

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)
(於開曼群島註冊成立並於百慕達存續之有限公司)
(Stock Code 股份代號: 8239)

擴展迎未來
**Expand for
Future Growth**

Third Quarterly Report
第三季度報告
2014/15





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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 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 (the “**Board**”) of Directors is pleased to report the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three (the “**Quarterly Period**”) and nine (the “**Period**”) months ended 31 December 2014 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Turnover	4	80,166	20,900	149,239	69,161
Cost of sales		(17,912)	(19,471)	(54,958)	(63,452)
Gross profit		62,254	1,429	94,281	5,709
Other income, and other gains and losses, net	4	196	518	1,723	1,351
Selling and distribution costs		(171)	(170)	(513)	(513)
Administrative and other expenses		(13,828)	(13,253)	(38,015)	(38,532)
Settlement loss on early redemption of promissory note		–	–	(1,238)	–
Gain on disposal of subsidiaries	13	–	–	11,515	–
Fair value loss on an investment property		–	–	(41,000)	–
Fair value loss on contingent consideration	12	(401,719)	–	(398,496)	–
Impairment loss on goodwill	11	–	–	(262,546)	–
Impairment loss on intangible assets		–	–	(479)	–
Reversal of impairment on loans to customers		2,416	–	1,930	–
Finance costs	6	(7,112)	–	(14,767)	–
Loss before income tax	5	(357,964)	(11,476)	(647,605)	(31,985)
Income tax	7	(10,321)	(214)	(16,186)	(786)
Loss for the period		(368,285)	(11,690)	(663,791)	(32,771)
Attributable to:					
Owners of the Company		(368,814)	(11,734)	(665,077)	(33,006)
Non-controlling interests		529	44	1,286	235
		(368,285)	(11,690)	(663,791)	(32,771)
Loss per share attributable to owners of the Company	9				
Basic and diluted (in Hong Kong cents)		(38.09)	(1.79)	(75.62)	(5.26)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period	(368,285)	(11,690)	(663,791)	(32,771)
Other comprehensive (losses) income:				
<i>Items that may be/have been reclassified subsequently to profit or loss:</i>				
– Exchange differences on translation of financial statements of overseas subsidiaries	(322)	49	2,287	232
– Reclassification adjustment of exchange reserve on disposal of interest in overseas subsidiaries	–	–	(1,356)	–
Other comprehensive (losses) income for the period, net of income tax	(322)	49	931	232
Total comprehensive losses for the period	(368,607)	(11,641)	(662,860)	(32,539)
Attributable to:				
Owners of the Company	(369,377)	(11,685)	(664,432)	(32,774)
Non-controlling interests	770	44	1,572	235
	(368,607)	(11,641)	(662,860)	(32,539)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2014 (Unaudited)

	Issued capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Statutory reserve (note) HK\$'000	Other reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2014	6,559	218,334	131,109	120,794	-	-	-	2,069	(312,111)	166,754	4,057	170,811
Loss for the period	-	-	-	-	-	-	-	-	(665,077)	(665,077)	1,286	(663,791)
Other comprehensive income for the period	-	-	-	-	-	-	-	645	-	645	286	931
Total comprehensive losses for the period	-	-	-	-	-	-	-	645	(665,077)	(664,432)	1,572	(662,860)
Issue of new shares on placements	445	19,233	-	-	-	-	-	-	-	19,678	-	19,678
Issue of new shares on acquisition of subsidiaries	2,680	182,240	-	-	-	-	-	-	-	184,920	-	184,920
Issue of convertible bonds on acquisition of subsidiaries – equity component	-	-	-	-	-	-	569,660	-	-	569,660	-	569,660
Non-controlling interest arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	19,376	19,376
Appropriation to statutory reserve (note)	-	-	-	-	9,012	-	-	-	(9,012)	-	-	-
Recognition of equity component of convertible bonds-contingent consideration (note 12)	-	-	-	-	-	229,168	-	-	-	229,168	-	229,168
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(4,408)	(4,408)
At 31 December 2014	9,684	419,807	131,109	120,794	9,012	229,168	569,660	2,714	(986,200)	505,748	20,597	526,345

For the nine months ended 31 December 2013 (Unaudited)

	Issued capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2013	5,045	192,038	131,109	120,794	-	-	-	1,910	(251,054)	199,842	4,648	204,490
Loss for the period	-	-	-	-	-	-	-	-	(33,006)	(33,006)	235	(32,771)
Other comprehensive income for the period	-	-	-	-	-	-	-	232	-	232	-	232
Total comprehensive income for the period	-	-	-	-	-	-	-	232	(33,006)	(32,774)	235	(32,539)
Issue of new shares on rights issue	1,514	26,296	-	-	-	-	-	-	-	27,810	-	27,810
At 31 December 2013	6,559	218,334	131,109	120,794	-	-	-	2,142	(284,060)	194,878	4,883	199,761

Note:

Statutory reserve

In accordance with the relevant laws and regulations in the People's Republic of China (the "PRC") and Articles of Association of the subsidiaries incorporated in the PRC (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the paid-up capital of the PRC subsidiaries, any further appropriation is at the discretion of equityholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into paid-up capital by their equityholders in proportion to their existing equity holding, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of paid-up capital.

For the year ended 31 December 2014, HK\$9,012,000 was appropriated to the statutory surplus reserve funds from net profits of the PRC Subsidiaries.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Capital Finance Holdings Limited (the “**Company**”) (formerly known as “Ming Kei Holdings Limited”) 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 GEM. The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is Suites 3509-10, 35/F., Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong.

The Company is principally engaged in investment holding and its subsidiaries (together the “**Group**”) are principally engaged in (i) short-term financing services in the PRC; (ii) property investment, and (iii) business of coal trading between the PRC and Indonesia.

Pursuant to a special resolution in relation to the proposed change of company name at the extraordinary general meeting held on 9 October 2014 and was approved by the Registrar of Companies in the Bermuda and Hong Kong on 14 October 2014 and on 4 November 2014 respectively, the Company’s name was changed from Ming Kei Holdings Limited to Capital Finance Holdings Limited.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The unaudited condensed third quarterly financial statements of the Company for the nine months ended 31 December 2014 (the “**Third Quarterly Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”).

The preparation of the Third Quarterly Financial Statements requires the management to make judgments, 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 Third Quarterly 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 March 2014, 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, Hong Kong Accounting Standards (“**HKASs**”) and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). They shall be read in conjunction with the Group’s audited financial statements for the year ended 31 March 2014 (the “**Annual Report**”).

2.2 PRINCIPAL ACCOUNTING POLICIES

The Third Quarterly Financial Statements have been prepared under the historical cost convention, except for investment property and contingent consideration payable which are stated at fair value.

