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website: <http://www.irasia.com/listco/hk/greaterchina/index.htm>

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

### SUMMARY OF RESULTS

The Board (“Board”) of Directors (“Directors”) of Greater China Financial Holdings Limited (“Company”) announced that the unaudited financial results of the Company and its subsidiaries (“Group”) for the six months ended 30 June 2016, together with the figures for the six months ended 30 June 2015 are as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	21,244	51,455
Cost of sales		—	(575)
Gross profit		21,244	50,880
Other income, gains and losses		(115,135)	124,881
Administrative and other operating expenses		(43,032)	(45,309)
Share of loss of associates		(32,302)	—
Impairment loss on interests in associates		(267,555)	—
Net loss on de-consolidation of subsidiaries	23	(323,208)	—
Finance costs		(7,142)	(10,432)
(Loss) profit before taxation		(767,130)	120,020
Income tax expenses	4	(10,341)	(7,530)
<b>(Loss) profit for the period attributable to owners of the Company</b>	5	<b>(777,471)</b>	<b>112,490</b>

		<b>Six months ended 30 June</b>	
	<i>NOTES</i>	<b>2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	2015 <b>HK\$'000</b> <b>(unaudited)</b>
<b>Other comprehensive (expense) income, net of tax</b>			
<b><i>Items that may be reclassified</i></b>			
<b><i>subsequently to profit or loss:</i></b>			
Exchange differences on translation of foreign operations		<b>(3,393)</b>	3,124
Release of translation reserve upon disposal of subsidiaries		–	(39,980)
Reclassification adjustment relating to foreign operation de-consolidated during the period		<b>3,655</b>	–
Share of exchange differences of associates		<b>(2,144)</b>	–
Change in fair value of available-for-sale financial assets		<b>(101,291)</b>	–
		<u><b>(103,173)</b></u>	<u>(36,856)</u>
<b>Total comprehensive (expense) income for the period attributable to owners of the Company</b>		<u><b>(880,644)</b></u>	<u>75,634</u>
		<b>HK cents</b>	<b>HK cents</b> <b>(restated)</b>
<b>(Loss) earnings per share</b>	<b>7</b>		
– Basic		<u><b>(24.04)</b></u>	<u>5.52</u>
– Diluted		<u><b>(24.04)</b></u>	<u>5.40</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2016**

	<i>NOTES</i>	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	123,671	131,885
Prepaid lease payments	9	24,717	25,649
Goodwill	10	23,330	198,326
Intangible asset	11	500	–
Interests in associates	12	70,074	372,075
Available-for-sale financial assets	13	39,948	–
Other assets		3,325	3,045
		<hr/> 285,565	<hr/> 730,980
<b>Current assets</b>			
Reposessed assets		–	41
Loans receivables	14	88,645	359,698
Trade and other receivables	15	9,103	2,367
Prepaid lease payments	9	738	754
Prepayments and deposits		1,888	8,366
Amount due from associates	12	12	–
Pledged bank deposits		29,187	35,811
Cash held on behalf of clients	16	19,444	–
Bank balances and cash		200,054	524,661
		<hr/> 349,071	<hr/> 931,698
Assets classified as held for sale		–	7,588
		<hr/> 349,071	<hr/> 939,286
<b>Current liabilities</b>			
Trade payables	17	23,233	–
Other payables and accruals		3,045	31,339
Deferred consideration	20	63,900	64,020
Borrowings	18	42,322	199,945
Tax payables		5,787	6,192
		<hr/> 138,287	<hr/> 301,496
Liabilities directly associated with assets classified as held for sale		–	9,550
		<hr/> 138,287	<hr/> 311,046
<b>Net current assets</b>		<hr/> <b>210,784</b>	<hr/> 628,240

	<i>NOTES</i>	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <i>HK\$'000</i> (audited)
<b>Total assets less current liabilities</b>		<b>496,349</b>	1,359,220
<b>Non-current liabilities</b>			
Deferred consideration	<i>20</i>	–	63,900
Deferred tax liability		<b>1,100</b>	1,100
Convertible notes	<i>19</i>	<b>79,665</b>	54,885
Borrowings	<i>18</i>	<b>67,131</b>	77,590
		<b>147,896</b>	197,475
<b>Net assets</b>		<b>348,453</b>	1,161,745
<b>Capital and reserves</b>			
Share capital	<i>21</i>	<b>3,234</b>	3,234
Reserves		<b>345,219</b>	1,158,511
Total equity		<b>348,453</b>	1,161,745

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (the “HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed consolidated financial statements has been prepared in accordance with the same accounting policies in the Group’s audited financial statements for the year ended 31 December 2015, except for (i) the accounting policy changes that are expected to be reflected in the audited financial statements for the year ended 31 December 2016; and (ii) accounting treatment in relation to the loss of control over Shanghai Xinsheng Pawnshop Limited (“Xinsheng”) and Shanghai Zhongyuan Pawnshop Limited (“Zhongyuan”).

The preparation of the condensed consolidated 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.

The condensed consolidated 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 2015. The condensed consolidated financial statements and notes thereon 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”). They shall be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2015.

#### **De-consolidation**

Since July 2016, the Group was denied access to the books and records and operating controls of Xinsheng and Zhongyuan. Existing staff and management of Xinsheng and Zhongyuan were laid off and replaced by staff and personnel assigned by Shanghai Kuailu Investment Group Company Limited (“Shanghai Kuailu”), who is one of the registered shareholder of Xinsheng.

Reference is made to the announcements of the Company dated 22 July 2016 and 18 August 2016 (“Announcements”) in relation to the legal actions taken by the Group against Xinsheng, Shanghai Kuailu and Zhongyuan to enforce its rights under the variable interest entity contracts (“VIE Contracts”) through the Shanghai Arbitration Commission (“SAC”).

Although legal actions had been instituted against Shanghai Kuailu (see Note 23), the Group is unable to exercise control over the assets and operations of Xinsheng and Zhongyuan. Pending the results of the litigations as more fully described in Note 27(iii), the management considers that control over Xinsheng and Zhongyuan was lost and therefore is appropriate that these subsidiaries be de-consolidated from the Group’s financial statements. The management considered it is appropriate to account for the de-consolidation as from 1 January 2016 instead of from the effective date of losing control, which should be at around July 2016, in spite of the Company received Xinsheng and Zhongyuan’s management accounts every month up to June 2016, however, the Company was denied to access the books and records for review procedures and unable to control over the operations of Xinsheng and Zhongyuan.

## Financial impact on de-consolidating Xinsheng and Zhongyuan

The de-consolidation of the Xinsheng and Zhongyuan had resulted in a net loss on de-consolidation of subsidiaries of approximately HK\$323,208,000 and an impairment loss on the amounts due from the Xinsheng and Zhongyuan of approximately HK\$94,203,000 as the directors were of the view that the carrying values of the amounts due from the Xinsheng and Zhongyuan were not recoverable.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

The application of the above amendments to HKFRSs in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### New and revised HKFRSs issued but not yet effective

The Group has not applied the following new and revised HKFRSs, those have been issued but are not yet effective, in these interim financial statements:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

<sup>4</sup> Effective date to be confirmed.

The directors of the Company anticipate that the application of these new or revised standards and amendments will have no material impact on the condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The Group's operations are organised into securities brokerage, insurance brokerage, asset management, loan financing, industrial property development business and general trading. Information reported to the chief operating decision maker ("CODM") for the purpose of resources allocation and assessment of segment performance is prepared on such basis. The Group is organised into the following reportable and operating segments:

- Industrial property development segment represents the operation of warehouse in the PRC.
- General trading segment included trading of consumable goods in the PRC.
- Loan financing segment represents the provision of loan financing services and consulting service in Hong Kong and the PRC.
- Securities brokerage segment represents the operation of securities brokerage, margin financing and underwriting and placements in Hong Kong.
- Asset management segment engages in the provision of asset management services in Hong Kong.
- Insurance brokerage segment represents the provision of the insurance brokerage, MPF scheme brokerage and agency services in Hong Kong.

Due to the establishment of insurance brokerage segment, the corresponding figures for prior year has been reclassified.

#### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

#### Six months ended 30 June 2016 (unaudited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE	6,176	-	13,558	1,002	4	504	21,244
SEGMENT RESULTS	1	(263)	10,298	(451)	1	(1,298)	8,288
Unallocated corporate income							30
Unallocated corporate expenses							(30,067)
Unallocated finance costs							(2,796)
Fair value change on contingent consideration – convertible notes							(19,688)
Net loss on de-consolidation of subsidiaries							(323,208)
Impairment loss on interests in associates							(267,555)
Share of loss of associates							(32,302)
Share-based payment expenses							(5,629)
Impairment loss on the amounts due from the de-consolidated subsidiaries							(94,203)
Loss before tax							(767,130)
Income tax expenses							(10,341)
Loss for the period							<u>(777,471)</u>

Six months ended 30 June 2015 (unaudited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE	6,750	–	44,705	–	–	–	51,455
SEGMENT RESULTS	(10,875)	(77)	27,621	–	–	–	16,669
Unallocated corporate income							127,341
Unallocated corporate expenses							(23,990)
Profit before tax							120,020
Income tax expenses							(7,530)
Profit for the period							112,490

All of the segment revenue reported above is from external customers.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable segments.

**At 30 June 2016 (unaudited)**

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>							
Segment assets	171,226	104	108,909	39,156	235	1,213	320,843
Unallocated bank balances and cash							163,368
Unallocated property, plant and equipment							11,622
Unallocated other receivables, prepayments and deposits							5,439
Unallocated goodwill							23,330
Interests in associates							70,074
Amount due from associates							12
Available-for-sale financial assets							39,948
Consolidated total assets							634,636
<b>LIABILITIES</b>							
Segment liabilities	110,447	–	1,291	23,104	–	381	135,223
Unallocated other payables							508
Unallocated convertible notes							79,665
Unallocated deferred consideration							63,900
Unallocated deferred tax liability							1,100
Tax payables							5,787
Consolidated total liabilities							286,183

At 31 December 2015 (audited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>							
Segment assets	185,475	2,041	401,443	–	–	666	589,625
Unallocated bank balances and cash							481,124
Unallocated property, plant and equipment							12,911
Unallocated other receivables, prepayments and deposits							9,997
Interests in associates							372,075
Unallocated goodwill							196,946
Non-current assets classified as held for sale							7,588
Consolidated total assets							<u>1,670,266</u>
<b>LIABILITIES</b>							
Segment liabilities	126,126	2,387	178,719	–	–	10	307,242
Unallocated other payables							1,632
Unallocated convertible notes							54,885
Unallocated deferred considerations							127,920
Unallocated deferred tax liability							1,100
Liabilities directly associated with assets classified as held for sale							9,550
Tax payables							6,192
Consolidated total liabilities							<u>508,521</u>

**4. INCOME TAX EXPENSES**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Current tax – PRC Enterprise Income Tax	<b>8,810</b>	7,530
Current tax – Hong Kong Profits Tax	<b>1,531</b>	–
	<u><b>10,341</b></u>	<u>7,530</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the six months ended 30 June 2016. No provision for Hong Kong Profits Tax has been made as the subsidiaries operating in Hong Kong incurred tax loss for the six months ended 30 June 2015.

Pursuant to the enterprise income tax rules and regulations of the PRC, the provision for PRC Enterprise Income Tax is calculated at applicable rates of 25% based on estimated taxable profits with certain tax concession, based on existing legislation, interpretation and practices.

## 5. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period attributable to the owners of the Company has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Amortisation of prepaid lease payments	375	400
Depreciation of property, plant and equipment	5,834	4,572
Fair value change on contingent consideration – convertible notes	19,688	–
Gain on disposal of subsidiaries	–	(127,263)
Impairment allowance of pawn loans receivables	–	2,477
Legal and professional fee	7,181	15,864
Share-based payment expenses	5,629	–
Staff costs including directors' emoluments	12,963	6,950
Impairment loss on the amounts due from the de-consolidated subsidiaries	94,203	–

## 6. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the interim period.

## 7. (LOSS) EARNINGS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	2015 <i>HK\$'000</i> (unaudited)
<b>(Loss) earnings</b>		
(Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per share	(777,471)	112,490
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	—	412
	<u>                    </u>	<u>                    </u>
(Loss) earnings for the purpose of diluted (loss) earnings per share	<u><u>(777,471)</u></u>	<u><u>112,902</u></u>
	<i>'000</i>	<i>'000</i> (restated)

### Number of shares

Number (2015: weighted average number) of ordinary shares for the purpose of basic (loss) earnings per share	<b>3,234,353</b>	2,038,028
Effect of dilutive potential ordinary shares:		
– Convertible notes	—	54,446
	<u>                    </u>	<u>                    </u>
Number (2015: weighted average number) of ordinary shares for the purpose of diluted (loss) earnings per share	<u><u>3,234,353</u></u>	<u><u>2,092,474</u></u>

The calculation of basic (loss) earnings per share is based on the (loss) profit attributable to owners of the Company, and the number of 3,234,353,000 ordinary shares (six months ended 2015: weighted average number of 2,038,028,000 ordinary shares) in issue.

Diluted loss per share for the six months ended 30 June 2016 did not assume the exercise of the share options during the period since the exercise would have an anti-dilutive effect. No adjustment was made in calculating diluted loss per share for the six months ended 30 June 2016 as conversion of convertible notes would result in a decrease in loss per share. Accordingly, the diluted loss per share is same as the basic loss per share.

For the six months ended 30 June 2015, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has dilutive potential ordinary shares which are issuable on conversion of the convertible notes. The convertible notes are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

The weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share for the last period has been adjusted for the effect of the rights issue completed on 18 November 2015 and share subdivision on 28 December 2015.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the interim period, the Group acquired property, plant and equipment with a cost of HK\$279,000 (six months ended 30 June 2015: HK\$296,000). There were additions to property, plant and equipment with a carrying amount of HK\$25,000 (six months ended 30 June 2015: HK\$1,005,000) through acquisition of subsidiaries which is set out in note 22.

There was no significant disposal of property, plant and equipment during the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$36,000).

Property, plant and equipment of Xinsheng and Zhongyuan with a carrying amount of HK\$817,000 were de-consolidated by the Group during the unaudited six months ended 30 June 2016.

## 9. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments are amortised and charged to the profit or loss in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <b>HK\$'000</b> (audited)
<b>Cost</b>		
Balance at beginning of the period/year	<b>33,946</b>	35,938
Exchange realignment	<b>(745)</b>	(1,992)
	<hr/>	<hr/>
Balance at end of the period/year	<b>33,201</b>	33,946
<b>Accumulated amortisation</b>		
Balance at beginning of the period/year	<b>7,543</b>	7,187
Amortisation for the period/year	<b>375</b>	785
Exchange realignment	<b>(172)</b>	(429)
	<hr/>	<hr/>
Balance at end of the period/year	<b>7,746</b>	7,543
<b>Carrying amount</b>		
Balance at end of the period/year	<b>25,455</b>	26,403
	<hr/> <hr/>	<hr/> <hr/>
Analysed for reporting purposes as:		
Current assets	<b>738</b>	754
Non-current assets	<b>24,717</b>	25,649
	<hr/>	<hr/>
	<b>25,455</b>	26,403
	<hr/> <hr/>	<hr/> <hr/>

## 10. GOODWILL

	<b>30.6.2016</b> <i>HK\$'000</i> (unaudited)	31.12.2015 <i>HK\$'000</i> (audited)
<b>Cost</b>		
Balance at beginning of the period/year	<b>198,326</b>	–
Acquisition of subsidiaries (note 22)	<b>21,000</b>	198,326
De-consolidation of subsidiaries (note 23)	<b>(195,996)</b>	–
	<hr/>	<hr/>
Balance at end of the period/year	<b>23,330</b>	198,326
<b>Accumulated impairment losses</b>		
Balance at beginning of the period/year	–	–
Impairment loss for the period/year	–	–
	<hr/>	<hr/>
Balance at end of the period/year	–	–
<b>Carrying amount</b>		
Balance at end of the period/year	<b>23,330</b>	198,326
	<hr/> <hr/>	<hr/> <hr/>

## 11. INTANGIBLE ASSET

Intangible asset represents trading right held by the Group. The trading right is retained for stock trading and stockbroking activities. The trading right has been considered to have indefinite life because it is expected to contribute to the net cash flows of the Group indefinitely, and is not amortised.

