

CFHL

Capital Finance Holdings Limited

首都金融控股有限公司

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

(Stock Code: 8239)



INTERIM REPORT 2019

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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 herein or this report misleading.*

The board of directors (the “**Board**”) of Capital Finance Holdings Limited (the “**Company**”) is pleased to report the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and six (the “**Interim Period**”) months ended 30 June 2019 together with the comparative figures in 2018 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	4	16,483	18,587	29,965	37,115
Other income, and other gains and losses, net	4	260	(224)	960	457
Administrative and other expenses		(9,880)	(8,164)	(18,221)	(15,954)
(Charge of)/Reversal of allowance for expected credit losses (“ECLs”) on loans to customers	15(b)	(10,865)	13,819	(8,524)	13,653
Finance costs	5	(12,206)	(11,828)	(24,732)	(23,318)
Fair value gains on investment property	12	933	–	933	–
(Loss)/Profit before income tax	6	(15,275)	12,190	(19,619)	11,953
Income tax expense	7	(490)	(5,636)	(2,640)	(9,014)
(Loss)/Profit for the period		(15,765)	6,554	(22,259)	2,939
Attributable to:					
Owners of the Company		(16,862)	5,255	(25,696)	896
Non-controlling interests		1,097	1,299	3,437	2,043
		(15,765)	6,554	(22,259)	2,939
(Loss)/Earnings per share attributable to owners of the Company	9				
– Basic and diluted (Hong Kong cents)		(1.30)	0.40	(1.97)	0.07

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
(Loss)/Profit for the period	(15,765)	6,554	(22,259)	2,939
Other comprehensive expense for the period				
<i>Item that will be reclassified to profit or loss:</i>				
– Exchange differences on translation of financial statements of foreign operations	(14,322)	(31,532)	(1,468)	(7,694)
Total other comprehensive expense for the period, net of tax	(14,322)	(31,532)	(1,468)	(7,694)
Total comprehensive expense for the period	(30,087)	(24,978)	(23,727)	(4,755)
Attributable to:				
Owners of the Company	(30,730)	(25,318)	(27,157)	(6,510)
Non-controlling interests	643	340	3,430	1,755
	(30,087)	(24,978)	(23,727)	(4,755)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	995	1,288
Right-of-use assets	11	6,342	–
Investment property	12	3,105	–
Repossessed assets	13	–	2,190
Equity investment at fair value through other comprehensive income	14	6,928	6,934
Deferred tax assets		29,288	26,890
Total non-current assets		46,658	37,302
Current assets			
Loans to customers	15	323,983	299,753
Tax recoverable		325	355
Prepayments, deposits and other receivables	16	1,401	2,963
Cash and cash equivalents		158,916	193,406
Total current assets		484,625	496,477
Current liabilities			
Accrued expenses, other payables and deposits received		6,709	11,457
Tax payable		2,776	5,185
Amount due to a shareholder	17	474	499
Promissory notes	19	19,380	–
Convertible bonds – liability component	18	–	390,439
Lease liabilities		2,878	–
Total current liabilities		32,217	407,580
Net current assets		452,408	88,897
Total assets less current liabilities		499,066	126,199
Non-current liabilities			
Promissory notes	19	–	20,098
Convertible bonds – liability component	18	437,387	183,178
Lease liabilities		2,733	–
Total non-current liabilities		440,120	203,276
Net assets/(liabilities)		58,946	(77,077)
Capital and reserves			
Issued capital	20	13,012	13,012
Reserves		30,107	(102,491)
Equity attributable to owners of the Company		43,119	(89,479)
Non-controlling interests		15,827	12,402
Total equity/(capital deficiency)		58,946	(77,077)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Reserves									Equity attributable to owners of the Company	Non-controlling interests	Total
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve (debit)	Convertible bonds reserve	FVTOCI reserve	Statutory reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2018 as originally presented	13,012	616,828	131,109	120,794	(75,051)	713,306	(1,093)	22,367	(1,630,751)	(89,479)	12,402	(77,077)
Initial adoption of HKFRS 16 (Note)	-	-	-	-	-	-	-	-	(200)	(200)	(5)	(205)
Restated as at 1 January 2019	13,012	616,828	131,109	120,794	(75,051)	713,306	(1,093)	22,367	(1,630,951)	(89,679)	12,397	(77,282)
(Loss)/Profit for the period	-	-	-	-	-	-	-	-	(25,696)	(25,696)	3,437	(22,259)
Other comprehensive expense												
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(1,461)	-	-	-	-	(1,461)	(7)	(1,468)
Total other comprehensive expense for the period	-	-	-	-	(1,461)	-	-	-	-	(1,461)	(7)	(1,468)
Total comprehensive (expense)/income for the period	-	-	-	-	(1,461)	-	-	-	(25,696)	(27,157)	3,430	(23,727)
Deemed capital contribution arising from liability portion of convertible bonds	-	-	-	159,955	-	-	-	-	-	159,955	-	159,955
Extinguishment of the 2019 and 2020 CB (As defined in Note 18)	-	-	-	-	-	(713,306)	-	-	713,306	-	-	-
Recognition of the 2022 and 2023 CB (As defined in Note 18)	-	-	-	-	-	10,978	-	-	(10,978)	-	-	-
As at 30 June 2019 (Unaudited)	13,012	616,828	131,109	280,749	(76,512)	10,978	(1,093)	22,367	(954,319)	43,119	15,827	58,946