The accounting policies and methods of computation applied in the preparation of the Third Quarterly 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 effects on the results and financial position of the Group for the current period and prior accounting periods.

At the date of authorisation of the Third Quarterly Financial Statements, the Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the current period. The Directors have already commenced an assessment of the impact of these new/revised HKFRSs but are not yet in a position to reasonably estimate whether these new/revised HKFRSs would have a significant impact on the Group’s results of operations and financial position.

3. SEGMENT INFORMATION

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 comprised pawn loan business, micro-financing business, entrusted loan business and financial consultancy business in the PRC;
- (b) The coal trading segment comprised the business of coal trading in Hong Kong; and
- (c) The property investment segment comprised investment in various properties for rental income purposes in Hong Kong.

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

REPORTABLE SEGMENTS

The following tables present revenue, results and certain asset, liabilities and expenditure information for the Group's reportable segments for the nine months ended 31 December 2014 and 2013.

	(Unaudited)			
	For the nine months ended 31 December 2014			
	Short-term financing services HK\$'000	Coal trading HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue				
External sales and services and reportable segment revenue	89,675	57,794	1,770	149,239
Reportable segment (loss) profit	(186,117)	2,394	(40,414)	(224,137)
Impairment loss on goodwill	(262,546)	-	-	(262,546)
Impairment loss on intangible assets	-	(479)	-	(479)
Fair value loss on an investment property	-	-	(41,000)	(41,000)
Reversal of impairment on loans to customers	1,930	-	-	1,930

3. SEGMENT INFORMATION *(Continued)*

REPORTABLE SEGMENTS *(Continued)*

	(Unaudited)			
	For the nine months ended 31 December 2013			
Short-term financing services HK\$'000	Coal trading HK\$'000	Property investment HK\$'000	Total HK\$'000	
Segment revenue				
External sales and services and reportable segment revenue	–	66,506	2,655	69,161
Reportable segment profit	–	2,811	1,874	4,685

A reconciliation of reportable segment (loss) profit to consolidated loss before income tax is provided as follow:

	(Unaudited)	
	Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000
Loss before income tax		
Reportable segment (loss) profit	(224,137)	4,685
Interest income on bank deposits	1	2
Gain on disposal of subsidiaries	11,515	–
Settlement loss on early redemption of promissory note	(1,238)	–
Fair value loss on contingent consideration	(398,496)	–
Finance costs	(14,767)	–
Unallocated expenses	(20,483)	(36,672)
Consolidated loss before income tax	(647,605)	(31,985)

Except for the addition of the short-term financing services segment, there is no difference from the Annual Report in the basis of segmentation or in the basis of measurement of segment profit or loss.

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

	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover:				
Short-term financing services income	61,412	–	90,546	–
Short-term financing services expenses	(241)	–	(871)	–
Short-term financing services income, net	61,171	–	89,675	–
Sales of goods	18,848	20,015	57,794	66,506
Rental income	147	885	1,770	2,655
	80,166	20,900	149,239	69,161
Other income, and other gains and losses, net:				
Interest income on bank deposits	–	–	1	2
Loss on disposal of property, plant and equipment	–	–	(2)	–
Exchange gains (losses), net	(12)	18	7	18
Sundry income	208	500	1,717	1,331
	196	518	1,723	1,351

5. LOSS BEFORE INCOME TAX

This is arrived at after charging the following:

	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	17,912	19,471	54,958	63,452
Depreciation	231	411	845	1,292

6. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans	167	–	280	–
Effective interest on				
– convertible bonds	6,302	–	12,847	–
– promissory notes	643	–	1,640	–
Interest expense for loan portfolio	241	–	871	–
	7,353	–	15,638	–
Less: interest expense included in turnover	(241)	–	(871)	–
	7,112	–	14,767	–

7. INCOME TAX

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax — Hong Kong				
Charge for the period	(150)	214	300	786
Current tax — PRC				
Charge for the period	10,471	–	15,965	–
Deferred tax	–	–	(79)	–
	10,321	214	16,186	786

Provision for Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the current and prior periods.

According to the Enterprise Income Tax Law of the PRC, the income tax provision of the Group's operations in the PRC has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

A subsidiary which is operating in Lhasa, the PRC has been granted tax concessions by the local tax bureau and is entitled to Enterprise Income Tax at concessionary rate of 15%.

8. DIVIDEND

The Board does not recommend for payment of a dividend for the Period (2013: HK\$Nil).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the current and prior periods attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the current and prior periods as adjusted to reflect the issue of new shares on rights issue, placements and on acquisition of new subsidiaries.

The calculation of diluted loss per share for the current and prior periods are based on the loss for the periods attributable to the owners of the Company, while the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the periods, as used in the basic loss per share calculation, 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.

As the Company's outstanding convertible bonds had an anti-dilutive effect to the basic loss per share calculation for the current and prior periods, 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 respective periods are the same.

The calculation of basic and diluted loss per share is based on:

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss				
Loss attributable to the owners of the Company, used in the basic and diluted loss per share calculations	(368,814)	(11,734)	(665,077)	(33,006)

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 December		31 December	
	2014	2013	2014	2013
	'000	'000	'000	'000
Shares				
Weighted average number of ordinary shares for basic and diluted loss per share calculations	968,380	655,880	879,557	627,543

10. ACQUISITION OF SUBSIDIARIES

On 23 December 2013, the Company through its wholly-owned subsidiary, Star Capital Global Limited (the **"Purchaser"**) entered into an acquisition agreement (the **"Acquisition Agreement"**) with Exuberant Global Limited (**"Exuberant Global"**), Bustling Capital Limited (**"Bustling Capital"**) and Time Prestige Holdings Limited (**"Time Prestige"**), together, being the vendors (the **"Vendors"**) collectively holding the entire equity interest in Prima Finance Holdings Limited (**"Prima Finance"**), for the acquisition (the **"Acquisition"**) of the entire issued share capital (**"Sale Shares"**) of Prima Finance and the related sale loans (the **"Sale Loans"**), details of which are set out in the Company's circular dated 30 May 2014 (the **"Circular-VSA"**).

Pursuant to the Acquisition Agreement, the maximum consideration is HK\$900,000,000, which comprises the initial consideration (the **"Initial Consideration"**) of HK\$564,000,000 and the earn-out consideration (the **"Contingent Consideration"**) of HK\$336,000,000, all subject to adjustments, is to be satisfied as follows:

- (i) a maximum of HK\$100,000,000 by issue of the promissory notes (the **"Promissory Notes"**) by the Company to Exuberant Global;
- (ii) a maximum of HK\$93,800,000 by allotment and issue of the 268,000,000 new ordinary shares of the Company (the **"Consideration Shares"**) by the Company to the Vendors at the issue price of HK\$0.35 per share;
- (iii) a maximum of HK\$656,200,000 by issue of the convertible bonds (the **"Convertible Bonds"**) by the Company to the Vendors; and
- (iv) a maximum of HK\$50,000,000 in cash to Exuberant Global.