## 12. INTERESTS IN ASSOCIATES

	<b>30.6.2016</b> <i>HK\$'000</i> (unaudited)	31.12.2015 <i>HK\$'000</i> (audited)
Cost of investment in associates – unlisted	<b>372,075</b>	368,701
Share of post-acquisition (loss) profit and other comprehensive (expense) income	<b>(34,446)</b>	3,374
Less: impairment loss	<b>(267,555)</b>	–
	<hr/>	<hr/>
	<b>70,074</b>	372,075
	<hr/> <hr/>	<hr/> <hr/>

The Company is the shareholder of 45% of share capital of Intraday Financial Information Service Limited with a subsidiary, (Dingtai Runhe Investment Consulting (Shanghai) Co., Ltd.) (“Intraday Financial Group”), engaging in the operation of an internet finance platform in the PRC through (Shanghai Dangtian Financial Information Services Co., Ltd.) (“Dangtian”) via the VIE Contracts. In current period, the Group was informed by Dangtian that some of the asset management companies do not have sufficient cash to repay the investment principal of certain products to the investors when the products reach their maturity dates (“Repayment Issue”). As the management of Dangtian does not want the reputation of its platform and its operation being affected by the Repayment Issue, therefore, Dangtian has, for and on behalf of the asset management company, paid certain sums of the investment principal to the investors utilising their internal resources which was subsequently reimbursed before 30 June 2016. However, the Repayment Issue persists and the operational staff of Dangtian focused on liaising with the investors. Thus, the operations are negatively affected and the turnover dropped significantly in current period.

During the six months ended 30 June 2016, in view of the performance of Intraday Financial Group, the Group has performed impairment assessment with the assessment of the independent professional qualified valuer not connected with the Group on investments in Intraday Financial Group whereby the recoverable amounts of Intraday Financial Group were determined based on value in use calculations, with reference to the estimated cash flows in the coming three years were extrapolated by assuming 3% growth rate using pre-tax discount rates of 33.35%. Following the impairment assessment, an aggregate amount of HK\$267,555,000 were recognised as impairment loss in the profit or loss during the six months ended 30 June 2016.

### Summarised financial information for associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these financial statements.

### Summarised statement of financial position

	Shanghai Rongyu 30.6.2016 <i>HK\$'000</i> (unaudited)	Intraday Financial Group 30.6.2016 <i>HK\$'000</i> (unaudited)
Current assets	<u>234,451</u>	<u>30,078</u>
Current liabilities	<u>(3,236)</u>	<u>(26,833)</u>
Non-current assets	<u>33,156</u>	<u>5,916</u>

### Summarised statement of profit or loss and other comprehensive income

	Shanghai Rongyu For six months ended 30 June 2016 <i>HK\$'000</i> (unaudited)	Intraday Financial Group For six months ended 30 June 2016 <i>HK\$'000</i> (unaudited)
Revenue and other revenue	<u>10,748</u>	<u>5,605</u>
Profit (loss) for the period	<u>7,371</u>	<u>(75,877)</u>
Other comprehensive expenses	<u>(5,898)</u>	<u>(1,487)</u>
Total comprehensive income (expense)	<u>1,473</u>	<u>(77,364)</u>

The amount due from associates of the Group classified under current assets are unsecured, interest-free and are expected to be repaid within one year.

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associates recognised in the condensed consolidated financial statements:

	<b>Shanghai Rongyu HK\$'000</b>	<b>Intraday Financial Group HK\$'000</b>
Net assets as at 31 December 2015 (audited)	<b>262,915</b>	<b>86,525</b>
Profit (loss) for the period	<b>7,371</b>	<b>(75,877)</b>
Translation reserve during the period	<b>(5,898)</b>	<b>(1,487)</b>
	<hr/>	<hr/>
Net assets as at 30 June 2016 (unaudited)	<b>264,388</b>	<b>9,161</b>
	<hr/>	<hr/>
Interests in associates (25%; 45%)	<b>66,097</b>	<b>4,122</b>
Goodwill	–	<b>267,410</b>
Impairment loss on interests in associates	–	<b>(267,555)</b>
	<hr/>	<hr/>
Carrying amounts as at 30 June 2016 (unaudited)	<b>66,097</b>	<b>3,977</b>
	<hr/> <hr/>	<hr/> <hr/>

### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets represent the Group's investments in Hong Kong listed equity securities. All the listed equity securities are stated at fair values which have been determined with reference to the closing prices quoted in active markets. The Group does not intend to dispose of these investments in the near future.

### 14. LOANS RECEIVABLES

	<b>30.6.2016 HK\$'000 (unaudited)</b>	<b>31.12.2015 HK\$'000 (audited)</b>
Pawn loans	–	363,331
Secured loans	<b>88,645</b>	–
	<hr/>	<hr/>
	<b>88,645</b>	363,331
Less: impairment allowances – collective assessed	–	<b>(3,633)</b>
	<hr/>	<hr/>
	<b>88,645</b>	<b>359,698</b>
	<hr/> <hr/>	<hr/> <hr/>

Due to loss of control and denial of access to books and records, pawn loans receivables of Xinsheng and Zhongyuan with carrying amount of HK\$359,698,000 have not been included in the current period after deconsolidation.

An aging analysis of the loans receivable that are not individually nor collectively considered to be impaired as at the end of the reporting period, is based on payment due date. The balance of HK\$88,645,000 is neither past due nor impaired.

## 15. TRADE AND OTHER RECEIVABLES

	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <b>HK\$'000</b> (audited)
Trade receivables arising from the business of dealing in securities: <i>(Note a)</i>		
– Cash clients	<b>1,220</b>	–
– Margin clients	<b>4,968</b>	–
Consultancy fee receivables	<b>394</b>	–
Trade receivables arising from insurance brokerage business <i>(Note b)</i>	<b>386</b>	–
Trade receivables arising from asset management business <i>(Note c)</i>	<b>51</b>	–
Trade receivables arising from warehouse tenants <i>(Note d)</i>	<b>483</b>	1,215
Other receivables	<b>2,202</b>	1,766
Less: Impairment loss for other receivables	<b>(601)</b>	(614)
	<b>9,103</b>	2,367

### Notes:

- (a) For the trade receivables from cash clients, it normally takes two days to settle after trade date of securities transactions. These outstanding unsettled trades due from clients are reported as trade receivables from clients. An aging analysis of the trade receivables from cash clients at the end of the reporting period, based on the settlement due date, is within 90 days. The trade receivable from cash clients with a carrying amount of HK\$1,220,000 are neither past due nor impaired at the end of the reporting period and the directors of the Company are of the opinion that the amounts are recoverable.

Trade receivables from margin clients amounting to HK\$4,968,000 as at 30 June 2016 are secured by clients' pledged securities with fair value of HK\$8,759,000. Trade receivables from margin clients arising from the securities brokerage business are repayable on demand subsequent to settlement date. No aging analysis is disclosed as in the opinion of Directors, the aging analysis does not give additional value in view of the nature of securities dealing business.

- (b) The normal settlement terms of accounts receivable from product issuers arising from the provision of brokerage services are within 45 days upon the execution of the insurance policies, investment product subscription agreements and/or receipt of statements from product issuers.
- (c) Credit terms with customers of investment advisory, funds dealing and asset management are mainly 30 to 60 days or a credit period mutually agreed between the contracting parties.

- (d) The Group allows an average credit period of 30 days to its warehouse tenants.

The following is an analysis of trade receivables by age based on invoice date of the Group at the end of reporting period:

	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <b>HK\$'000</b> <b>(audited)</b>
0 – 30 days	<b>469</b>	1,192
31 – 60 days	<b>4</b>	23
61 – 90 days	<b>10</b>	–
Over 90 days	<b>–</b>	–
	<b>483</b>	1,215

As at 30 June 2016, trade receivables of warehouse tenants of approximately HK\$14,000 (2015: approximately HK\$23,000) were past due but not impaired, as the balances were related to customers with sound repayment history and no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

## 16. CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that one is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

## 17. TRADE PAYABLES

	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <b>HK\$'000</b> <b>(audited)</b>
Trade payables from the business of dealing in securities: <i>(Note a)</i>		
– Cash clients	<b>16,892</b>	–
– Margin clients	<b>2,273</b>	–
– Clearing house	<b>3,689</b>	–
Trade payables arising from insurance brokerage business <i>(Note b)</i>	<b>379</b>	–
	<b>23,233</b>	–

*Notes:*

- (a) Trade payables to brokerage clients represent the monies received from and repayable to brokerage clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

The majority of the trade payables balance are repayable on demand except for certain balances relating to margin deposits received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

Trade payables to cash and margin clients are repayable on demand. No aging analysis is disclosed as in the opinion of directors of the Company, the aging analysis does not give additional value in view of the nature of business of share margin financing.

The settlement terms of trade payables arising from the securities brokerage business are two days after trade date or at specific terms agreed with clearing house. All of them are aged within 30 days.

- (b) Trade payables to consultants arising from provision of insurance brokerage agent service, are generally settled within 30 days to 120 days upon receipt of payments from product issuers/fund houses by the Group.

