted company with limited liability in accordance with the Bermuda Companies Act 1981 upon the change of domicile of the Company from the Cayman Islands to Bermuda becoming effective on 30 November 2009, and its shares are listed on The Growth Enterprise Market (the “**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business has been changed from Suites 3509-10, 35/F., Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong to Unit 2613A, 26/F., Miramar Tower, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong with effect from 13 February 2017.

During the Interim Period, the Company is principally engaged in investment holding. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the provision of short-term financing services in the People’s Republic of China (the “**PRC**”) and Hong Kong (“**Short-term Financing Services**”), further details of which are set out in Note 3. The Group was also engaged in business of development and sales of enterprises software and provision of software maintenance and support services for financial sectors in the PRC (“**Development and Sales of Software**”) which was discontinued on 31 March 2016, further details of which are set out in Note 3 and Note 9.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 *Basis of Preparation*

The unaudited condensed consolidated interim financial statements of the Group for the three and six months ended 30 June 2017 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules.

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

The Interim Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2016, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual HKFRSs, HKASs and Interpretation issued by HKICPA. They shall be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2016 (the “Annual Report”).

2.2 Principal Accounting Policies

The Interim Financial Statements have been prepared on the historical cost basis, except for contingent consideration which has been measured at fair value.

The accounting policies and methods of computation applied in the preparation of the Interim Financial Statements are consistent with those applied in preparing the Annual Report.

The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effect on the results and financial position of the Group for the current and prior accounting periods.

At the date of authorisation of the Interim Financial Statements, the Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective.

HKAS 28 (2011) and HKFRS 10 Amendments	Sale or Contribution of Assets between an investor and its Associate or Joint Venture ⁴
HKAS 40 Amendments	Transfers of Investment Property ¹
HKFRS 2 Amendments	Classification and Measurement of Share-based Payment Transactions ¹
HKFRS 4 Amendments	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
HKFRS 9 (2014)	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HK (IFRIC) — Interpretation 22	Foreign Currency Transactions and Advance Consideration ¹
HKFRS 16	Leases ²
HK (IFRIC) — Interpretation 23	Uncertainty over Income Tax Treatments ²
Annual Improvements to HKFRSs 2014-2016 Cycle ³	

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2018 except for HKFRS 12 Amendments which are effective for annual periods beginning on or after 1 January 2017

⁴ No mandatory effective date is determined yet but early application is permitted

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 *Principal Accounting Policies (Continued)*

The directors of the Company (the “**Directors**”) have already commenced an assessment of the impact of these new and revised HKFRSs but are not yet in a position to reasonably estimate whether these new and revised HKFRSs would have a significant impact on the Group’s results of operations and financial position.

3. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers to evaluate the performance of the operating segments and to allocate resources to those segments.

The Group’s operating segments are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group’s operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) The short-term financing services segment comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business in the PRC and Hong Kong; and
- (b) Development and sales of software segment comprised development and sales of enterprise software and provision of software maintenance and support services for financial sectors in the PRC. The Group completed the disposal of development and sales of software business on 31 March 2016. Accordingly, the development and sales of software segment was classified as a discontinued operation, details of which are set out in Note 9.

In determining the Group’s geographical segments, revenues and results are based on the location in which the customer is located.

3. SEGMENT INFORMATION (Continued)

Reportable Segments

(i) Business Segments

For the period ended 30 June 2017, executive directors have determined that the Group has only one single business component/ reportable segment (excluded the one classified as discontinued operation as detailed in Note 9) as the Group is only engaged in the Short-term Financing Services, which is the basis to allocate resources and assess performance.

(ii) Geographical Segments

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets"):

	Revenue from external customers		Specified non-current assets	
	Six months ended			
	30 June		30 June	31 December
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operation				
Hong Kong	—	—	702	484
PRC	34,349	70,622	988	1,279
	34,349	70,622	1,690	1,763

4. REVENUE, OTHER INCOME, AND OTHER GAINS AND LOSSES, NET

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Continuing operation				
Revenue:				
Interest income from loans to customers	16,892	24,484	32,582	45,143
Financial consultancy income	1,280	8,544	1,842	25,938
Interest expense on funds for loans to customers (Note 5)	(24)	(187)	(75)	(459)
Short-term financing services income, net	18,148	32,841	34,349	70,622
Other income, and other gains and losses, net				
Foreign exchange gain (loss), net	229	(213)	314	(158)
Bank interest income	266	161	453	392
Waive of interest expenses on promissory note (Note 18)	—	—	—	1,600
Loss on disposal of property, plant and equipment	(10)	—	(12)	(4)
Sundry income	790	1,145	2,163	1,709
	1,275	1,093	2,918	3,539

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Continuing operation				
Effective interest expenses on:				
– Convertible bonds	10,481	10,298	20,704	20,382
– Promissory notes	424	421	868	892
Interest expenses on funds for loans to customers	24	187	75	459
	10,929	10,906	21,647	21,733
Less: Interest expenses included in revenue (Note 4)	(24)	(187)	(75)	(459)
	10,905	10,719	21,572	21,274

6. (LOSS) PROFIT BEFORE INCOME TAX

The Group's (loss) profit before income tax for both continuing and discontinued operations is arrived at after charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Continuing operation				
Depreciation of property, plant and equipment	227	291	510	585
Discontinued operation				
Depreciation of property, plant and equipment	—	—	—	123
Amortisation of intangible assets	—	—	—	370