THE INITIAL CONSIDERATION

The Initial Consideration of HK\$564,000,000 shall be apportioned as follows:

- (i) the consideration for the Sale Loans shall be equivalent to the face amount of the Sale Loans at the date of completion of the Acquisition on a dollar-for-dollar basis; and
- (ii) the balance of the Initial Consideration after deducting (i) above shall be the initial consideration for the Sale Shares.

The Initial Consideration of HK\$564,000,000 shall be satisfied upon completion of the Acquisition by the Company in the following manner:

- (i) as to HK\$50,000,000 by the issue of the Promissory Notes to Exuberant Global or its nominee(s);
- (ii) as to HK\$420,200,000 by allotment and issue of the Convertible Bonds to Exuberant Global, Bustling Capital and Time Prestige respectively or their respective nominee(s) in the amount of HK\$255,630,000, HK\$117,550,000 and HK\$47,020,000 respectively; and
- (iii) as to HK\$93,800,000 by allotment and issue of 174,200,000, 67,000,000 and 26,800,000 Consideration Shares to Exuberant Global, Bustling Capital and Time Prestige respectively or their respective nominee(s) in the amount of HK\$60,970,000, HK\$23,450,000 and HK\$9,380,000 respectively.

The Convertible Bonds in an amount up to HK\$131,000,000 issued in (ii) above to Exuberant Global would be held by the Purchaser as a security for the fulfilment of the 2013 Target Profit as set out in the Circular-VSA. Deferred Convertible Bonds (as defined in the Circular-VSA) can be cancelled if the 2013 Actual Profit (as defined in the Circular-VSA) and 2014 Actual Profit (as defined in the Circular-VSA) of Prima Finance do not meet certain target levels.

10. ACQUISITION OF SUBSIDIARIES *(Continued)*

THE CONTINGENT CONSIDERATION

The Contingent Consideration of HK\$336,000,000 (if any) shall be paid in the following priority:

- (i) up to HK\$236,000,000 (subject to the available remaining balance after the issue of the Early-paid Earn-Out Convertible Bonds as set out in the Circular-VSA) by allotment and issue of the Convertible Bonds (the “**Contingent Convertible Bonds**”) to Exuberant Global or its nominee(s);
- (ii) up to HK\$50,000,000 by cash to Exuberant Global or its nominee(s); and
- (iii) up to HK\$50,000,000 by the issue of the Promissory Notes to Exuberant Global or its nominee(s).

According to the Acquisition Agreement, the Contingent Consideration will only be paid if Prima Finance is able to attain certain agreed levels of profit after tax for the years ended 31 December 2013 and 2014 collectively.

Further details of the Acquisition, the Initial Consideration and Contingent Consideration are set out in the announcement (the “**Announcement-VSA Completion**”) and the Circular-VSA of the Company dated 25 June 2014 and 30 May 2014 respectively.

On 25 June 2014, the Acquisition was completed and the fair values of consideration transferred/transferrable are as follows:

	HK\$'000
Initial Consideration	
– Promissory Notes	46,081
– Consideration Shares	184,920
– Convertible Bonds	860,078
	1,091,079
Contingent Consideration	
– Contingent Convertible Bonds	83,356
	1,174,435
Total consideration	1,174,435

10. ACQUISITION OF SUBSIDIARIES *(Continued)*

The Directors have engaged an independent valuer, Greater China Appraisal Limited (“GCA”) to determine the fair value of the Initial Consideration – Promissory Notes, Consideration Shares and Convertible Bonds, and Contingent Consideration to be recognised, in accordance with HKFRS 13 “Fair Value Measurement” issued by the HKICPA. Fair value is defined in HKFRS 13 as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. GCA has reviewed the methodologies and the key valuation parameters and business assumptions adopted.

The fair value of the Promissory Notes and Convertible Bonds included in the Initial Consideration is valued by Trinomial Option Pricing Model. Key valuation parameters include discount rates (for both Promissory Notes and Convertible Bonds), volatility (for Convertible Bonds only) and spot share price and conversion price (for Convertible Bonds only). The fair value of the Consideration Shares included in the Initial Consideration is valued based on last traded price of shares as of 25 June 2014.

The conversion option component of the Convertible Bonds included in the Initial Consideration is accounted for as equity instrument, which is credited directly to equity as convertible bonds equity reserve of the Company and the Group 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 acquisition.

The liability component of the Convertible Bonds included in the Initial Consideration is carried as a financial liability on the amortised cost basis until extinguished on conversion or redemption.

Based on the 2013 actual profit of Prima Finance, the Directors consider part of the Convertible Bonds of approximately HK\$6,699,000 (face value) as covered by the Initial Consideration would need to be withheld by the Company as Deferred Convertible Bonds according to terms of the Acquisition Agreement. However, the Directors have made an assessment about Prima Finance’s 2014 profit forecast and consider it is appropriate to assume such Deferred Convertible Bonds would need to be fully settled in 2015.

The amount of Contingent Convertible Bonds to be issued is subject to the 2014 Actual Profit, therefore the Contingent Consideration is classified as a financial liability, measured at fair value through profit or loss within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” issued by the HKICPA. Subsequent changes to the fair value of the Contingent Consideration will be recognised in profit or loss of the Group until the 2014 Actual Profit is determined. The subsequent accounting treatment of the contingent consideration is detailed in note 12.

The valuation of the Contingent Consideration is valued by GCA in accordance with HKFRS 13 and is mainly based on the financial position of the Group, the trading price of the Company’s shares, the latest financial information of Prima Finance, Prima Finance’s financial performance forecast and other relevant indicators. Trinomial Option Pricing Model is used for the valuation of Contingent Convertible Bonds. On 25 June 2014, based on Prima Finance’s 2014 financial performance forecast, the Directors estimate that HK\$83,356,000 of the Contingent Consideration will be required by way of issuance of the Contingent Convertible Bonds with face value amounting HK\$40,653,000. No Promissory Notes or cash will need to be issued/paid.