## 18. BORROWINGS

	<b>30.6.2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.12.2015 <i>HK\$'000</i> (audited)
Bank loans ( <i>Note a</i> )	<b>109,453</b>	123,548
Entrusted bank loans	–	41,779
Other loans	–	112,208
	<b>109,453</b>	<b>277,535</b>
Secured	<b>109,453</b>	277,535
Unsecured	–	–
	<b>109,453</b>	<b>277,535</b>
Carrying amount repayable:		
Within one year	<b>42,322</b>	199,945
More than one year, but not exceeding two years	<b>17,512</b>	17,905
More than two years, but not more than five years	<b>49,619</b>	59,685
More than five years	–	–
	<b>109,453</b>	<b>277,535</b>
Less: Amounts shown under current liabilities	<b>(42,322)</b>	(199,945)
	<b>67,131</b>	<b>77,590</b>

*Note:*

- (a) All bank loans are denominated in Renminbi and secured by pledge of warehouse with an aggregate carrying amount of approximately HK\$121,160,000, prepaid lease payments with aggregate carrying amount of approximately HK\$25,455,000 and pledged bank deposits amounting to approximately HK\$29,187,000. The loans carrying an effective interest at fixed rates ranging from 4.35% to 7.91% per annum.

## 19. CONVERTIBLE NOTES

In relation to the acquisition of the entire issued share capital of Oriental Credit Holdings Limited and its subsidiaries (the “Oriental Credit Group”), the consideration shall be satisfied by the Company by way of issue of convertible notes with an aggregate principal amount of HK\$150,000,000 (subject to adjustment) at zero coupon interest rate, which would be issued in three tranches (comprising the first convertible notes in the principal amount of HK\$80,000,000 (the “2014 Convertible Note”), the second convertible notes in the principal amount of HK\$35,000,000 (the “2015 Convertible Note”) and the third convertible notes in the principal amount of HK\$35,000,000 (the “2016 Convertible Note”).

2014 Convertible Note and 2015 Convertible Note with principal amount of HK\$85,401,768 and HK\$42,000,000 at conversion price of HK\$0.24 (after adjustment of share subdivision) was issued to the vendors of the Oriental Credit Group on 3 June 2015 and 15 March 2016 respectively. It entitled the note holders to convert it into ordinary shares of the Company at any time after the date of issuance of 2015 Convertible Note and ending on the 21st business day before the maturity date, which is on the fifth anniversary of the respective date of issuance of 2014 Convertible Note and 2015 Convertible Note. If the convertible notes has not been converted, it will be redeemed on maturity date at the entire principal amount.

The Convertible Note contains two components, liability and equity components. The equity component represents the value of the conversion option, which is credited directly to equity as convertible notes reserve of the Company and the Group. The liability component of the convertible notes is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The effective interest rate of the liability component is ranging from 9.98% to 12.89% per annum.

The carrying amounts of above-mentioned convertible notes recognised at the end of the reporting period were calculated as follows:

	<b>30.6.2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.12.2015 <i>HK\$'000</i> <b>(audited)</b>
<b>Equity component</b>		
Balance at beginning of the period/year	<b>101,192</b>	–
Issued during the period/year	<b>61,723</b>	101,192
Balance at end of the period/year	<b>162,915</b>	101,192
<b>Liability component</b>		
Balance at beginning of the period/year	<b>54,885</b>	–
Issued during the period/year	<b>21,985</b>	50,625
Effective interest expenses	<b>2,795</b>	4,260
Balance at end of the period/year	<b>79,665</b>	54,885
Principal amount, at end of the period/year	<b>127,402</b>	85,402

## 20. DEFERRED CONSIDERATION

At 30 June 2016, the deferred consideration includes 2016 Convertible Note is HK\$63,900,000. At 31 December 2015, the deferred consideration of HK\$127,920,000 includes 2015 Convertible Note for HK\$64,020,000 and 2016 Convertible Note for HK\$63,900,000.

## 21. SHARE CAPITAL

	<b>Number of shares '000</b>	<b>Nominal amount HK\$'000</b>
Authorised:		
Ordinary shares of HK\$0.005 each		
At 1 January 2015	421,978,000	2,109,890
Share subdivision	1,687,912,000	–
	<u>2,109,890,000</u>	<u>2,109,890</u>
Ordinary shares of HK\$0.001 each		
At 31 December 2015 and 30 June 2016	<u>2,109,890,000</u>	<u>2,109,890</u>
Preference shares of HK\$0.005 each		
At 1 January 2015	22,000	110
Share subdivision	88,000	–
	<u>110,000</u>	<u>110</u>
Preference shares of HK\$0.001 each		
At 31 December 2015 and 30 June 2016	<u>110,000</u>	<u>110</u>
Issued and fully paid:		
Ordinary shares of HK\$0.005 each		
At 1 January 2015	299,847	1,499
Placing of shares	59,600	298
Issue of shares upon acquisition of associates	71,800	359
Issue of shares upon rights issue	215,623	1,078
Share subdivision	2,587,483	–
	<u>3,234,353</u>	<u>3,234</u>
Ordinary shares of HK\$0.001 each		
At 31 December 2015 and 30 June 2016	<u>3,234,353</u>	<u>3,234</u>

## 22. ACQUISITION OF SUBSIDIARIES

According to the conditional sale and purchase agreements, an indirect wholly-owned subsidiary of the Company has conditionally agreed to acquire the entire issued share capital of Prominence Financials Limited (“PFL”) and Prominence Asset Management Limited (“PAM”) for a total cash consideration of the sum of HK\$38,914,000.

PFL is principally engaged in the provision of type 1 (dealing in securities) regulated activities under the Securities and Futures Ordinance (the “SFO”) in Hong Kong. PAM is principally engaged in the provision of type 9 (asset management) regulated activities under the SFO in Hong Kong.

The acquisition was completed on 9 March 2016. The net identified assets acquired and liabilities assumed, at fair value are as follows:

	<b>PFL</b> <i>HK\$'000</i>	<b>PAM</b> <i>HK\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	25	–
Intangible asset – trading right	500	–
Other assets	250	–
<b>Current assets</b>		
Loan receivables	2,632	–
Trade receivables	3,086	48
Prepayments, deposits and other receivables	459	–
Amount due from a related party	–	700
Cash held on behalf of clients	16,687	–
Bank balances and cash	10,195	190
Tax receivable	–	9
<b>Current liabilities</b>		
Trade payables	(16,668)	–
Accruals and other payables	(161)	(12)
Obligation under finance leases	(3)	–
Tax payable	(23)	–
	<u>16,979</u>	<u>935</u>

	<b>PFL</b> <i>HK\$'000</i>	<b>PAM</b> <i>HK\$'000</i>
Net identified assets acquired and liabilities assumed, at fair value	16,979	935
Goodwill arising from the acquisition	14,500	6,500
	<u>31,479</u>	<u>7,435</u>
Total fair value consideration	<u>31,479</u>	<u>7,435</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	31,479	7,435
Less: Cash and cash equivalent acquired of	(10,195)	(190)
	<u>21,284</u>	<u>7,245</u>

The directors have engaged an independent valuer to determine the fair value of the net tangible assets and intangible assets of PFL and PAM, in accordance with HKFRS 13. The identifiable intangible asset of trading rights is identified.

Goodwill arising from the acquisition represents the excess of the fair value of the considerations paid by the Group over the fair value of net assets acquired.

### **23. DE-CONSOLIDATION OF SUBSIDIARIES**

As mentioned in note 1 to the condensed consolidated financial statements, Xinsheng and Zhongyuan have been de-consolidated from the condensed consolidated financial statements of the Group as from 1 January 2016.

*Details of the aggregate net assets of the above-mentioned subsidiaries are set out below:*

	<b>Immediate before de-consolidation on 1.1.2016 HK\$'000</b>
Property, plant and equipment	817
Repossessed assets	41
Pawn loans receivables	359,698
Prepayment, deposits and other receivables	1,232
Cash and cash equivalents	33,834
Amounts due to the Group	(64,966)
Borrowings	(195,170)
Other payables and accruals	(11,216)
Tax payables	(713)
	<hr/>
Net assets acquired	123,557
Goodwill	195,996
Cumulative exchange loss in respect of the net assets	3,655
	<hr/>
Net loss on de-consolidation of subsidiaries	323,208
	<hr/> <hr/>
Analysis of net outflow of cash and cash equivalents arising from de-consolidation of subsidiaries	33,834
	<hr/> <hr/>

As at the date of this announcement, the outcome of the legal actions against Xinsheng, Shanghai Kuailu and Zhongyuan remained uncertain. As the abovementioned subsidiaries have been de-consolidated, the Directors considered the legal actions will not have any adverse impact on the condensed consolidated financial statements.