7. INCOME TAX EXPENSE

The amount of income tax expense in the condensed consolidated income statement represents:

	Three months ended		Six months ended	
	30 June		30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Continuing operation				
Current tax				
PRC				
Current tax charge for the period	2,493	4,502	4,609	9,070
Under (Over)-provision in respect of prior periods	38	172	(76)	172
Deferred tax (credit) expense	(230)	(77)	(335)	102
Income tax expense for continuing operation	2,301	4,597	4,198	9,344
Discontinued operation				
Current tax				
PRC				
Deferred tax credit	—	—	—	(6)
Income tax credit for discontinued operation	—	—	—	(6)
Total income tax expense for continuing and discontinued operations	2,301	4,597	4,198	9,338

7. INCOME TAX EXPENSE *(Continued)*

The amount of income tax expense in the condensed consolidated income statement represents: *(Continued)*

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong for the current and prior periods.

The subsidiaries of the Group established in the PRC are subject to enterprise income tax ("**EIT**") of the PRC at 25% (2016: 25%), except for Beijing Auto-serve Software Company Limited which is subject to EIT of the PRC at a preferential rate of 15% for high and new technology enterprises up to 2017.

Pursuant to the relevant laws and implementation rules announced by the People's Government of the Tibet Autonomous Region, a subsidiary of the Group, Lhasa Jiade Financial Consultant Company Limited ("**Lhasa**"), established in Tibet of the PRC is subject to the EIT of the PRC at 15% up to 2020, and based on the tax ruling announced by the PRC central tax authorities, the EIT rate of Lhasa is 9% for year 2015 to 2017 and from 2018 onwards, the EIT rate will resume to 15% if no further announcement of preferential tax treatment is made.

8. DIVIDEND

The Directors do not recommend for payment of a dividend for the Interim Period (2016: Nil).

9. DISCONTINUED OPERATION

Development and Sales of Software Operation

On 24 March 2016, the Group entered into a disposal agreement to dispose of its entire equity interest in Beijing Auto-serve Software Company Limited ("**Beijing Auto**") and entire issued share capital of Vibrant Youth Limited ("**Vibrant Youth**") (collectively referred to as the "**Auto-serve Group**") at an aggregate consideration of HK\$26,208,000 to connected persons, a director of Beijing Auto and his controlling company, of the Company. The Auto-serve Group carried out all of the Group's development and sales of software operation. Accordingly, the Group's development and sales of software operation was classified as a discontinued operation. The disposal was completed on 31 March 2016.

9. DISCONTINUED OPERATION (Continued)

Development and Sales of Software Operation (Continued)

The results of the discontinued operation have been presented separately in the condensed consolidated income statement.

	Note	Six months ended 30 June 2016 (Unaudited) HK\$'000
Revenue		4,730
Cost of sales		(1,384)
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Gross profit		3,346
Other gains and losses, net		403
Administrative and other expenses		(4,134)
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Operating loss		(385)
Gain on disposal of subsidiaries	22	2,033
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Profit before income tax		1,648
Income tax credit	7	6
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Profit for the period		1,654

The cash flow information of the discontinued operation was as follows:

		Six months ended 30 June 2016 (Unaudited) HK\$'000
Net cash used in operating activities		(2,031)
Net cash used in investing activities		(296)
Net cash used in financing activities		—
<hr/>		
Net decrease in cash and cash equivalents		(2,327)

9. DISCONTINUED OPERATION *(Continued)*

Development and Sales of Software Operation (Continued)

The earnings per share information of the discontinued operation was as follows:

	Three months ended 30 June 2016 (Unaudited) HK\$'000	Six months ended 30 June 2016 (Unaudited) HK\$'000
--	---------------------------------------------------------------------	-------------------------------------------------------------------

Earnings per share for the discontinued operation
attributable to owners of the Company:

Basic (Hong Kong cents)	—	0.14
Diluted (Hong Kong cents)	—	0.06

The basic and diluted earnings per share from discontinued operation are calculated by dividing the profit from discontinued operation, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares for basic earnings per share computation and weighted average number of ordinary shares for diluted earnings per share computation respectively. The denominators used are the same as those detailed in Note 10.

10. (LOSS) EARNINGS PER SHARE

The calculations of basic (loss) earnings per share for the current and prior periods are based on the (loss) profit for the periods attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the current and prior periods.

The calculations of diluted (loss) earnings per share for the current and prior periods are based on the (loss) profit for the periods attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the current and prior periods and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

For the three and six months ended 30 June 2016, the diluted earnings per share would reduce if the Company's outstanding convertible bonds were taken into account, as those convertible bonds had a dilutive effect to the basic earnings per share and hence the above potential dilutive shares is assumed in the computation of diluted earnings per share.

10. (LOSS) EARNINGS PER SHARE (Continued)

For the three and six months ended 30 June 2017, as the Company's outstanding convertible bonds had an anti-dilutive effect to the basic loss per share calculation, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore, the basic and diluted loss per share for the three and six months ended 30 June 2017 are equal.