10. ACQUISITION OF SUBSIDIARIES (Continued)

On 25 June 2014, the net identifiable assets acquired and liabilities assumed, at fair value of Prima Finance are as follows:

	HK\$'000
Non-current assets	
Property, plant and equipment	1,020
Intangible assets	167,845
Other assets	695
Deferred tax assets	1,849
Current assets	
Prepayments, deposits and other receivables	5,636
Amounts due from related parties	4,349
Loans to customers, net	293,482
Cash and cash equivalent	95,694
Current liabilities	
Bank loans	(29,931)
Accrued expenses, other payables and deposits received	(4,832)
The Sale Loans	(5,000)
Current income tax liabilities	(7,848)
Non-current liabilities	
Deferred tax liabilities	(41,961)
	480,998
Net identifiable assets acquired and liabilities assumed, at fair value	480,998
100% fair value of the Sale Loans	5,000
Non-controlling interests	(19,376)
Goodwill arising from the Acquisition (Note 11)	707,813
	1,174,435
Net cash inflow arising on acquisition:	
Cash and cash equivalent acquired of	95,694

The Directors have engaged GCA to determine the fair value of the net tangible assets and intangible assets of Prima Finance as well as the Sale Loans acquired, in accordance with HKFRS 13. GCA has reviewed the methodologies and the key valuation parameters and business assumptions adopted.

Net tangible assets (i.e. other than intangible assets) refer to deferred tax liabilities and other net assets. For other net assets, their carrying values approximate their fair values as at 25 June 2014 given their short term in nature. For the deferred tax liabilities, it is associated with the identifiable intangible assets and is calculated using PRC corporate income tax rate of 25% on the fair value of the identifiable intangible assets.

10. ACQUISITION OF SUBSIDIARIES *(Continued)*

The identifiable intangible assets are the operating licences (the “**Pawn Licence**”) of the Pawn Broker Business (as defined in the Circular-VSA) of Prima Finance, and they are valued based on an Income Approach – Multi-Period Excess Earnings Method (“**MPEEM**”). MPEEM is a derivative of the discounted cash flow (“**DCF**”) method which is commonly adopted for the valuation of intangible assets. Using this technique, key valuation assumptions include discount rate, indefinite useful life of Pawn Licence, and contributory asset charges, etc. GCA estimates the future economic benefits attributed to the Pawn Licence. Such future economic benefits are then discounted at a rate which reflects all business risks in relation to the Pawn Licence. To estimate the economic benefits, the revenues for the Pawn Licence are projected over their useful lives. Based on the projected revenues, the costs associated with supporting the Pawn Licence are net off. The net income projection is then adjusted by contributory asset charges in order to derive the excess earnings attributable to the Pawn Licence. The contributory asset charges include returns on the assets that are used or used up in generating the profit of the Pawn Licence. Examples of such assets include fixed assets and assembled workforce.

With respect to the Sale Loans acquired, GCA has considered that its carrying value approximate its fair value because of its short term nature.

Goodwill arising from the Acquisition represents the excess of the fair value of the considerations to be paid by the Group over the fair value of identifiable intangible assets, net tangible assets and contingent liabilities (if any) of Prima Finance.

11. GOODWILL

	Unaudited 31 December 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Cost		
At 1 April	24,425	24,425
Acquisition of subsidiaries (Note 10)	707,813	–
Exchange realignment	1,744	–
	733,982	24,425
Accumulated impairment losses		
At 1 April	24,425	24,425
Impairment losses for the period	262,546	–
Exchange realignment	647	–
	287,618	24,425
Net carrying amount	446,364	–

Goodwill arising in prior years related to the acquisition of equity interest in China Indonesia Friendship Coal Trading Company Limited (“**CIFC**” together with its 90%-owned subsidiary are collectively referred to as the “**CIFC Group**”) and has been allocated to the coal trading cash generating unit (the “**Coal Trading CGU**”).

Goodwill attributable to the Coal Trading CGU was fully impaired in prior years.

11. GOODWILL *(Continued)*

Goodwill arising in the Period related to the acquisition of Prima Finance because the consideration paid for the acquisition effectively included amounts in relation to the benefits originated from fast growing pawn broker business, the business potential of the consulting business and the assembled workforce of the acquired business. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Goodwill acquired through business combination during the Period has been allocated to a distinct short-term financing cash-generating unit ("**Short-term Financing CGU**") for impairment test. The Directors have engaged an independent valuer, GCA to assist them to assess whether there is any impairment of goodwill in the Short-term Financing CGU. GCA has assessed the acquired business' business value (recoverable value) as well as discounted cash flows arising from the identifiable intangible assets and has also taken into consideration the historical performance and the financial performance of the acquired business and reviewed the reasonableness and appropriateness of the methodology and the key parameters and business assumptions adopted by the Directors.

The Group is of the opinion, based on the business value calculation, the Short-term Financing CGU are partially impaired (the "**Impairment-Goodwill**") by the amount of HK\$262,546,000 as compared with their recoverable amounts as at 30 June 2014 and was charged to profit or loss during the Period.

Key assumption used for business value calculation as at 30 June 2014 are as follows:

- Effective interest rates	19.8% – 38.6%
- Perpetual growth rate	3.0%
- Post-tax discount rate per annum	14.05%

The Impairment-Goodwill is largely due to the increase in the fair value of the Initial Consideration and Contingent Consideration. As disclosed in the Circular-VSA, the fair value of the Initial Consideration and Contingent Consideration as at the valuation date of 30 May 2014 was approximately HK\$744,401,000 and HK\$52,545,000 respectively. The market price of shares of the Company has increased since 30 May 2014 and up to 25 June 2014 (the "**Completion Date**"). The fair value of the Initial Consideration and Contingent Consideration of approximately HK\$1,091,079,000 and approximately HK\$83,356,000 respectively at the date of completion of the acquisition was estimated by GCA, which has increased as a result of such increase in the market price of shares of the Company, which in turn has resulted in a substantial amount of goodwill recognised in connection with the Acquisition.

During the Period, the Group is of the opinion, with reference to a professional valuation performed by GCA as at 31 December 2014 on the similar basis with 30 June 2014 valuation, that the Short-term Financing CGU was not impaired as compared with their recoverable amounts as at 31 December 2014 and 30 June 2014.

12. CONTINGENT CONSIDERATION

On 31 December 2014, the fair values of Contingent Consideration are as follows:

	(Unaudited) 31 December 2014 HK\$'000
Contingent Consideration	
– Convertible Bonds	387,738
– Cash	49,264
– Promissory Notes	44,850
	<hr/> 481,852 <hr/>

The Contingent Consideration as mentioned in note 10 is revalued at 31 December 2014 with reference to Prima Finance's 2014 Actual Profit. Based on the profit information of Prima Finance audited by Mazars CPA Limited ("**Mazars**") and the agreed-upon procedures report of Prima Finance's guaranteed profit for the year ended 31 December 2014 issued by Mazars on 4 February 2015, Prima Finance's 2014 Actual Profit exceeded the benchmarked contingent profit level for paying the Contingent Consideration in full and therefore the face value of the Contingent Consideration would be RMB264,812,000 (equivalent to approximately HK\$336,000,000, based on the exchange rate of RMB0.78813 = HK\$1, as referred to in the Acquisition Agreement). Pursuant to the Acquisition Agreement, the principal amount of the Convertible Bonds, Promissory Notes and cash to be allotted and issued or paid to Exuberant Global would be HK\$236,000,000, HK\$50,000,000 and HK\$50,000,000 respectively.