The Board resolved that the control over the Xinsheng and Zhongyuan by the Group has been lost in July 2016. Detail were set out in Group's announcement dated 12 August 2016.

## 24. RELATED PARTY DISCLOSURES

During the period, the Group had certain transactions with related parties. Details of these transactions for the six months ended 30 June 2016 and balances at 30 June 2016 with these related parties are as follows:

### Transaction with related parties

	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	30.6.2015 <i>HK\$'000</i> (unaudited)
Interest expenses	–	893
Brokerage commission income ( <i>Note a</i> )	<u>47</u>	<u>–</u>

### Balances with related parties

	<b>30.6.2016</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2015 <i>HK\$'000</i> (audited)
Entrusted bank loans	–	41,779
Trade receivables from the business of dealing in securities ( <i>Note b</i> )		
– Cash clients	285	–
– Margin clients	<u>13</u>	<u>–</u>

#### Notes:

- (a) During the current period, the Group received commission income from its director of a subsidiary for providing securities brokerage services.
- (b) The above balances are repayable on demand and bear interest at commercial rates which are similar to the rates offered to third party clients.

### Compensation of key management personnel

The remuneration of directors of key management during the period is approximately HK\$4,994,000 (six months ended 30 June 2015: approximately HK\$3,597,000).

## 25. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	<b>30.6.2016</b> <i>HK\$</i> <b>(unaudited)</b>	31.12.2015 <i>HK\$</i> (audited)
Pawn loans receivables ( <i>Note</i> )	–	113,569
Property, plant and equipment	<b>121,160</b>	118,024
Prepaid lease payments	<b>25,455</b>	26,403
Bank deposits	<b>29,187</b>	35,811
	<hr/> <b>175,802</b> <hr/>	<hr/> 293,807 <hr/>

*Note:* Since the Group has de-consolidated Xinsheng and Zhongyuan due to it being refused access of the books and records and pawnshop operation of these subsidiaries which resulted in a loss of control of these two companies, the pawn loans receivables pledged were not taken into consideration in arriving at the total amounts of assets pledged.

## 26. CONTINGENT LIABILITIES

As disclosed in note 1 to the financial statements, the directors of the Company have been unable to get access to the complete books and records of Xinsheng and Zhongyuan for the six months ended 30 June 2016. Given the Company is unable to access the complete sets of books and records, it is impossible and impracticable for the directors of the Company to ascertain the balances for the six months ended 30 June 2016. No representation is therefore made by the directors of the Company as to the completeness, existence and accuracy of the disclosure of contingent liabilities for the current period as of the date of issuance of the condensed consolidated financial statements.

In connection with the acquisition of Oriental Credit Group on 21 January 2015, the Group is subject to contingent liabilities including settlement of additional consideration by issuance of convertible notes arising after 21 January 2015 on the basis of 2016 Performance Target. The maximum principal amount of contingent convertible notes will be HK\$17,598,000. As at 30 June 2016, the directors were of the opinion that the 2016 Performance Target would not likely to be met according to the business development and to the best knowledge of the directors, therefore, the probability of issuance of contingent convertible notes is remote.

In connection with the acquisition of Intraday Financial Group on 8 July 2015, the Group may subject to contingent assets including receivable of cash compensation from Long Tu arising on the basis of 2016 Performance Target.

Except for the matter described above, the Group had no significant contingent liabilities as at 30 June 2016.

## 27. EVENTS AFTER THE REPORTING PERIOD

- (i) On 4 July 2016, the Company entered into a subscription agreement with an independent third party (the “Subscriber”), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 452,810,000 ordinary shares at the subscription price of HK\$0.270 per share (the “Subscription”).

All conditions precedent of the Subscription as set out in the subscription agreement have been satisfied, and the Subscription was completed on 14 July 2016 in accordance with the terms and conditions of the subscription agreement. Subject to Completion, the gross proceeds from the Subscription was approximately HK\$122,259,000.

- (ii) On 6 July 2016, the Company allotted and issued 498,990,258 shares in aggregate to the noteholders in respect of the exercise of the conversion rights attached to the 2014 Convertible Note and 2015 Convertible Note in an aggregate principal amount of HK\$119,757,662 at the conversion price of HK\$0.24 per share.

- (iii) On or around July 2016, the Group was informed by the senior management of Yousheng that representatives of Shanghai Kuailu, which is one of the registered shareholders of Xinsheng which holds 83.13% of equity interest, took possession of the business license, company seal, finance chops, and accounting books and records of Xinsheng and Zhongyuan and management operation of the Xinsheng and Zhongyuan. The management staff and employees of Xinsheng and Zhongyuan appointed by Yousheng were laid off, and Shanghai Kuailu appointed a number of employees and senior management to take up the operation of the Xinsheng and Zhongyuan. Since then, the Company is unable to access the complete sets of books and records, the business license, company seal and the finance chops of the Xinsheng and Zhongyuan and could not run the pawnshop operations. On 10 August 2016, legal actions have been taken by the Group against Shanghai Kuailu to enforce the rights of the Group under the VIE contracts signed with Shanghai Kuailu through application for arbitration to the SAC. The SAC has notified its acceptance of the filing of the application for arbitration on 18 August.

The relief sought in the applications for arbitration are enforcement of the exclusive call option agreement, authorization agreement, exclusive consulting service agreement and equity pledge agreement under the VIE Contracts in relation to Xinsheng and Zhongyuan. Further details of these applications for arbitration are disclosed in Company’s announcement dated 18 August 2016.

As at the date of issuance of this announcement, the arbitration is pending decision from SAC.

- (iv) On 11 July 2016, the Company received two writs of summons issued by Shanghai Kuailu as plaintiff in the Court of First Instance of the High Court of Hong Kong under action numbers HCA 1806 of 2016 (“First Action”) and HCA 1807 of 2016 (“Second Action”), respectively.

The Company is currently seeking legal advice in respect of the First Action and the Second Action. Based on the facts currently made known to the directors, the directors considered that the First Action and the Second Action shall not have material impact to the Company and its subsidiaries.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review and prospects

Turnover and segment results of the Group during the period under review are stated in the table below:

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Revenue from:</b>		
Industrial property development	6,176	6,750
Loan financing	13,558	44,705
General trading	–	–
Securities brokerage	1,002	–
Insurance brokerage	504	–
Asset management	4	–
	<u>21,244</u>	<u>51,455</u>
<b>Segment profit (loss) from:</b>		
Industrial property development	1	(10,875)
Loan financing	10,298	27,621
General trading	(263)	(77)
Securities brokerage	(451)	–
Insurance brokerage	(1,298)	–
Asset management	1	–
	<u>8,288</u>	<u>16,669</u>

### Industrial property development

The income generated from the warehouse operation in the PRC remained stable during the period under review. The income mainly represented the rental income for warehouse storage received from the tenants. The warehouse is located in Taicang, Jiangsu Province, the PRC. The total rentable area of the warehouse is approximately 48,600 square meters. The warehouse lease agreements are signed for periods ranging from 2 to 5 years. Currently, the warehouse was rented out to the tenants which were the local storage and logistic service companies at a fixed monthly rental.

The warehouse was 100% occupied in the majority of the period under review and rental income of HK\$6,176,000 and the year on year decrease is mainly due to the exchange rate difference as RMB depreciated over the period. However, certain warehouse lease agreements will be expired in the year of 2016 and the management is actively seeking potential business partners to occupy the vacant warehouse space.

The economy of the PRC is striving to regain its balance in 2016. With its close proximity to Shanghai and its convenience in term of transportation and access, the location of the warehouse is a key advantage to attract potential business partners and we are optimistic on the operations of the warehouse business which will continue to be a valuable assets of the Group as a whole.

### **De-consolidation of Xinsheng and Zhongyuan**

In 2015, following the acquisitions of the 100% equity interests of two target companies with subsidiaries engaging in the pawnshop businesses in Shanghai, the PRC, the Group, through its wholly-owned subsidiaries, 上海佑勝投資諮詢有限公司 (Shanghai Yousheng Investment Consulting Company Limited\*) (“Yousheng”) and 上海竣凝投資諮詢有限公司 (Shanghai Junning Investment Consulting Company Limited\*) (“Junning”) (each as “WFOE”) have controlled two pawnshops, namely, 上海新盛典當有限公司 (Shanghai Xinsheng Pawnshop Limited\*) (“Xinsheng”) and 上海中源典當有限公司 (Shanghai Zhongyuan Pawnshop Limited\*) (“Zhongyuan”) (each as “OPCO”) respectively through the variable interest entity contracts (“VIE Contracts”).