The calculations of basic and diluted (loss) earnings per share attributable to owners of the Company are based on the following data:

	Continuing operation		Discontinued operation		Total	
			Three months ended 30 June			
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000

(Loss) Profit

(Loss) Profit attributable to the owners of the Company, used in basic (loss) earnings per share calculation	(3,107)	6,700	—	—	(3,107)	6,700
Adjustment of (loss) profit attributable to the owners of the Company:						
Interest saving of the convertible bonds	—*	10,298	—	—	—*	10,298
(Loss) Profit attributable to the owners of the Company, used in the diluted (loss) earnings per share calculation	(3,107)	16,998	—	—	(3,107)	16,998

	Continuing operation		Discontinued operation		Total	
			Three months ended 30 June			
	2017 (Unaudited) '000	2016 (Unaudited) '000	2017 (Unaudited) '000	2016 (Unaudited) '000	2017 (Unaudited) '000	2016 (Unaudited) '000

Share

Weighted average number of ordinary shares for basic (loss) earnings per share calculation	1,301,118	1,181,118	—	—	1,301,118	1,181,118
Effect of dilutive potential ordinary shares:						
Conversion of convertible bonds	—*	1,780,571	—	—	—*	1,780,571
Weighted average number of ordinary shares for diluted (loss) earnings per share calculation	1,301,118	2,961,689	—	—	1,301,118	2,961,689

* No adjustment/effect considered due to anti-dilutive effects

10. (LOSS) EARNINGS PER SHARE (Continued)

The calculations of basic and diluted (loss) earnings per share attributable to owners of the Company are based on the following data: (Continued)

	Continuing operation		Discontinued operation		Total	
	Six months ended 30 June					
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
(Loss) Profit						
(Loss) Profit attributable to the owners of the Company, used in basic (loss) earnings per share calculation	(8,821)	19,266	—	1,654	(8,821)	20,920
Adjustment of (loss) profit attributable to the owners of the Company:						
Interest saving of the convertible bonds	—*	20,382	—	—	—*	20,382
(Loss) Profit attributable to the owners of the Company, used in the diluted (loss) earnings per share calculation	(8,821)	39,648	—	1,654	(8,821)	41,302

	Continuing operation		Discontinued operation		Total	
	Six months ended 30 June					
	2017 (Unaudited) '000	2016 (Unaudited) '000	2017 (Unaudited) '000	2016 (Unaudited) '000	2017 (Unaudited) '000	2016 (Unaudited) '000
Share						
Weighted average number of ordinary shares for basic (loss) earnings per share calculation	1,295,814	1,170,193	—	1,170,193	1,295,814	1,170,193
Effect of dilutive potential ordinary shares:						
Conversion of convertible bonds	—*	1,780,571	—	1,780,571	—*	1,780,571
Weighted average number of ordinary shares for diluted (loss) earnings per share calculation	1,295,814	2,950,764	—	2,950,764	1,295,814	2,950,764

* No adjustment/effect considered due to anti-dilutive effects

11. PROPERTY, PLANT AND EQUIPMENT

During the Interim Period, the Group incurred expenditures on property, plant and equipment with total cost of approximately HK\$515,000 (2016: approximately HK\$545,000). The Group has disposed of property, plant and equipment of approximately HK\$1,373,000 through disposal of subsidiaries during the financial period from 1 January 2016 to 30 June 2016 which is set out in Note 22. Apart from this, the Group has written off and disposed of property, plant and equipment of approximately HK\$112,000 (2016: approximately HK\$4,000) during the Interim Period.

12. INTANGIBLE ASSETS

	Pawn Licences HK\$'000	Trademarks HK\$'000	Product Licences HK\$'000	System Software HK\$'000	Total HK\$'000
Cost					
At 1 January 2016 (Audited)	159,317	15,022	2,840	1,050	178,229
Disposal through disposal of subsidiaries (Note 22)	—	(15,128)	(2,861)	(1,057)	(19,046)
Exchange realignments	(10,317)	106	21	7	(10,183)
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	149,000	—	—	—	149,000
Accumulated amortisation and impairment losses					
At 1 January 2016 (Audited)	—	—	910	30	940
Amortisation	—	—	283	87	370
Impairment losses	149,000	—	—	—	149,000
Disposal through disposal of subsidiaries (Note 22)	—	—	(1,203)	(118)	(1,321)
Exchange realignments	—	—	10	1	11
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	149,000	—	—	—	149,000
Net carrying amount					
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	—	—	—	—	—

12. INTANGIBLE ASSETS (Continued)

Pawn Licences

Pawn Licences represented the operating licences of the Pawn Broker Business (as defined in the Company's circular dated 30 May 2014), arising from the Short-term Financing Business acquired by the Group in prior years. The Directors are of the opinion that the Group would renew the Pawn Licences, at minimal cost, continuously and has the ability to do so. Therefore, the Pawn Licences are considered by the Directors as having an indefinite useful life.

The impairment assessment of the Pawn Licences was included in the impairment assessment of the Short-term Financing CGU that includes goodwill (as defined in Note 13). As at 31 December 2016, the recoverable amount of the Short-term Financing CGU fell below its carrying amount, resulting in an impairment loss on the Pawn Licences of approximately HK\$149,000,000 and goodwill of approximately HK\$151,657,000 (see note 13). The impairment losses had been charged to profit or loss for the year ended 31 December 2016, and the corresponding decrease in deferred tax liabilities was approximately HK\$37,250,000.

Trademarks

Trademarks were acquired as a result of the acquisition of Auto-serve Group (as defined in Note 9) in prior years and had a legal life of 10 years which were renewable at minimal cost. The Directors were of the opinion that the Group would renew the trademarks continuously and had the ability to do so. As a result, the trademarks were considered by the management of the Group as having an indefinite useful life.

Product Licences

Product Licences was arising from the acquisition of Auto-serve Group in prior years and were amortised over 3 years under the straight-line method.