The Directors have engaged GCA to determine the fair value of the Contingent Consideration – Promissory Notes, Convertible Bonds and cash payable at 31 December 2014, in accordance with HKFRS 13 "Fair Value Measurement" issued by the HKICPA. GCA has reviewed the methodologies and the key valuation parameters and business assumptions adopted.

The fair value of the Promissory Notes included in the Contingent Consideration is valued by Hull-White model (with Trinomial Tree method). Key valuation parameters include time to maturity, discount rate, mean-reverting rate of short rate and volatility of short rate.

The fair value of the Convertible Bonds included in the Contingent Consideration is valued by Black-Scholes model (with Trinomial Tree method). Key valuation parameters include discount rate, time to maturity, spot share price, conversion price, risk free rate, and volatility of share price.

Key valuation parameters in valuation of cash payable included in the Contingent Consideration include time to maturity and discount rate.

The fair value loss on Contingent Consideration of HK\$398,496,000 in the Period is the result of the increase in fair value – Contingent Consideration from HK\$83,356,000 on Completion Date to HK\$481,852,000 on 31 December 2014. This is mainly due to the significant growth in profit of Prima Finance since the completion of the Acquisition on 25 June 2014.

Upon determination of Prima Finance's 2014 Actual Profit, at 31 December 2014, the conversion option component of the Convertible Bonds included in the Contingent Consideration is accounted for as equity instrument and is determined after deducting the fair value of the liability component of HK\$158,570,000 from the total fair value amount of the Convertible Bonds of HK\$387,738,000. The residual amount of HK\$229,168,000 represents the value of the conversion option component, which is credited directly to equity in other reserve and would be transferred to convertible bonds equity reserve of the Company and the Group until issuance of the Convertible Bonds.

The liability component of the Convertible Bonds included in the Contingent Consideration is recognised as a financial liability on the amortised cost basis until extinguished on conversion or redemption.

13. DISPOSAL OF SUBSIDIARIES

On 5 September 2014, the Group disposed of (i) its 100% equity interests in Star Trading International Investment Company Limited (“STII”) and its subsidiary (together referred to as the “STII Group”); and (ii) its aggregate advance owed by the STII Group (the “STII Group Shareholder’s Loan”), to an independent third party at an aggregate cash consideration of HK\$20,000,000 (collectively the “Disposal”). Further details of the completion of the Disposal are set out in announcement of the Company dated 5 September 2014. The net assets of the STII Group at the date of disposal were as follows:

	HK\$'000
Property, plant and equipment	9,378
Prepayments, deposits and other receivables	1
Cash and cash equivalents	176
Accrued expenses and other payables	(103)
The STII Group Shareholder’s Loan	(23,103)
<hr/>	
Net liabilities of the STII Group	(13,651)
Assignment of the STII Group Shareholder’s Loan	23,103
Reclassification adjustment of exchange reserve on disposal of interest in an overseas subsidiary	(1,356)
Direct costs incurred for disposal	389
Gain on disposal of subsidiaries	11,515
<hr/>	
Total consideration	20,000
<hr/>	
Satisfied by:	
Cash	20,000
<hr/>	
Net cash inflow arising on disposal:	
Cash consideration	20,000
Costs directly attributable to the disposal	(389)
Cash and cash equivalent balances disposed of	(176)
<hr/>	
	19,435
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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Capital Finance Holdings Limited (the “**Company**”) and its subsidiaries (together referred as the “**Group**”) is principally engaged in (i) short-term financing services in the People’s Republic of China (the “**PRC**”); (ii) property investment; and (iii) business of coal trading between the PRC and Indonesia.

The Group recorded total turnover of approximately Hong Kong dollar (“**HK\$**”) 149,239,000 (2013: approximately HK\$69,161,000) for the nine months period ended 31 December 2014 (the “**Period**”) representing an increase of approximately HK\$80,078,000 over the corresponding prior period. The new short-term financing services business generated additional and steady income of approximately HK\$89,675,000 (2013: Nil). Since then, the gross profit of the Group was improved to approximately HK\$94,281,000 for the Period (2013: approximately HK\$5,709,000).

The Group has recorded an one-off gain of approximately HK\$11,515,000 (2013: Nil) arising from the disposal of Star Trading International Investment Company Limited (“**STII**”) and its subsidiaries (together referred as the “**STII Group**”), which has been completed on 5 September 2014.

The selling and distribution costs for the Period was similar to the last corresponding period of approximately HK\$513,000 (2013: approximately HK\$513,000), which were arising from the coal trading business.

The administrative and other expenses for the Period decreased by approximately HK\$517,000 to approximately HK\$38,015,000 (2013: approximately HK\$38,532,000) was mainly due to the payment of legal and professional fees for the acquisition of the new short-term financing services business in the last corresponding period. The decrease was partly offset by the inclusion of the new short-term financing services business in the Period.

The substantial loss attributable to the owners of the Company for the Period was approximately HK\$665,077,000 (2013: approximately HK\$33,006,000) was mainly due to the (i) non-cash impairment loss on goodwill (“**Impairment-Goodwill**”) arising from the acquisition of Prima Finance Holdings Limited (“**Prima Finance**”) and its subsidiaries (collectively referred as “**Prima Finance Group**”); (ii) settlement loss on early redemption of promissory note; (iii) non-cash fair value loss on an investment property; (iv) increase in effective interest expenses on convertible bonds and promissory notes issued in the Period; and (v) fair value loss on earn-out consideration (“**Contingent Consideration**”) for the acquisition of short-term financial services business mainly arising from the fulfilment of profit guarantee for the year ended 31 December 2014. The above mentioned impairment loss, fair value loss on investment property and effective interest expenses are non-cash adjustments and will not affect working capital sufficiency of the Group.

Coal Trading Business

Since the financial year 2013/2014, there was reduction in selling price per metric tonne of coal sold, but it did not have significant impact to the cash flows or the operating model of the coal trading business pursuant to pages 18 and 19 of the circular (the “**Indonesia Circular**”) of the Company dated 14 October 2010, in particular maintaining a positive price gap between the purchase price and the selling price subject to the bargaining power of the Group against the customer and the supplier in each transaction and the fluctuation of the international coal price. The price negotiation will continue until each of the parties is satisfied and the Group is able to obtain a positive price gap. Given the master framework purchase agreement (the “**LOIs**”) separately signed with the customers and suppliers to sell and purchase 30,000 metric tonnes (subject to (+/-) 10% fluctuation) of Indonesian coal per month, and will be renewed automatically upon expiration with same trading terms and conditions, the coal trading business will continue and provide a stable and regular source of income to the Group.