Note: Upon the adoption of HKFRS 16 "Leases" on 1 January 2019, the accumulated impact of HK\$200,000 was recorded as an adjustment to the accumulated losses as at 1 January 2019, including HK\$5,395,000 depreciation on right-of-use assets, HK\$515,000 interest expenses on lease liabilities and HK\$5,710,000 reversal of operating lease expenses.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

	Reserves										Total	
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve (debit)	Convertible bonds reserve	FVTOCI reserve	Statutory reserve	Accumulated losses	Equity attributable to owners of the Company		Non-controlling interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2017												
as originally presented	13,012	616,828	131,109	120,794	(48,927)	713,306	-	21,042	(1,543,282)	23,882	16,225	40,107
Initial adoption of HKFRS 9 (Note)	-	-	-	-	-	-	(1,123)	-	(56,519)	(57,642)	(1,244)	(58,886)
Restated as at												
1 January 2018	13,012	616,828	131,109	120,794	(48,927)	713,306	(1,123)	21,042	(1,599,801)	(33,760)	14,981	(18,779)
Profit for the period	-	-	-	-	-	-	-	-	896	896	2,043	2,939
Other comprehensive expense												
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(7,406)	-	-	-	-	(7,406)	(288)	(7,694)
Total other comprehensive expense for the period	-	-	-	-	(7,406)	-	-	-	-	(7,406)	(288)	(7,694)
Total comprehensive (expense)/income for the period	-	-	-	-	(7,406)	-	-	-	896	(6,510)	1,755	(4,755)
As at 30 June 2018 (Unaudited)	13,012	616,828	131,109	120,794	(56,333)	713,306	(1,123)	21,042	(1,598,905)	(40,270)	16,736	(23,534)

Note: Upon the adoption of HKFRS 9 'Financial Instruments' on 1 January 2018, the accumulated impact of HK\$56,519,000 was recorded as an adjustment to the accumulated losses as at 1 January 2018, including charge of allowance for ECLs and written off relating to loans to customers of HK\$71,547,000, net of the corresponding deferred tax assets of HK\$15,208,000, and written off relating to trade receivables of HK\$180,000.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Note	(Unaudited) HK\$'000	(Unaudited) HK\$'000
OPERATING ACTIVITIES			
Cash (used in)/generated from operations		(24,070)	99,457
Interest received		749	515
Income taxes paid		(8,399)	(6,220)
Interest paid	11	(125)	-
Net cash (used in)/generated from operating activities		(31,845)	93,752
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		92	-
Purchases of financial assets at amortised cost		-	(23,700)
Purchases of property, plant and equipment	10	(40)	(80)
Net cash generated from/(used in) investing activities		52	(23,780)
FINANCING ACTIVITIES			
Repayment to a shareholder		(25)	(50)
Dividends paid to non-controlling interests		-	(2,541)
Interests on promissory notes	19	(1,600)	-
Payment for lease liabilities	11	(1,493)	-
Net cash used in financing activities		(3,118)	(2,591)
Net (decrease)/increase in cash and cash equivalents		(34,911)	67,381
Cash and cash equivalents at beginning of the period		193,406	55,893
Effect of foreign exchange rate changes, net		421	(1,570)
Cash and cash equivalents at end of the period		158,916	121,704
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		158,916	121,704

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Capital Finance Holdings Limited (the “**Company**”) was previously 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 GEM of The Stock Exchange of Hong Kong Limited (the “**Exchange**”). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.

During the Interim Period, the Company is principally engaged in investment holding. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in provision of short-term financing services in the People’s Republic of China (the “**PRC**”) and Hong Kong (“**Short-term Financing Services**”).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The Group’s unaudited condensed consolidated interim financial statements for the three and six months ended 30 June 2019 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of the Hong Kong Companies Ordinance and Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Exchange (the “**GEM Listing Rules**”).

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

2.1 *Basis of Preparation (Continued)*

The Interim Financial Statements have been prepared under the historical cost basis except where otherwise described below. The Interim Financial Statements were presented in Hong Kong dollars (“**HK\$**”). All values are rounded to the nearest thousand except when otherwise indicated.