System Software

System Software was arising from the acquisition of Auto-serve Group in prior years which represented the expenditure incurred for the development of the system software and were amortised over 3 years under the straight-line method.

Auto-serve Group was disposed of during the period from 1 January 2016 to 30 June 2016 (Notes 9 and 22).

13. GOODWILL

	Short-term Financing CGU HK\$'000	Software CGU HK\$'000	Total HK\$'000
Cost			
At 1 January 2016 (Audited)	671,848	60,900	732,748
Disposal through disposal of subsidiaries (Note 22)	—	(61,329)	(61,329)
Exchange realignments	(43,507)	429	(43,078)
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	628,341	—	628,341
Accumulated impairment losses			
At 1 January 2016 (Audited)	509,691	41,089	550,780
Disposal through disposal of subsidiaries (Note 22)	—	(41,140)	(41,140)
Impairment losses	151,657	—	151,657
Exchange realignments	(33,007)	51	(32,956)
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	628,341	—	628,341
Net carrying amount			
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	—	—	—

13. GOODWILL (Continued)

Goodwill arising in prior years related to the acquisitions of equity interest in (i) Prima Finance Holdings Limited and its subsidiaries (collectively referred to as the “**Prima Finance Group**”) and was allocated to the short-term financing CGU (“**Short-term Financing CGU**”); and (ii) the Auto-serve Group and was allocated to the software CGU (“**Software CGU**”).

Goodwill acquired through business combinations in prior years has been allocated to the respective CGUs as follows for impairment test:

Short-Term Financing CGU

The Directors engaged Greater China Appraisal Limited (“**GCA**”), an independent firm of professional valuers, to assist them in assessing the recoverable amount of the Short-term Financing CGU as at 31 December 2016. The recoverable amount of the Short-term Financing CGU had been determined based on the higher of value in use and fair value less costs of disposal. The fair value of the Short-term Financing CGU was determined by using the income approach. GCA had assessed the fair value of the Short-term Financing CGU by considering the historical operation and financial performance of the Short-term Financing CGU and determined the methodologies and the key valuation parameters and reviewed business assumptions adopted by the management.

As at 31 December 2016, in light of unfavourable operating environment and keen competition of the short-term financing industry, including the relatively lower interest rate environment in the PRC and increasing number of competitors, that are expected to have a negative impact on the future cash flows that can be generated by the Short-term Financing CGU, the Directors re-estimated the cash flows that can be generated from the Short-term Financing CGU. Based on the fair value less costs of disposal estimated using the revised cash flow projections and using the income approach, the Directors concluded that goodwill and Pawn Licenses allocated to the Short-term Financing CGU should be fully impaired in the financial year ended 31 December 2016 by approximately HK\$151,657,000 and HK\$149,000,000 respectively.

The fair value less costs of disposal of the Short-term Financing CGU was based on the income approach, which had been determined from the calculations of fair value less costs of disposal based on cash flows projections derived from the financial budgets approved by the management covering a 3-year period, and were extrapolated for subsequent forth to tenth years to cash flows beyond such projected periods with the key assumptions stated below.

A 3-year financial budget was adopted for the Short-term Financing CGU because the management was confident on the predictability of the key inputs to the cash flow projection.

13. GOODWILL (Continued)

Short-term Financing CGU (Continued)

	Year ended 31 December 2016
Interest rates	16.9% – 20.5%
Perpetual growth rate	3.0%
Post-tax discount rate	13.3% – 15.3%

Software CGU

Auto-serve Group was disposed of during the period from 1 January 2016 to 30 June 2016 (Notes 9 and 22).

Other information on fair value measurement of the CGUs

The quantitative information of the significant unobservable inputs and the description of valuation techniques used in the fair value measurement for the CGUs containing goodwill or intangible assets with indefinite useful life, including the sensitivity analysis to changes in unobservable inputs are as follow:

CGUs	Fair value hierarchy	Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
Short-term Financing CGU	Level 3	Income approach	Perpetual growth rate	The higher the perpetual growth rate, the higher the fair value
			Discount rate	The higher the discount rate, the lower the fair value

There were no transfers into or out of level 3 for the above fair value measurement of the CGUs during the Interim Period (2016: Nil).

14. LOANS TO CUSTOMERS

	30 June 2017 (Unaudited) Note	31 December 2016 (Audited)
	HK\$'000	HK\$'000
Principal and interest receivable:		
Pawn loans	285,075	255,935
Micro-credit loans	105,476	104,144
Entrusted loans	79,767	21,297
Loans to customers, gross	470,318	381,376
Less: Impairment allowances	14(a)	
— Individually assessed	(2,608)	(1,394)
— Collectively assessed	(4,246)	(3,926)
	(6,854)	(5,320)
Loans to customers, net	463,464	376,056

The loans to customers are arising from the Group's pawn loans, micro-credit and entrusted loans services. The loan periods granted to customers are mainly ranging from one month to one year.

14. LOANS TO CUSTOMERS (Continued)

(a) *Movements of impairment allowances are as follows:*

	Six months ended 30 June 2017 (Unaudited)			Year ended 31 December 2016 (Audited)		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the reporting period	1,394	3,926	5,320	4,211	3,326	7,537
Provision for/(Reversal of) impairment losses charged (credited) to profit or loss	1,149	192	1,341	(2,663)	853	(1,810)
Exchange realignments	65	128	193	(154)	(253)	(407)
At the end of the reporting period	2,608	4,246	6,854	1,394	3,926	5,320

(b) *Aging Analysis*

Aging analysis of loans to customers (after impairment allowances) prepared based on loan commencement or renewal date set out in the relevant contracts is as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Less than 1 month	89,326	138,666
1 to 3 month(s)	114,664	58,917
4 to 6 months	83,555	40,739
7 to 12 months	115,533	68,305
Over 12 months	60,386	69,429
	463,464	376,056

15. TRADE RECEIVABLES

At 30 June 2017, the aging analysis of all of the trade receivables based on invoices date are aged over 365 days (31 December 2016: over 365 days). The Group normally allows an average credit term of 30 to 90 days (31 December 2016: 30 to 90 days).