The VIE Contracts consist of a series of agreements, namely:

#### **(1) Exclusive Consulting Service Agreement**

The WFOE shall provide the OPCO with exclusive management consultancy services, including, among others, establishing appropriate business model, management and operation policies, and marketing plans and strategies, as well as provision of market and customer intelligence and research, and developing business and operational funding alternatives.

For services provided by the WFOE, the OPCO shall pay to the WFOE, as consultancy services fee, its entire profits before income tax (net of operating and other tax expenses) on an annual basis. The WFOE has the right to adjust the service fee in accordance with its services provided.

#### **(2) Equity Pledge Agreement**

The registered shareholders of the OPCO agreed to pledge the entire equity interest of the OPCO to the WFOE, as security for the payment obligation under the Exclusive Consulting Service Agreement. Under the Equity Pledge Agreement, except with prior written consent of the WFOE or under the terms of the Exclusive Call Option Agreement, the registered shareholders of the OPCO are prohibited from transferring any of their equity interest in the OPCO, or creating or allowing any creation of any pledge which may affect the rights and benefits of the WFOE.

### **(3) Exclusive Call Option Agreement**

The registered shareholders of the OPCO agreed to irrevocably grant a right to the WFOE that insofar as permitted under applicable PRC laws and regulations, they shall transfer their respective equity interests in the OPCO to the WFOE with nil consideration. In the event that consideration is required to be provided for such transfer under relevant PRC laws and regulations, such consideration shall be the minimum as permitted under applicable PRC laws and regulations, and that insofar as permitted under applicable PRC laws and regulations, the full amount of consideration received by or paid to the registered shareholders of the OPCO, shall be returned to the WFOE.

The registered shareholders of the OPCO shall, upon request from the WFOE at any time, immediately and unconditionally, transfer their entire equity interest in the OPCO to such representative(s) as nominated by the WFOE.

### **(4) Authorisation Agreement**

The registered shareholders of the OPCO have unconditionally and irrevocably authorized and appointed the WFOE or any party assigned by the WFOE to exercise, at the discretion of the WFOE, all the shareholder's rights of the OPCO including (without limitation) rights to approve shareholders' resolutions, file documents with the relevant state administration for industry and commerce, convene and vote in shareholders' meetings, transfer or otherwise dispose with the equity interest of the OPCO, and all shareholders' rights provided for under the PRC laws and the articles of the OPCO.

The WFOE has the right to authorize, at any time, any of its directors and their respective successors (including the liquidation committee of the WFOE upon liquidation of the WFOE), and the directors (and successors) of the OPCO as nominated by the WFOE (including members of the liquidation committee of the OPCO nominated by the WFOE upon liquidation of the OPCO), to exercise all rights granted to the WFOE under the Authorization Agreement, and such persons may only take instructions from the WFOE without seeking any prior consent from the OPCO.

Under the VIE Contracts, Yousheng and Junning has effective control over the financing and business operations of and are entitled to the economic interest and benefits of Xinsheng and Zhongyuan respectively.

In the financial year ended 31 December 2015, Xinsheng and Zhongyuan had contributed significantly to both the revenue and segment profit of the Group. For efficiency of management, both Xinsheng and Zhongyuan (collectively as "Pawnshop Operations") were managed by the same management team.

However, on or around July 2016, the Group was informed by the senior management of Yousheng that representatives of Shanghai Kuailu, one of the registered shareholders of Xinsheng which owned 83.13% of equity interests in Xinsheng, took possession of the business license, company seal, finance chops, and accounting books and records of the Pawnshop Operations. The management staff and employees of the Pawnshop Operations appointed by Yousheng were laid off, and Shanghai Kuailu appointed the management staff and employees to take up the Pawnshop Operations. Since then, the Company is unable to access the complete sets of books and records, the business license, company seal and the finance chops of the Pawnshop Operations and is unable to continue to run the Pawnshop Operations.

Due to the fact that the Company had been unable to (i) access the complete sets of books and records together with the supporting documents of the Pawnshop Operations and (ii) maintain and operate the business of the Pawnshop Operations, the Directors consider that the Company has lost its control over the Pawnshop Operations and the accounts of the Pawnshop Operations had been de-consolidated from the Group's financial statements from 1 January 2016.

As a result of the de-consolidation, a net loss on de-consolidation of subsidiaries of approximately HK\$323 million and an impairment loss on amount due from de-consolidated subsidiaries of approximately HK\$94 million are recorded for the period under review.

## **Litigations**

### ***PRC***

The Group has appointed a PRC legal advisor and the applications for arbitration to enforce the VIE Contracts have been filed and accepted by Shanghai Arbitration Commission ("SAC") in August 2016 ("Arbitration"). Details of the applications are set out in the announcement of 18 August 2016.

Up to the date of this announcement, the Arbitration is pending decision from the SAC. Nevertheless, the financial impacts of the deconsolidation is fully reflected in the financial period under review.

The Group is closely monitoring the situation and will continue to identify possible solutions and take all necessary actions to regain the control over the Pawnshop Operations.

### ***Hong Kong***

On 11 July 2016, the Company received two writs of summons issued by Shanghai Kuailu as plaintiff in the Court of First Instance of the High Court of Hong Kong under action numbers HCA 1806 of 2016 ("First Action") and HCA 1807 of 2016 ("Second Action") respectively.

In the First Action, Shanghai Kuailu is seeking a declaration that it is the beneficial owner of the 2014 convertible notes and the 2015 convertible notes; and (2) a declaration that 6 other defendants of the First Action have converted the 2014 convertible notes and the 2015 convertible notes to their own use. Shanghai Kuailu is also seeking various orders on the Company and other defendants in the First Action.

In the Second Action which is in relation to a dispute concerning 538,500,000 shares of the Company held by Long Tu Limited ("Subject Shares"), Shanghai Kuailu claims, inter alia, for (1) a declaration that Shanghai Kuailu is the beneficial owner of the Subject Shares; and (2) a declaration that 6 other defendants of the Second Action have converted the Subject Shares to their own use. Shanghai Kuailu is also seeking various orders on the Company and other defendants in the Second Action.

As at the date of this announcement, the Company has acknowledged service of the two writs of summons to the Court of First Instance of the High Court of Hong Kong and is currently awaiting the statement of claims to be provided by Shanghai Kuailu.

As the Company has not received any feedback from Shanghai Kuailu as to the above actions taken by the Company, the Company intends to resolve the disputes in relation to the Pawnshop Operations and Shanghai Kuailu by way of the Arbitration and legal proceedings in Hong Kong.

## **Mortgage and other secured loan**

Greater China Financing Limited (“GC Financing”), an indirectly wholly-owned subsidiary of the Company, was granted the Money Lenders Licence (No. 1593/2015) in early 2016 to start money lending business in Hong Kong. As the Hong Kong Monetary Authority has been implementing tight controls on lending activities of the financial institutions under its surveillance, our money lending business is positioned as an alternative to licensed banks by providing mortgage loan, securities financing and other secured loan services, with the competitiveness of diversified financing and loan arrangement and quick response to the market.

During the period under review, turnover of approximately HK\$10,980,000 was recorded which mainly represented the interest income generated from the loan portfolio in Hong Kong. As at 30 June 2016, the balance of the loan receivables was approximately HK\$88 million. Interest rate of the loans ranged from 16.8% to 36% per annum.

We have established stringent internal loan management system, including credit assessment and risk management. In addition, we cooperate tightly with external professionals for property valuation, credit check and legal counsel.

Though Hong Kong’s mortgage market has been more challenging in the past two years while the property market was experiencing downturn correction in the first half year of 2016, the quick sell-out of the first hand properties and the recent upward property price indices are sending promising signals, driven by the regain of the financial market. We will continue to actively explore more business and expand our loan products in the meanwhile elevating loan scrutiny policy and risk control.

## **Securities brokerage**

Upon completion of the acquisition of a licensed company by the Securities and Futures Commission of Hong Kong (“SFC”) to carry out Type 1 (dealing in securities) regulated activities under the Securities and Futures Ordinance (“SFO”) in March 2016, the Group officially ventured into the securities brokerage and dealing business. The securities brokerage business will provide a variety of securities related services including securities brokerage, securities trading and margin financing. If suitable opportunity arises, we will also provide placing and underwriting to our clients.

As the business of securities brokerage only consolidated into the Group in March this year and we are still streamlining the operation for future development, the financial contributions of the operation to the Group as a whole is yet to reflect to its full spectrum. During the period under review, turnover of approximately HK\$1 million is recorded which mainly were the commission income from securities brokerage and a segment loss of HK\$451,000 is resulted.