Pursuant to the Indonesia Circular, given the LOIs, existing coal trading business will continue and provide a steady source of income and positive impact on the earnings to the Group. The board of directors (the **"Directors"**) of the Company (the **"Board"**) has remained positive about the future prospect of the existing coal trading business in long run in view of stable business relationship with its customer or supplier. The Group will continue monitoring the selling price of steam coal as well as the controls over costs and related expenses towards the coal trading operations to ensure its continued profitability.

The decrement of turnover and reportable segment profit of coal trading business by approximately HK\$8,712,000 to approximately HK\$57,794,000 (2013: approximately HK\$66,506,000) and approximately HK\$417,000 to approximately HK\$2,394,000 (2013: approximately HK\$2,811,000) was due to the reduction in selling price per metric tonne of coal sold and the reduction in the average positive price gap between the purchase price and the selling price.

Property Investment

The property investment segment continued to have rental income of HK\$1,770,000 (2013: HK\$2,655,000). Although the segment results recorded a loss of approximately HK\$40,414,000 due to non-cash fair value loss (the **"FV Loss-IP"**) on investment property of approximately HK\$41,000,000, the reportable segment profit before the FV Loss-IP was approximately HK\$586,000 (2013: approximately HK\$1,874,000). The FV Loss-IP is non-cash in nature and has no impact on the operating cash flows of the Group.

The investment property located in Tuen Mun was valued at HK\$60,000,000 on 31 December 2014 (31 March 2014: HK\$101,000,000) in accordance with the valuation performed by an independent valuer. The decrease in valuation was mainly due to the decrease in rental rate in the area as a result of oversupply of industrial premises in the area.

Short-term Financing Services

The Group has recorded losses for the last five consecutive financial years. For the two years ended 31 March 2013 and 2014, the Group recorded consolidated loss for the year from the continuing operations of approximately HK\$25,207,000 and approximately HK\$61,646,000 respectively. In view of the unsatisfactory performance of the Group and as part of the business plan as stated in the annual report of the Company for the year ended 31 March 2014, the Group has been exploring and evaluating new businesses and investment opportunities which could be of good potential and/or long-term benefits to the Group and the Shareholders.

To this end, the Company has identified Prima Finance Group as an appropriate acquisition target to the Group and the Directors are of the view that the acquisition (the **"Acquisition"**) of the entire equity interest in Prima Finance and the related sale loans would allow the Group to diversify into a new line of business with significant growth potential. Since the completion date of the Acquisition (the **"Completion Date"**), the Group has extended its reach into the field of short-term financing services in the PRC, making a strategic long-term investment of the Group. Details are set out in the Company's announcement dated 25 June 2014 (the **"Announcement – VSA Completion"**) and the Company's circular dated 30 May 2014 (the **"Circular – VSA"**).

During the Period, the turnover of short-term financing services business was approximately HK\$89,675,000. Although the segment results of the short-term financing services recorded a loss (the “**Segmental Loss**”) of approximately HK\$186,117,000 due to the Impairment-Goodwill of approximately HK\$262,546,000. Excluding both the Impairment-Goodwill and the non-cash reversal of impairment (the “**Reversal of Impairment-Loans to Customers**”) on loan to customers of approximately HK\$1,930,000, the reportable segment profit before the Impairment-Goodwill and Reversal of Impairment-Loans to Customers was approximately HK\$74,499,000. The Impairment-Goodwill and Reversal of Impairment-Loans to Customers are non-cash in nature and do not have any impact on the operating cash flows of the Group and the Board remains positive on the prospects of the business of short-term financing services.

During the Period, management of the Group determined that the Impairment-Goodwill of approximately HK\$262,546,000 on the short-term financing cash generating unit of short-term financing services segment containing goodwill. The Impairment-Goodwill is largely due to the increase in the fair value of the initial consideration (the “**Initial Consideration**”) of the Acquisition and Contingent Consideration. As disclosed in the Circular-VSA, the fair value of the Initial Consideration and Contingent Consideration as at the valuation date of 30 May 2014 was approximately HK\$744,401,000 and HK\$52,545,000 respectively. The market price of shares of the Company has increased since 30 May 2014 and up to the Completion Date. The fair value of the Initial Consideration and Contingent Consideration of approximately HK\$1,091,079,000 and approximately HK\$83,356,000 respectively at the Completion Date as estimated by Greater China Appraisal Limited (“**GCA**”), which has increased as a result of such increase in the market price of shares of the Company, which in turn has resulted in a substantial amount of goodwill in connection with the Acquisition.

Normalised reportable segment results – short-term financing services

To better present the actual operating results by adjusting the non-cash Impairment-Goodwill and Reversal of Impairment-Loans to Customers of approximately loss of HK\$262,546,000 and approximately gain of HK\$1,930,000 respectively, the Segmental Loss for the Period has to be adjusted upward from approximately HK\$186,117,000, under the best estimate by management, to a normalised profit of the short-term financing services for the Period of approximately HK\$74,499,000.

	For the nine months ended 31 December 2014 HK\$'000 (Unaudited)
The Segmental Loss – short-term financing services	(186,117)
Add back: Impairment-Goodwill	262,546
Less: Reversal of Impairment – Loans to Customers	(1,930)
<hr/>	
Underlying earnings before tax – short-term financing services	74,499

The short-term financing services business has recorded a healthy growth in loans receivables since the Group acquired the business on 25 June 2014. Loans outstanding to customers (net of impairment loss) has increased by 32.15% from HK\$293,482,000 on acquisition date to HK\$387,849,000 at 31 December 2014. Management of the Group forecast demand for short-term finance continues to be strong over the final quarter of the financial year 2014/15 especially during the holiday season of Chinese New Year.

Save as disclosed herein and in the section “Material Events after Reporting Date”, there was no other significant investment held as at 31 December 2014, or plan for material investments or capital assets as at the date of this report, nor were there other material acquisitions and disposals of subsidiaries during the Period.