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
	Note		
Prepayments		2,367	2,445
Deposits	(i)	23,387	1,661
Other receivables		1,556	1,913
		27,310	6,019

- (i) During the Interim Period, the Group on separate occasions made two deposits of RMB10,000,000 (equivalents to approximately HK\$11,516,000) each to two independent third party companies for the purpose of potential capital injection in these two unlisted companies. These two potential investments in unlisted shares were cancelled as certain conditions were not fulfilled and each of the deposits have been fully refunded to the Group subsequent to the reporting date.

17. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

18. PROMISSORY NOTES

		Period from 1 January 2017 to 30 June 2017 (Unaudited) HK\$'000	Year ended 31 December 2016 (Audited) HK\$'000
	Note		
At the beginning of the reporting period		19,779	34,360
Early redemption of promissory notes	18(b)	—	(14,751)
Accrued effective interest expense		868	1,770
Interest payable		(1,600)	—
Waive of interest expenses	4	—	(1,600)
Carrying value at the end of the reporting period		19,047	19,779
Face value, at the end of the reporting period		20,000	20,000

18. PROMISSORY NOTES (Continued)

- (a) As at 30 June 2017, the promissory notes bear interest of 8% per annum and mature in 5 years from the date of issue of 6 February 2015. The effective interest rates of the promissory notes were determined to be approximately 9.01% (year ended 31 December 2016: 9.01%) per annum. The promissory notes were classified under non-current liabilities and measured at amortised cost.
- (b) On 7 January 2016, the Company has exercised its right to early redeem promissory notes with aggregate principal amount of HK\$15,000,000. The carrying values of the promissory notes redeemed were approximately HK\$14,751,000 and a settlement loss of approximately HK\$249,000 was charged to profit or loss during the period from 1 January 2016 to 30 June 2016.

19. CONVERTIBLE BONDS

As at 30 June 2017, the Company had 2 series of non-interest bearing convertible bonds issued as part of consideration of the acquisition of Prima Finance Group outstanding. Summary of the convertible bonds is as follows:

Series	Date of issue	Maturity date	Conversion price per share	Principal amount	Amount	Outstanding principal amount	Amount	Outstanding principal amount
				as at 1 January 2016 (Audited) HK\$'000	converted into shares during the year (Unaudited) HK\$'000	as at 31 December 2016 (Audited) HK\$'000	converted into shares during the period (Unaudited) HK\$'000	as at 30 June 2017 (Unaudited) HK\$'000
2019 CB	25 June 2014	24 June 2019	HK\$0.35	387,200	—	387,200	—	387,200
2020 CB	6 February 2015	5 February 2020	HK\$0.35	236,000	—	236,000	42,000	194,000

On 9 January 2017, the holder of 2020 CB exercised his rights to convert the zero-coupon convertible bonds with the principal amount of HK\$42,000,000 into new ordinary shares of the Company.

The conversion option of the convertible bonds is accounted for as equity instrument and is determined after deducting the fair value of the liability component from the total fair value amount of the convertible bonds at the date of issuance. The residual amount represents the value of the conversion option, which is credited directly to equity as convertible bonds reserve of the Company and the Group.

The liability component of the convertible bonds is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

19. CONVERTIBLE BONDS (Continued)

The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the convertible bonds is calculated using effective interest rate ranging from 8.72% to 8.87% (year ended 31 December 2016: 8.72% to 8.87%) per annum.

The movements of above-mentioned convertible bonds were as follows:

	Period from 1 January 2017 to 30 June 2017 (Unaudited) HK\$'000	Year ended 31 December 2016 (Audited) HK\$'000
Equity component		
At the beginning of the reporting period	754,090	754,090
Conversion during the period	(40,784)	—
At the end of the reporting period	713,306	754,090
Liability component		
At the beginning of the reporting period	518,324	476,450
Effective interest expenses	20,704	41,874
Conversion during the period	(33,526)	—
At the end of the reporting period	505,502	518,324
Face value, at the end of the reporting period	581,200	623,200

20. CONTINGENT CONSIDERATION

In relation to the disposal of Auto-serve Group (Note 22), a termination agreement was entered by the Company and the vendors, who is also the purchasers of Auto-serve Group, where the contingent consideration shares payable of approximately HK\$26,241,000 by the Company were terminated on 24 March 2016. Further details of the agreement are set out in the announcement of the Company dated 24 March 2016.

During the period from 1 January 2016 to 30 June 2016, the fair value gain on contingent consideration – consideration shares of approximately HK\$1,141,000 was attributed to the fair value measurement of contingent consideration – consideration shares before the derecognition upon date of disposal. The fair value was determined with reference to the trading price of the Company's shares, the latest financial information of the Auto-serve Group, the Auto-serve Group's financial performance forecast and other relevant indicators.