With the approval of the Shenzhen-Hong Kong Stock Connect Scheme by the State Council of the PRC, the new Shenzhen-Hong Kong Stock Connect is expected to be in place by end of this year which will further strengthen the position of Hong Kong as an international financial centre. It will also help to further attract investors from the PRC, especially those in Guangdong province, to invest in the stock market in Hong Kong. We will continue to broaden our client base with the hope to increase the volume of trading of securities through our platform and at the same time will explore the opportunity in the capital market including but not limited to placing or underwriting to our clients should suitable transactions arise.

## **Insurance brokerage**

Upon the completion of the acquisition of a company with the insurance brokerage license in late 2015, the company is formally renamed as Greater China Wealth & Risk Management Limited (“GCWRM”) in January 2016.

GCWRM, acting as an insurance broker, is a member of Professional Insurance Brokers Association (0680) and also a principal intermediary (“PI”) for carrying on MPF regulated activities. It engages in the insurance and MPF scheme brokerage business and provides a comprehensive professional insurance and financial planning services to satisfy clients’ needs. As an agent of our clients, we tailor-made financial solutions to each of our clients and provide an independent advisory services in connection with insurance products. Our line of businesses include long term (including linked long term) and general insurance business plus MPF regulated activities.

GCWRM establishes business relationship with the insurance companies by entering into the distribution agreements after an in-depth due diligence process. It provides financial planning services to our clients through our licensed representatives and the majority of our business is being generated from referrals and direct marketing.

In the first half of 2016, we commenced our insurance business by adding different insurance products, adding different business partners in order to diversify our product varieties to ensure the steady growth of insurance business. We also establish our wealth management team by building a full skeleton of our wealth management team which include sales and administration staff.

With the increasing demand of mainland Chinese in insurance products, our client base are strategically broadened. We will continue to diversify our business varieties and widen our recurring income stream. In addition, general insurance will be another income stream to support the steady growth of the business in the coming future.

## **Asset management**

The acquisition of a licensed company by the SFC to carry out Type 9 (asset management) regulated activities under the SFO was completed in March 2016.

The Group is setting up its asset management team with the aim to tap into the asset management market. We target to set up various investment fund portfolio to assist the potential high-net worth clients in managing their assets.

Despite the severe global stock market fluctuation in 2016, the Group believes the need for asset management by the high-net worth clients continues to rise and Hong Kong can continue to serve as a financial hub to attract investment fund from clients locally, cross border as well as in the Asian region. The asset management business of the Group is still in the start-up stage but we will strive to develop various investment funds in near future.

The Group also intends to build up its own investment portfolio in different industries in order to generate stable source of income when and as opportunities arise. The board considers that the setting up of its own investment portfolio is in long term investment nature with the long term goals of capital gains and investment returns. During the period under review, the Group had invested in various shares listed in Hong Kong with long term investment purpose.

In particular, in late December 2015, the Group had subscribed for 40,000,000 new shares in ShiFang Holding Limited (“ShiFang”) for a total cash consideration of approximately HK\$32 million. Subsequently, the Group continued to acquire the shares of ShiFang on the open market and a total of 70,106,000 shares of ShiFang were held by the Group up to the date of this announcement, represented approximately 4.8% of the total issued shares of ShiFang. The shares of ShiFang are listed on the main board of the Stock Exchange and it is principally engaged in the business of cultural media and advertising media in the PRC. During the period under review, the share price of ShiFang plummeted resulting in change in fair value of the investment portfolio of the Group to approximately HK\$100 million and the Board will continue to monitor its business development and future prospect. In addition, the Board will review the investment objective and strategy of the Group’s investment portfolio from time to time and devise a suitable investment plan for the Group as a whole.

### **Investment in Intraday Financial Group**

In 2015, the Group acquired 45% of share capital of Intraday Financial Information Service Limited with a subsidiary, 鼎泰潤和投資諮詢(上海)有限公司 (Dingtai Runhe Investment Consulting (Shanghai) Co., Ltd.\*) (“Intraday Financial Group”), engaging in the operation of an internet finance platform in the PRC through 上海當天金融信息服務有限公司 (Shanghai Dangtian Financial Information Services Co., Ltd.\*) (“Dangtian”) via the VIE Contracts.

For the operation of the internet finance platform, Dangtian enters into consulting service agreements with the asset management companies which will negotiate with companies with financing needs and develop suitable products of the companies to be placed for subscription on Dangtian’s internet platform by the potential investors.

The source of revenue of Dangtian from the internet platform is the transaction fee and servicing fee collected from the asset management companies. Transaction fee represents the fee paid for the work Dangtian performs through its internet finance platform for matching the investment products. Dangtian would also provide referral service to companies with financing needs to external financing institutions and referral income would be received.

During the period under review, the Group was informed by Intraday Financial Group that some of the asset management companies do not have sufficient cash to repay the investment principal of certain products to the investors when the products reach their maturity dates (“Repayment Issue”). As the management of Dangtian does not want the reputation of its platform and its operation being affected by the Repayment Issue, therefore, Dangtian has, for and on behalf of the asset management company, paid certain sums of the investment principal to the investors utilizing their internal resources. Dangtian was reimbursed for the payment later. However, the Repayment Issue persists.

Due to the Repayment Issue, together with the overall downturn on the P2P markets, the transaction volume of investment principal in the internet platform drops significantly. At the same time, Dangtian did not offer any products on its internet platform for subscription since June 2016 as the operational staff of Dangtian focused on liaising with the investors in relation to the continued Repayment Issue. As a result, the turnover dropped significantly for the period under review and a share of loss of associates amounted to approximately HK\$35 million is resulted.

Given the current status of operation of Intraday Financial Group, the projected cash flow estimation in the second half of 2016 onwards would be greatly undermined and the growth rate would be reduced significantly. As a result, the recoverable amount of the goodwill arising on acquisition of Intraday Financial Group is greatly reduced and an impairment of the goodwill of approximately HK\$268 million is recorded during the period under review.

### **General trading**

The general trading business has been inactive in 2015. During the period under review, there is no revenue from the general trading business.

However, in the second half of 2016, the Group had commenced the trading operation and identified an opportunity to tap into the wine trading market. With the experience in the warehouse operation and previous experience in trading, the management is optimistic in the development of the wine trading operation to contribute positively to the financial position of the Group as a whole.

### **Financial Review**

#### ***Administrative and Other operating Expenses***

Administrative and other operating expenses mainly consists of the operating expenses of each of industrial property development, loan financing, security brokerage and insurance brokerage as well as the overall administrative expenses including but not limited to the office utilities and administration, legal and professional fee, operating lease payments, employee benefit expenses, depreciation and amortization, etc. Administrative and other operating expenses amounted to HK\$43,032,000 during the period under review, which is decreased by HK\$2 million as compared to last period. The decrease mainly resulted from the net effect of the increase in the management and staff cost and the office rentals as the Group had expanded into several new businesses, the decrease in legal and professional fee and effect of de-consolidation of Pawnshop Operations incurred during the period.

#### ***Finance Costs***

During the period under review, finance cost of approximately HK\$7,142,000 representing the effective interest expenses on the bank and other borrowings. The decrease in the finance cost is a combined effect of the de-consolidation of the Pawnshop Operations which excluded the finance cost in the Pawnshop Operations and the inclusion of the effective interest on the convertible notes.

## ***Liquidity and Financial Resources***

As at 30 June 2016, the shareholders' fund and net current assets of the Group amounted to approximately HK\$348,453,000 (31 December 2015: HK\$1,161,745,000) and HK\$210,784,000 (31 December 2015: HK\$628,240,000) respectively. On the same date, the Group's bank balances and cash amounted to HK\$200,054,000 (31 December 2015: HK\$524,661,000) and the current ratio was 2.52 (31 December 2015: 3.02).

As at 30 June 2016, the Group's total borrowings amounted to approximately HK\$109,453,000 (31 December 2015: HK\$277,535,000). On the same date, the gearing ratio, measured on the basis of total borrowings over net assets, was 31% (31 December 2015: 24%).

There is no capital commitment in respect of the acquisition and construction of property, plant and equipment for the period under review (31 December 2015: nil).

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are mainly in Hong Kong dollars & Renminbi.

## ***Contingent liabilities***

Details of the contingent liabilities of the Group were set out in note 26 to the condensed consolidated financial statements.

## ***Capital Structure***

Details of the change in share capital of the Group were set out in note 21 to the condensed consolidated financial statements.