Prospects

Looking ahead, the Group is well-positioned to capitalise on the potential market growth for the short-term financing services business in the PRC and are optimistic about the long-term development of the short-term financing services business in the PRC, the implementation of business plan of the Prima Finance Group catering for the needs of the customers as well as the growth and prospects of the businesses of the Prima Finance Group. At the same time, our strategy on business diversification remains. We will also consider developing new businesses in short-term financing services while continuously seeking potential investment opportunities so as to maximize the returns for the shareholders of the Company in a prudent and pragmatic manner.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2014, the Group has bank borrowings of HK\$42,084,000 (31 March 2014: Nil) denominated in Hong Kong dollars and Renminbi (“**RMB**”) and other debt of HK\$584,909,000 (31 March 2014: Nil) in Hong Kong dollars. The debt ratio, calculated as total liabilities over total assets of the Group as at 31 December 2014 was approximately 0.58 (31 March 2014: approximately 0.26).

The Group have stand-by banking facilities of approximately HK\$1,891,000 as at 31 December 2014 (31 March 2014: Nil).

As at 31 December 2014, the Group had cash and cash equivalents (the “**Liquidity Resources**”) of approximately HK\$51,769,000 (31 March 2014: approximately HK\$1,381,000) which are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. To manage liquidity risk, management monitors forecasts of the Group’s liquidity reserve and cash and cash equivalent on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

Save as disclosed in this report, the Group has no material capital expenditure commitments as at 31 December 2014.



SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

On 23 December 2013, the Group entered into a conditional sale and purchase agreement in relation to the acquisition of Prima Finance Group at a maximum consideration of HK\$900,000,000. The transaction is completed on 25 June 2014. Details are set out in note 10 of the unaudited condensed third quarterly financial statements of the Company of this report, the Announcement-VSA Completion and the Circular-VSA.

On 5 September 2014, the Group has entered into a disposal agreement with Worldtrade Access Limited for the disposal of the entire issued share capital and shareholder loan of STII and its subsidiaries at a consideration of HK\$20,000,000. The principal asset of STII Group is the interests in a property located in Shenzhen. Details are set out in note 13 of the unaudited condensed third quarterly financial statements of the Company of this report.

MATERIAL EVENTS AFTER REPORTING DATE

On 13 January 2015, Beijing Wanchi Technology Company Limited* and United Tone Investments Limited, both wholly-owned subsidiaries of the Company and as purchasers, entered into conditional sale and purchase agreement (the “**Agreement**”) to purchase the entire equity interest in Beijing Auto-serve Software Company Limited* and the entire issued share capital of Vibrant Youth Limited for a maximum consideration of RMB55,000,000 (equivalent to approximately HK\$68,750,000) payable in cash and by the issue and allotment of the shares of the Company.

The maximum consideration is RMB55,000,000 (equivalent to approximately HK\$68,750,000) which will be satisfied by the Group in the following manners:

- (i) an amount of RMB5,000,000 (equivalent to approximately HK\$6,250,000) will be paid in cash to Mr. Xi Benye and Ms. Wang Yan (or their nominee(s)) upon completion;
- (ii) an aggregate of RMB4,000,000 (equivalent to approximately HK\$5,000,000) will be settled by the allotment and issue of 10,869,565 consideration shares at an issue price of RMB0.368 (equivalent to HK\$0.46 pursuant to the Agreement) to Success Yields Limited and Perennial Fortune Limited (or their nominee(s)) upon completion; and
- (iii) a maximum of RMB46,000,000 (equivalent to approximately HK\$57,500,000) which will be settled by the allotment and issue of a maximum of 125,000,000 consideration shares at an issue price of RMB0.368 (equivalent to HK\$0.46 pursuant to the Agreement) to Success Yields Limited and Perennial Fortune Limited (or their nominee(s)) upon fulfilment of the guaranteed profits for the years ending 31 December 2015 and 2016.

Pursuant to the Agreement, the vendors and the guarantors have severally guaranteed and warranted that the audited consolidated net profit after tax of the target companies, as prepared in accordance with the HKFRSs, for the financial years ending 31 December 2015 and 2016 shall not be less than RMB5,500,000 (equivalent to approximately HK\$6,875,000) and RMB10,000,000 (equivalent to approximately HK\$12,500,000) respectively.

Further details of the Agreement are set out in the announcements of the Company dated 13 January 2015 and 23 January 2015.

(For the purpose of this section, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.25. The exchange rates have been used, where applicable, for the purposes of illustration only.)

* for identification purpose only

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2014, the Group employed a total of 95 employees (31 March 2014: 13). 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. The total employee remuneration, excluding Directors' remuneration, for the Period amounted to approximately HK\$7,944,000 (2013: approximately HK\$3,103,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2014.

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

As at 31 December 2014, 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 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 Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the Shares

Name of Directors	Capacity	Number of ordinary Shares held	Approximate percentage of shareholding in the Company
Mr. Wong Wai Sing (" Mr. Wong ")	Beneficial owner	36,400	0.01
	Interest of a controlled corporation (<i>Note</i>)	75,676 (<i>Note</i>)	0.01

Note: Mr. Wong is the chairman of the Company and the executive Director. Of the 112,076 Shares, 75,676 Shares are held by Ming Kei International Holding Company Limited ("**MKIH**"), a company which is wholly and beneficially owned by Mr. Wong, the sole executive director of MKIH. Accordingly he is deemed to be interested in such 75,676 Shares.

Save for those disclosed above, as at 31 December 2014, 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 Exchange pursuant to the Model Code.

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 required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries by the Company, the Directors have confirmed that they have complied with the provisions of Model Code throughout the Period.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 2 August 2012 (the “**New Scheme**”) to replace the share option scheme adopted on 26 October 2002 (the “**Old Scheme**”) which has been terminated on even date. No option has been granted or exercised under the New Scheme during the Period. As at 31 December 2014 and 31 March 2014, there were no outstanding share options under the Old Scheme and New Scheme.

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of the Shares, or debentures of the Company or any other body corporate.

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

The register of substantial Shareholders pursuant to Section 336 of the SFO showed that, as at 31 December 2014, the following companies had interests in more than 5% of the Company’s issued share capital:

Long positions 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)	1,507,428,571	–	1,507,428,571	155.66
Mr. Dai Di (Note 1)	–	1,507,428,571	1,507,428,571	155.66
Time Prestige Holdings Limited (Note 2)	161,142,857	–	161,142,857	16.64
Mr. Dai Hao (Notes 2 and 3)	–	563,999,999	563,999,999	58.24
Bustling Capital Limited (Note 3)	402,857,142	–	402,857,142	41.60
Ms. Jin Yu (Notes 2 and 3)	–	563,999,999	563,999,999	58.24
Silver Palm Limited (Note 4)	71,428,571	–	71,428,571	7.38
Mr. Wang Jia Sheng (Note 4)	–	71,428,571	71,428,571	7.38

Notes:

1. The 1,507,428,571 Shares held by Exuberant Global Limited ("**Exuberant Global**") represent the 174,200,000 Shares and 658,942,857 Conversion Shares to be issued upon full conversion of the convertible bonds, and a maximum of 674,285,714 Conversion Shares to be issued upon full conversion of the convertible bonds to be issued to Exuberant Global subject to the fulfilment of the profit achievement. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 1,507,428,571 Shares.
2. The 161,142,857 Shares held by Time Prestige Holdings Limited ("**Time Prestige**") represent the 26,800,000 Shares and 134,342,857 Conversion 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, Mr. Dai Hao is also deemed to be interested in 402,857,142 Shares held by Bustling Capital Limited ("**Bustling Capital**").
3. The 402,857,142 Shares held by Bustling Capital represent the 67,000,000 Shares and 335,857,142 Conversion Shares to be issued upon full conversion of the convertible bonds. Bustling Capital is wholly and beneficially owned by Ms. Jin. Accordingly, Ms. Jin 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 is also deemed to be interested in the 161,142,857 Shares held by Time Prestige.
4. The 71,428,571 Shares held by Silver Palm Limited ("**Silver Palm**") represents the 71,428,571 conversion Shares to be issued upon full conversion of the convertible bonds. 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. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Wang is an independent third parties, parties which are not connected persons of the Company (as defined in the GEM Listing Rules) and are independent of and not connected with the Company and its connected persons.
5. The percentage represents the number of Shares interested divided by the number of the issued Shares as at 31 December 2014.

Save as disclosed above, the directors of the Company are not aware of any person (other than the directors of the Company 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 31 December 2014, 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.

INTERESTS IN A COMPETING BUSINESS

As at 31 December 2014, none of the Directors, the management Shareholders or substantial Shareholders or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any business that competes or might compete with the business of the Group, or have any other conflict of interests with the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries has purchased, redeemed, sold or cancelled any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE PRACTICES

Throughout the Period, the Company has been fully compliant with all the code provisions set out in Appendix 15 Corporate Governance Code (the "CG Code") of the GEM Listing Rules with the exception of the following deviations:

CODE PROVISION A.4.1

Code Provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

DEVIATION

Non-executive Directors were not appointed for a fixed term. The Bye-laws of the Company stipulate that every Directors (including executive or non-executive directors) shall be subject to retirement for re-election at least once every three years. Therefore, the Company has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code.

CODE PROVISION A.6.7

Code provision A.6.7 of the CG Code stipulates that the independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of the Shareholders.

DEVIATION

Mr. Du Hui and Mr. Chen Yihua, the independent non-executive Directors of the Company, were unable to attend the annual general meeting (the "AGM 2014") of the Company held on 31 July 2014 as they had other important business engagement.

Mr. Du Hui and Mr. Chen Yihua, the independent non-executive Directors, were unable to attend the special general meeting of the Company held on 9 October 2014 as they had other important business engagement.

CODE PROVISION E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting.

DEVIATION

The chairman of the Board, Mr. Wong, was unable to attend the AGM 2014 as he had other important business engagement. However, Mr. Tsang Ho Ka, Eugene, the then vice-chairman, had chaired the AGM 2014 in accordance with Bye-laws.

CHANGES IN INFORMATION OF DIRECTORS UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in the information of the Directors since the date of the Annual Report are set out below:

On 31 July 2014,

1. Mr. Ho Pui Tin, Terence has retired as executive Director by rotation and has resigned as members of the Remuneration Committee. Mr. Ho, the executive Director, has retired by rotation at the AGM, has resigned as members of the Remuneration Committee and Nomination Committee, the Chief Executive Officer, the Compliance Officer and the Authorised Representative, and has been appointed as the Chief Operating Officer (the **"Resignation"**);
2. Mr. Kong Chi Keung has resigned as the Chief Operating Officer;
3. Mr. Han Jianli has been appointed as the Chief Executive Officer, member of the Nomination Committee and Compliance Officer;
4. Mr. Wong Wai Sing has been appointed as the Authorised Representative and the members of the Remuneration Committee and Nomination Committee; and
5. Mr. Chen Yihua has been appointed as the chairman of the Nomination Committee.

Save as disclosed above:

6. Mr. Tsang Ho Ka, Eugene has resigned as the Vice-Chairman and remain as the non-executive Director with effect from 31 July 2014, has resigned as a chairman and non-executive director of Sky Forever Supply Chain Management Group Limited (the **"Sky Forever"**) (*formerly known as Rising Power Group Holdings Limited*), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on GEM of Exchange (stock code: 8047) with effect from 13 June 2014 and 22 July 2014 respectively, has resigned as an executive director and authorized representative of Newtree Group Holdings Limited, a company incorporated in Cayman Islands with limited liability and the issued shares of which listed in the Main Board of the Exchange (stock code: 1323) with effect from 31 July 2014, has been appointed as an independent non-executive director of Jiu Rong Holdings Limited (*formerly known as Mitsumaru East Kit (Holdings) Limited*), a company incorporated in Cayman Islands with limited liability and the issued shares of which listed in the Main Board of the Exchange (stock code: 2358) with effect from 1 July 2014 and has been appointed as an independent non-executive director of Winto Group (Holdings) Limited, a company incorporated in Cayman Islands with limited liability and the issued shares of which are proposed to list on GEM of the Exchange on 16 February 2015 (stock code: 8238) with effect from 23 January 2015;

7. Mr. Kwok Kam Tim has resigned as the chairman and remains a member of the Nomination Committee and has been appointed and resigned as an independent non-executive director of Sky Forever with effect from 13 June 2014 and 22 July 2014 respectively;
8. Mr. Han Jianli was appointed as the Chairman of the Company with effect from 1 January 2015;
9. Mr. Wong Wai Sing has been re-designated from Chairman to Vice-Chairman of the Company with effect from 1 January 2015; and
10. Subsequent to the Resignation, Mr. Ho Pui Tin, Terence has resigned as the Chief Operating Officer with effect from 31 December 2014.

AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the 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 of
Capital Finance Holdings Limited
Mr. Han Jianli
Chairman and Executive Director

Hong Kong, 10 February 2015

As at the date of this report, the executive Directors are Mr. Han Jianli and Mr. Wong Wai Sing, the non-executive Director is Mr. Tsang Ho Ka, Eugene, and the independent non-executive Directors are Mr. Kwok Kam Tim, Mr. Du Hui and Mr. Chen Yihua.

This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 herein or this report misleading.

This report will remain on the GEM website on the "Latest Company Announcements" page for at least seven days from the date of its posting and on the website of the Company at <http://www.capitalfinance.hk>.



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)
(於開曼群島註冊成立並於百慕達存續之有限公司)
(Stock Code 股份代號 : 8239)

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