21. SHARE CAPITAL

	Note	Number of shares '000	Amount HK\$'000
Authorised:			
As at 31 December 2016 and 30 June 2017, ordinary shares of HK\$0.01 each		10,000,000	100,000
Issued and fully paid:			
As at 1 January 2016, ordinary shares of HK\$0.01 each		1,154,606	11,547
Issue of new shares upon fulfillment of guaranteed profit	(i)	26,512	265
As at 31 December 2016, ordinary shares of HK\$0.01 each		1,181,118	11,812
Shares issued upon conversion of convertible bonds	(ii)	120,000	1,200
As at 30 June 2017, ordinary shares of HK\$0.01 each		1,301,118	13,012

21. SHARE CAPITAL (Continued)

- (i) The final settlement value of the 2015 Contingent Shares (as defined in the Annual Report) of HK\$9,544,000 was fully settled by the allotment and issuance of approximately 26,512,000 shares of the Company on 16 March 2016, of which approximately HK\$265,000 was credited to share capital and the remaining balance of approximately HK\$9,279,000 was credited to share premium account.
- (ii) On 9 January 2017, convertible bonds at a conversion price of HK\$0.35 per share with principal value of HK\$42,000,000 have been converted into 120,000,000 new ordinary shares of the Company.

All new shares issued rank pari passu with the existing shares in all respects.

22. DISPOSAL OF SUBSIDIARIES

On 24 March 2016, the Group entered into a disposal agreement to dispose of its entire equity interest in Beijing Auto and entire issued share capital of Vibrant Youth at an aggregate consideration of HK\$26,208,000 to certain related parties of the Company. The Auto-serve Group carried out all of the Group's development and sales of software operation which comprises sales and development of enterprise software and provision of software maintenance and support services for financial sectors in the PRC. Further details of the completion of the disposal are set out in announcements of the Company dated 24 March 2016 and 31 March 2016. The net assets of the Auto-serve Group at the date of disposal were as follows:

	HK\$'000
Intangible assets (Note 12)	17,725
Goodwill (Note 13)	20,189
Property, plant and equipment (Note 11)	1,373
Deferred tax assets	324
Trade and other receivables, and prepayment	9,511
Tax recoverable	496
Amount due from a Group's subsidiary	994
Amount due from a related party	1
Cash and cash equivalents	3,958
Other payables and receipt in advance	(3,877)
Deferred tax liabilities	(4,196)
<hr/>	
Net assets of the Auto-serve Group	46,498
Termination of contingent consideration payable (Note 20)	(26,241)
Exchange reserve released on disposal	3,654
Direct costs incurred for the disposal	264
Gain on disposal of subsidiaries (Note 9)	2,033
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Total cash consideration received	26,208

22. DISPOSAL OF SUBSIDIARIES (Continued)

	HK\$'000
Net cash inflow arising on disposal:	
Cash consideration	26,208
Repayment of amount due to Vibrant Youth	(994)
Costs directly attributable to the disposal	(264)
Cash and cash equivalents disposed of	(3,958)
	<hr/>
	20,992
	<hr/>

23. OPERATING LEASE COMMITMENTS

As Lessee

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years. None of the leases includes contingent rentals.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within one year	4,733	5,692
In the second to fifth years, inclusive	7,639	8,544
Over five years	2,879	2,903
	<hr/>	<hr/>
	15,251	17,139
	<hr/>	<hr/>

24. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis as at 30 June 2017 and 31 December 2016 across the three levels of the fair value hierarchy defined in HKFRS 13, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

a) *Assets and liabilities measured at fair value*

There was no assets and liabilities measured at fair value as at 30 June 2017 and 31 December 2016.

b) *Assets and liabilities with fair value disclosure, but not measured at fair value*

The carrying amounts of financial assets and liabilities that are carried at amortised costs are not materially different from their fair value as at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

During the Interim Period, the Group is principally engaged in short-term financing services in the PRC and Hong Kong. The Group was also engaged in business of development and sales of enterprises software and provision of software maintenance and support services for financial sectors in the PRC which was discontinued in the financial period from 1 January 2016 to 30 June 2016. Details are disclosed in Note 9 to the unaudited condensed consolidated financial statements.

The Group recorded total revenue for the Interim Period of approximately Hong Kong dollars (“HK\$”) 34,349,000 (2016: approximately HK\$70,622,000) from continuing operation, representing a decrease of approximately HK\$36,273,000 as compared with the corresponding period last year. The decrease was mainly attributable to the significant decrease in financial consultancy income and moderate decrease in interest income from loans to customers during the Interim Period due to the unfavorable market environment and the slowdown in economic growth in Mainland China.

The administrative and other expenses for the Interim Period from continuing operation has decreased by approximately HK\$6,354,000 to approximately HK\$17,852,000 (2016: approximately HK\$24,206,000).

The loss attributable to the owners of the Company for the Interim Period was approximately HK\$8,821,000 (2016: profit of approximately HK\$20,920,000) was mainly attributable to the effect of decrease in revenue discussed above.

CONTINUING OPERATION

Short-term Financing Services

During the Interim Period, the revenue of short-term financing services business was approximately HK\$34,349,000 (2016: approximately HK\$70,622,000). The operating results of the short-term financing services recorded a profit before income tax of approximately HK\$22,679,000 (2016: approximately HK\$56,118,000). The significant decrease in operating profit for the Interim Period when compared with the last corresponding period was mainly attributable to decrease in revenue discussed above.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2017, the Group did not process any significant investment, acquisition or disposal of subsidiaries or associated companies.