The preparation of Interim Financial Statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The Interim Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2018, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which collective term includes all applicable individual HKFRSs, HKASs and Interpretation issued by HKICPA. They shall be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2018 (the “**Annual Report**”).

The Interim Financial Statements have not been audited by the Company’s independent auditor, but have been reviewed by the Company’s Audit Committee (the “**Audit Committee**”).

2.2 *Principal Accounting Policies*

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the Annual Report except for the initial adoption of HKAS 40 “Investment Property”, details of which are described in Note 2.3, and the adoption of the standards, amendments and interpretation issued by the HKICPA mandatory for the annual periods beginning on 1 January 2019.

There have been no significant changes to the accounting policies applied in Interim Financial Statements as a result of adoption of these amendments except for the adoption of HKFRS 16 “Leases”, details of which are described in Note 2.4.

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

2.3 HKAS 40 Investment Property

Investment properties are land and/or building held to earn rentals and/or for capital appreciation. An investment property (including property that is being constructed or developed for future use as investment property) is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in consolidated statement of profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in consolidated statement of profit or loss.

2.4 HKFRS 16 Leases

The Group has applied HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease payments were recognised in the consolidated statement of profit or loss over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 January 2019.

Right-of-use assets are measured at their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the Group’s incremental borrowing rate at the date of initial adoption. The weighted average lessee’s incremental borrowing rate applied to lease liabilities on 1 January 2019 was 4.14%.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

In contrast to the lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As a result of the changes in the Group’s accounting policy about the opening consolidated statement of financial position had to be restated.

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

2.4 HKFRS 16 Leases *(Continued)*

The following table shows the adjustment recognised to each of the line items affected. Line items were not affected by the changes have not been included.

Statement of financial position (extract)	31 December 2018 As originally presented HK\$'000	Effect of adoption of HKFRS 16 HK\$'000	1 January 2019 restated HK\$'000
Non-current assets			
Right-of-use assets	–	7,963	7,963
Total non-current assets	37,302	7,963	45,265
Current assets			
Prepayments, deposits and other receivables	2,963	(1,076)	1,887
Total current assets	496,477	(1,076)	495,401
Non-current liabilities			
Lease liabilities	–	4,048	4,048
Total non-current liabilities	203,276	4,048	207,324
Current liabilities			
Lease liabilities	–	3,044	3,044
Total current liabilities	407,580	3,044	410,624
Accumulated losses	(1,630,751)	(200)	(1,630,951)
Non-controlling interest	12,402	(5)	12,397
Capital deficiency	(77,077)	(205)	(77,282)

The total impact on the Group's accumulated losses as at 1 January 2019 is as follows:

	HK\$'000
Closing accumulated losses as at 31 December 2018	1,630,751
Increase in depreciations of right-of-use assets – land and buildings	5,395
Increase in interest expenses on lease liabilities	515
Decrease in minimum lease payments under operating leases for land and buildings	(5,710)
Opening accumulated losses as at 1 January 2019	1,630,951

3. SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment of the Group's various lines of business and geographical locations.

Executive directors have determined that the Group has only one single business component/reportable segment as the Group is only engaged in the Short-term Financing Services comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business in the PRC and Hong Kong, which is the basis to allocate resources and assets performance. As this is the only operating segment of the Group no further analysis for segment information is presented.

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

All the Group's revenue are derived from PRC during the six months ended 30 June 2019 and 30 June 2018.

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

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue:				
Interest income from loans to customers	16,410	18,043	29,873	36,205
Financial consultancy income	73	544	92	910
Short-term financing services income, net	16,483	18,587	29,965	37,115
Other income, and other gains and losses, net				
Foreign exchange loss, net	(244)	(495)	(8)	(121)
Bank interest income	367	235	749	515
(Loss)/Gain on disposal of property, plant and equipment	(36)	35	41	34
Rental income from investment property	6	-	7	-
Sundry income	167	1	171	29
	260	(224)	960	457

5. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest expenses on:				
– Convertible bonds	11,714	11,400	23,725	22,444
– Promissory notes	431	428	882	874
– Lease liabilities	61	–	125	–
	12,206	11,828	24,732	23,318

6. (LOSS)/PROFIT BEFORE INCOME TAX

The Group's (loss)/profit before income tax is arrived at after charging the following:

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff Costs (excluding Directors' emoluments)				
Salaries, allowance and other benefits	3,366	3,029	6,797	5,667
Pension scheme contributions	479	461	981	888
Auditor's remuneration	357	279	562	429
Minimum lease payments under operating leases for				
land and buildings	–	1,181	–	2,231
Depreciation of property, plant and equipment	141	158	285	345
Depreciation of right-of-use assets				
– land and buildings	813	–	1,635	–

7. INCOME TAX EXPENSE

The amount of income tax expense in the unaudited condensed consolidated statement of profit or loss represents:

	Three months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current income tax				
PRC				
Current tax charge for the period	2,638	3,028	4,565	5,961
Under/(Over)-provision in respect of prior periods	204	(233)	204	(233)
	2,842	2,795	4,769	5,728
Withholding tax on dividends	1,136	7	1,136	493
Deferred tax (credit)/expense	(3,488)	2,834	(3,265)	2,793
Income tax expense	490	5,636	2,640	9,014

The Company is subject to income tax on an entity basis on profits arising in or derived from the jurisdiction in which entities in the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax under these jurisdictions.