## ***Charges on assets***

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	<b>30.6.2016</b>	31.12.2015
	<b>HK\$'000</b>	HK\$'000
Pawn loans receivables	–	113,569
Property, plant and equipment	<b>121,160</b>	118,024
Prepaid lease payments	<b>25,455</b>	26,403
Bank deposits	<b>29,187</b>	35,811
	<b>175,802</b>	293,807

## ***Employees and Remuneration Policies***

As at 30 June 2016, the Group has approximately 55 employees. Remuneration is determined by reference to their respective qualifications and experiences and according to the prevailing industry practice. Besides salary payments, other staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme.

## **PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

During the period under review, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

## **CORPORATE GOVERNANCE**

The Group is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders of the Company ("Shareholders"). The Company has always recognized the importance of the transparency and accountability towards the Shareholders. It is the belief of the Board that Shareholders can maximize their benefits from good corporate governance.

During the period under review, the Board has reviewed the Company's corporate governance practices which are based on the principles and code provisions ("Code Provisions") as set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 of the Listing Rules. The Company has complied with the Code Provisions, except for the following deviations:

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

Mr. Shao Yonghua ("Mr. Shao") served as the chairman of the Board and Mr. Chen Ningdi ("Mr. Chen") served as the chief executive officer of the Company since 25 August 2015. Following the resignation of Mr. Shao and Mr. Chen in March and June 2016 respectively, Mr. Liu Kequan ("Mr. Liu") was elected as the chairman of the Board and chief executive officer of the Company in June 2016. The Board considers that Mr. Liu has extensive management experience and is responsible for the overall corporate strategies, planning and business development of the Company and he is under the supervision by the Board which is comprised of five independent non-executive Directors and a non-executive Director, which represent more than half of the Board, the Board considered that the interests of the Shareholders are adequately and fairly represented.

- Code Provision A.5 stipulates that a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of Directors and succession planning for Director.

The Board as a whole is responsible for the appointment of its own members. The chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidate recommended by the chairman and make recommendation of the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence and experience that they can contribute to the Company.

- Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Mr. Shao, the former chairman of the Board, resigned in March 2016 and due to another business engagement, Mr. Chen, the former chief executive officer, was unable to attend the annual general meeting of the Company held on 22 April 2016. However, Ms. Chan Siu Mun, a former executive director, took the chair of that meeting and an independent non-executive director, being the chairman of the audit committee and member of remuneration committee were present thereat and were available to answer questions to ensure effective communication with the Shareholders.

## **CHANGES IN DIRECTORS' INFORMATION**

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information on Directors are as follows:

1. Mr. Liu Kequan has been re-designated from a non-executive Director to an executive Director, the chairman of the Board and chief executive officer of the Company with effect from 30 June 2016.
2. Mr. Jin Bingrong, an independent non-executive Director, resigned as the chairman of Shanghai Da'an Financial Bill Delivery Co., Ltd. in April 2015.
3. Mr. Kwan Kei Chor, an independent non-executive Director, resigned as the company secretary of C&D International Investment Group Limited (Stock Code:1908) with effect from 1 May 2016.

## **AUDIT COMMITTEE**

The Company has established an audit committee (“Audit Committee”) with written terms of reference in compliance with the Code Provisions of the CG Code. The Audit Committee currently comprises five independent non-executive directors, including Mr. Kwan Kei Chor (Chairman), Mr. Jin Bingrong, Dr. Rui Mingjie, Mr. Zhou Liangyu and Dr. Lu Ziang.

The unaudited interim financial statements of the Group for the six months ended 30 June 2016 have been reviewed by the Audit Committee and the auditors of the Company, HLM CPA Limited.

## **EXTRACT OF AUDITOR'S INDEPENDENT REVIEW REPORT**

The unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2016 have been reviewed by the Company's auditor, HLM CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the interim report to the Shareholders. The Company's auditor has disclaimed the Group's interim condensed consolidated financial statements for the six months ended 30 June 2016, an extract of which is as follows:

## **BASIS FOR DISCLAIMER ON CONCLUSION**

### **(a) De-consolidation of subsidiaries**

As fully described in note 1 to the condensed consolidated financial statements, due to the managements appointed by the Group to Shanghai Xinsheng Pawnshop Limited (“Xinsheng”) and Shanghai Zhongyuan Pawnshop Limited (“Zhongyuan”) were replaced and were unable to exercise the right to manage the business of pawn broking and money lending in the PRC of Xinsheng and Zhongyuan under the Exclusive Consulting Service Agreements in July 2016, the Company had been unable to both i) access the complete sets of books and records together with the supporting documents and company chops of Xinsheng and Zhongyuan and ii) maintain and operate the business of Xinsheng and Zhongyuan. As such, the directors of the Company consider that the Company has lost its control over Xinsheng and Zhongyuan.

As a result, the directors considered it is appropriate to de-consolidate Xinsheng and Zhongyuan from the condensed consolidated financial statements of the Group as from 1 January 2016 even though the actual date for loss of control happened around July 2016 and the Company received Xinsheng and Zhongyuan’s management accounts every month up to June 2016, however, the Company was denied to access the books and records for review procedures and unable to control over the operations of Xinsheng and Zhongyuan. The net loss on de-consolidation of Xinsheng and Zhongyuan and impairment loss on the amounts due from the de-consolidated subsidiaries, based on the management accounts, were HK\$323,208,000 and HK\$94,203,000 respectively. As set out in note 23 to the condensed consolidated financial statements, the Group had de-consolidated the balance of liabilities included in de-consolidated subsidiaries as at 1 January 2016, which consisted of amounts due to the Group, borrowings, other payables and accruals and tax payables of HK\$64,966,000, HK\$195,170,000, HK\$11,216,000 and HK\$713,000 respectively.

In the opinion of the directors of the Company, the condensed consolidated financial statements at 30 June 2016 and for the six months ended prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the fact that they were denied access to the books and records of Xinsheng and Zhongyuan at the time of review. However, the de-consolidation of Xinsheng and Zhongyuan from the beginning of the year is a departure from the requirement of Hong Kong Financial Reporting Standard 10 “Consolidated Financial Statements”.

We have not been provided with sufficient information and explanations on the de-consolidation of Xinsheng and Zhongyuan and there were no alternative review procedures that we could perform to satisfy ourselves as to whether it was appropriate to de-consolidate the assets and liabilities with effect from 1 January 2016 and cease to recognise results of operations of Xinsheng and Zhongyuan from the condensed consolidated financial statements from the beginning of the financial year for the six months ended 30 June 2016. In addition, due to the unavailability of complete sets of books and records and the lack of information on the assets and liabilities of Xinsheng and Zhongyuan, we were unable to obtain sufficient appropriate evidences to determine whether the net loss on de-consolidation of subsidiaries and impairment loss on the amounts due from the de-consolidated subsidiaries of approximately HK\$323,208,000 and HK\$94,203,000 respectively, which were charged to the Group’s loss for the six months ended 30 June 2016, were free from material misstatement.

Due to insufficient information and explanation of Xinsheng and Zhongyuan, we were unable to complete our review procedure as to whether the de-consolidated liabilities should, to the extent unpaid, be recognised as liabilities of the Group.

**(b) Contingent liabilities and commitments**

As disclosed in note 1 to the condensed consolidated financial statements, due to the lack of complete books and records of Xinsheng and Zhongyuan, we have been unable to obtain sufficient appropriate evidence and explanations as to whether the contingent liabilities and commitments committed by the Company were properly recorded and accounted for and in compliance with the requirements of applicable HKFRSs including HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. There were no alternative procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments were free from material misstatements.

**DISCLAIMER ON CONCLUSION**

Because of the significance of the matters described in the Basis for Disclaimer on Conclusion paragraphs, we were unable to obtain sufficient appropriate evidence to form a conclusion on the interim financial information. Accordingly, we do not express a conclusion on the condensed consolidated financial statements.

**APPRECIATION**

On behalf of the Board, I would like to take this opportunity to thank our staff for their dedication, loyalty and integrity towards the Group. I would also like to express my gratitude to our Shareholders, customers and other business partners and professional consultants for their support to the Group.

By order of the board of  
**Greater China Financial Holdings Limited**  
**Liu Kequan**  
*Chairman*

Hong Kong, 29 August 2016

*As at the date of this announcement, the Board comprises Mr. Liu Kequan and Mr. Zhang Peidong as executive Directors; Mr. Yin Xiaoguang as non-executive Director; and Mr. Jin Bingrong, Mr. Kwan Kei Chor, Dr. Rui Mingjie, Mr. Zhou Liangyu and Dr. Lu Ziang as independent non-executive Directors.*

\* *For identification purposes only*