ADVANCE TO AN ENTITY

On 27 June 2017, the Group entered into an entrusted loan agreement with 北京銀行股份有限公司 (Bank of Beijing Co., Ltd.*) (the “**Lending Bank**”) and 北京愛迪泰智能科技有限公司 (Beijing Aiditai Intelligent and Technology Co., Ltd.*) (the “**Borrower**”) pursuant to which the Group entrusted the Lending Bank with an amount of RMB40,000,000 (equivalent to approximately HK\$46,064,000) for the purpose of lending the same to the Borrower for a period of 12 months at an interest rate of 17.4% per annum with interest payable on a monthly basis and the principal amount at the end of the loan period (the “**Transaction**”). As at 30 June 2017, RMB20,000,000 (equivalent to approximately HK\$23,032,000) was drawn by the Borrower. On 18 July 2017, RMB10,000,000 (equivalent to approximately HK\$11,516,000) has been subsequently repaid to the Group by the Borrower.

Details of the Transaction are set out in the announcement of the Company dated 27 June 2017.

PROSPECTS

Looking ahead, the global business environment is expected to be complex and continued to create challenging operating conditions for businesses. In the PRC, we expect that the industry competition in short-term financing services business will remain intense, while the regulatory environment continues to be challenging. Faced with these uncertainties, the Group still remains cautiously optimistic about its business prospect. The Group will continue to leverage on its competitive advantage, solidity and further develop and expand the scope of its short-term financing services. Apart from strengthening the present Beijing market, the Group will further expand its business in Shenyang, Lhasa, Hong Kong and others cities. At the same time, the Group will prudently explore new potential projects and new business opportunities in order to provide new and sustainable drivers for the Group’s overall performance.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group has no bank borrowings outstanding (31 December 2016: approximately HK\$11,834,000 denominated in Renminbi (“**RMB**”), and all the bank borrowings were obtained on secured basis). As at 30 June 2017, the Group has other debts comprising promissory notes and liability component of convertible bonds of approximately HK\$524,549,000 (31 December 2016: approximately HK\$538,103,000). The Group will try to obtain future financing, and whenever possible and appropriate, raise fund via equity funding activities in order to further reduce the financing cost.

As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$61,792,000 (31 December 2016: approximately HK\$154,012,000) which are mainly denominated in HK\$ and RMB. To manage liquidity risk, management monitors forecasts of the Group’s liability position and cash and cash equivalent position on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations.

* English name is for identification purpose only.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

As at 30 June 2017, the gearing ratio for the Group was approximately positive 75.59 (31 December 2016: approximately negative 16.36), calculated based on the total debts (comprising bank borrowings and other debts) of approximately HK\$524,549,000 over shareholder's equity of approximately HK\$6,939,000. The debt ratio was approximately 0.96 (31 December 2016: approximately 1.03), calculated as total liabilities over total assets of the Group.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

CAPITAL STRUCTURE

The capital structure of the Group during the Interim Period is summarised as follows:

(i) Bank Borrowings

There was no bank borrowings outstanding as at 30 June 2017 (31 December 2016: approximately HK\$11,834,000 bore a fixed interest rate of 6.0% per annum and was secured by a corporate guarantee given by an independent third party at a fee charged).

(ii) Promissory Notes

As at 31 December 2016, the Company had promissory notes issued as part of consideration for the acquisition of the Prima Finance Group outstanding. During the year ended 31 December 2016, an 8% promissory note in the principal amount of HK\$15,000,000 issued on 6 February 2015 was early redeemed by the Company through use of the proceeds from the disposal of Star Coal International Investment Company Limited and its subsidiaries. As at 30 June 2017, the Company had outstanding promissory notes in the principal amount of HK\$20,000,000 issued on 6 February 2015. Summary of the promissory notes is as follows. Further details are set out in Note 18 to the unaudited condensed consolidated financial statements.

Date of issue	Principal amount as at	Interest rate per annum	Principal repayment due date	Redeemed principal amount (HK\$)	Outstanding principal amount as at
	1 January 2017 (HK\$)				30 June 2017 (HK\$)
6 February 2015	20,000,000	8%	6 February 2020	—	20,000,000

CAPITAL STRUCTURE (Continued)

(iii) Convertible Bonds

As at 30 June 2017, the Company had 2 series of non-interest bearing convertible bonds issued as part of consideration of the acquisition of Prima Finance Group outstanding. Summary of the convertible bonds is as follows. Further details are set out in Note 19 to the unaudited condensed consolidated financial statements.

Date of issue	Principal amount as at 1 January 2017 (HK\$)	Maturity Date	Conversion Price per share	Amount converted into shares during the Interim period (HK\$)	Outstanding principal amount as at 30 June 2017 (HK\$)	Number of Shares to be issued upon full conversion as at 30 June 2017
25 June 2014	387,200,000	24 June 2019	HK\$0.35	—	387,200,000	1,106,285,714
6 February 2015	236,000,000	5 February 2020	HK\$0.35	42,000,000	194,000,000	554,285,714

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 30 June 2017, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currency, i.e. RMB, used by the respective group entities.

The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 30 June 2017, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

As at 30 June 2017, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedgings or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions.

CHARGE OF GROUP ASSETS

As at 30 June 2017 and 31 December 2016, the Group did not have any assets under charged.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 30 June 2017, the Group employed a total of 93 employees (31 December 2016: 102). The salaries and benefits of the Group's employees are maintained at a competitive level and employees are rewarded on a discretionary performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Year-ended bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to its employees. Staff costs, excluding Directors' emoluments, for the Interim Period amounted to approximately HK\$7,126,000 (30 June 2016: approximately HK\$9,056,000).

The Company adopted the Share Option Scheme where share options to subscribe for shares of the Company may be granted to the eligible participants of the Group. No share options have been granted to the eligible participants under the Share Option Scheme during the Interim Period.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liability (31 December 2016: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") which (i) 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 they were taken or deemed to have under such provisions of the SFO) or (ii) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long position in the Shares

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of shareholding in the Company (Note)
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Ms. Li Wei	Beneficial owner	1,932,000	0.14
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Note: The percentage represents the number of Shares interested divided by the number of the issued Shares as at 30 June 2017 (i.e. 1,301,118,056 Shares).

Save for those disclosed above, as at 30 June 2017, none of the Directors 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) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Interim Period was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the Interim Period.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, as at 30 June 2017, the following companies and persons had interests in more than 5% of the Company's issued share capital:

Long Position in the Shares

Name of substantial shareholder	Number of shares interested			Percentage of the issued share capital of the Company (Note 5)
	Direct interests	Deemed interests	Total interests	
Exuberant Global Limited (Note 1)	1,384,571,429	—	1,384,571,429	106.41
Mr. Dai Di (Note 1)	—	1,384,571,429	1,384,571,429	106.41
Time Prestige Holdings Limited (Note 2)	161,142,857	—	161,142,857	12.38
Mr. Dai Hao (Notes 2 and 3)	—	563,999,999	563,999,999	43.34
Bustling Capital Limited (Note 3)	402,857,142	—	402,857,142	30.96
Ms. Jin Yu (Notes 2 and 3)	—	563,999,999	563,999,999	43.34
Silver Palm Limited (Note 4)	71,428,571	—	71,428,571	5.49
Mr. Wang Jia Sheng (Note 4)	—	71,428,571	71,428,571	5.49

Notes:

- The 1,384,571,429 Shares held by Exuberant Global Limited ("**Exuberant Global**") represent (i) 294,200,000 Shares; and (ii) 1,090,371,429 Shares to be issued upon full conversion of the convertible bonds. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 1,384,571,429 Shares held by Exuberant Global.
- The 161,142,857 Shares held by Time Prestige Holdings Limited ("**Time Prestige**") represent (i) 26,800,000 Shares; and (ii) 134,342,857 Shares to be issued upon full conversion of the convertible bonds. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the 161,142,857 Shares. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 402,857,142 Shares held by Bustling Capital Limited ("**Bustling Capital**").
- The 402,857,142 Shares held by Bustling Capital represent (i) 67,000,000 Shares; and (ii) 335,857,142 Shares to be issued upon full conversion of the convertible bonds. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the 402,857,142 Shares. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the 161,142,857 Shares held by Time Prestige.
- Silver Palm Limited ("**Silver Palm**") is wholly and beneficially owned by Mr. Wang Jia Sheng ("**Mr. Wang**"). Accordingly, Mr. Wang is deemed to be interested in the 71,428,571 Shares held by Silver Palm.
- The percentage represents the number of Shares interested divided by the number of the issued Shares as at 30 June 2017 (i.e. 1,301,118,056 Shares).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, the Directors are not aware of any person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above) who, as at 30 June 2017, had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was adopted pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 2 August 2012 for the purpose of providing incentives or rewards to the eligible participants for their contribution to the Group and/or enabling the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group.

Eligible participants of the Scheme include Directors, non-executive officers including independent non-executive Directors, employees of the Group, customers of the Group, consultants, advisors, managers, officers or entities that provide research, development or other technological support to the Group.

No share option was granted, outstanding, lapsed, cancelled or exercised at any time during the Interim Period. As at 30 June 2017, there was no outstanding share option under the Scheme.

As at the date of this report, a maximum of 23,050,219 shares, representing approximately 2% of the existing issued share capital of the Company, are available for issuance under the Share Option Scheme.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the Rules 5.48 to 5.67 (the “**Model Code**”) of the GEM Listing Rules. The Company had made specific enquiries with written guidelines in relation to the Model Code to all Directors and all Directors have confirmed that they complied with the required standards set out in the Model Code throughout the Interim Period.

INTERESTS IN A COMPETING BUSINESS

As at 30 June 2017, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had engaged in any business that competes or might compete with the business of the Group, or had any other conflict of interest with the Group.

PURCHASE, SALE OR REDEMPTION OF COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Interim Period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting a high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. Throughout the Interim Period, the Company has complied with all the code provisions set out in Appendix 15 Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) of the GEM Listing Rules with the exception of the following deviation:

CODE PROVISION A.2.1

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Zhang Wei was appointed as Chairman and chief executive officer of the Company (the “**CEO**”) on 1 December 2015. Given the size and that the Company’s and the Group’s current business operations and administration have been stable, the Board is justified that the current structure is able to effectively discharge the duties of both positions. However, going forward, the Board will review from time to time the need to separate the roles of the Chairman and the CEO if the situation warrants it.

INTERIM DIVIDEND

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

AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the Interim Period have been reviewed by the audit committee of the Company, which was of the opinion that the preparation of such financial information complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

By Order of the Board
Capital Finance Holdings Limited
Zhang Wei
Chairman and Executive Director

Hong Kong, 11 August 2017

As at the date of this report, the executive Directors are Mr. Zhang Wei and Ms. Li Wei, and the independent non-executive Directors are Mr. Chen Yihua, Mr. Du Hui and Ms. Sze Sau Wan.