For the six months ended 30 June 2019, no provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising in Hong Kong (2018: Nil).

The subsidiaries of the Group established in the PRC save for below are subject to enterprise income tax ("EIT") of the PRC at 25% (2018: 25%). Pursuant to the relevant laws and implementation rules announced by the People's Government of the Tibet Autonomous Region, Lhasa Jiade Financial Consultant Company Limited ("Lhasa"), a subsidiary of the Group established in Tibet of the PRC is subject to the EIT at 15% (2018: 15%).

Dividend distribution out of profit of foreign-invested enterprises earned in the PRC subsequent to 1 January 2008 is subject to withholding income tax at a tax rate of 10% (2018: 10%).

8. DIVIDEND

The Directors do not recommend for payment of a dividend for the Interim Period (2018: Nil).

9. (LOSS)/EARNINGS PER SHARE

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

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

For the three and six months ended 30 June 2019 and the three and six months ended 30 June 2018, as the Company's outstanding convertible bonds had an anti-dilutive effect to the basic (loss)/earnings per share calculation, the conversion of the above potential dilutive shares is not assumed in the computation of diluted (loss)/earnings per share. Therefore, the basic and diluted (loss)/earnings per share for the three and six months ended 30 June 2019 and the three and six months ended 30 June 2018 are equal.

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

	Three months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/Profit		
(Loss)/Profit attributable to the owners of the Company, used in basic (loss)/earnings per share calculation	(16,862)	5,255
Adjustment of (loss)/profit attributable to the owners of the Company: Interest saving of the convertible bonds	—*	—*
(Loss)/Profit attributable to the owners of the Company, used in the diluted (loss)/earnings per share calculation	(16,862)	5,255

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

9. (LOSS)/EARNINGS PER SHARE (Continued)

	Three months ended 30 June	
	2019 (Unaudited) '000	2018 (Unaudited) '000
Share		
Weighted average number of ordinary shares for basic (loss)/earnings per share calculation	1,301,118	1,301,118
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*

Weighted average number of ordinary shares for diluted (loss)/earnings per share calculation	1,301,118	1,301,118
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	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000

(Loss)/Profit

(Loss)/Profit attributable to the owners of the Company, used in basic (loss)/earnings per share calculation	(25,696)	896
Adjustment of (loss)/profit attributable to the owners of the Company:		
Interest saving of the convertible bonds	—*	—*
(Loss)/Profit attributable to the owners of the Company, used in the diluted (loss)/earnings per share calculation	(25,696)	896

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

9. (LOSS)/EARNINGS PER SHARE (Continued)

	Six months ended 30 June	
	2019 (Unaudited) '000	2018 (Unaudited) '000
Share		
Weighted average number of ordinary shares for basic (loss)/earnings per share calculation	1,301,118	1,301,118
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*
Weighted average number of ordinary shares for diluted (loss)/earnings per share calculation	1,301,118	1,301,118

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

10. PROPERTY, PLANT AND EQUIPMENT

During the Interim Period, the Group incurred expenditures on property, plant and equipment with total cost of approximately HK\$40,000 (2018: approximately HK\$80,000). The Group has written off and disposed of property, plant and equipment of approximately HK\$50,000 (2018: approximately HK\$36,000) during the Interim Period.

11. RIGHT-OF-USE ASSETS

The Group obtains right to control the use of various land and buildings for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 3 to 16 years. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes.

During the Interim Period, no additions to the right-of-use assets were recorded (2018: Nil).

During the Interim Period, total cash outflows for leases of approximately HK\$125,000 and HK\$1,493,000 were included in net cash used in operating activities and net cash used in financing activities respectively (2018: approximately HK\$2,231,000 was included in net cash generated from operating activities).

12. INVESTMENT PROPERTY

	Period from 1 January 2019 to 30 June 2019 (Unaudited) HK\$'000	Year ended 31 December 2018 (Audited) HK\$'000
At the beginning of the reporting period	–	–
Transfer from repossessed assets (Note 13)	2,190	–
Fair value gains upon transfer	933	–
Exchange realignments	(18)	–
	<hr/>	<hr/>
At the end of the reporting period	3,105	–

During the Interim Period, the residential property in Beijing has been changed from repossessed assets to investment property held for rental purpose at the inception of an operating lease to an individual and the fair value gains upon transfer of approximately HK\$933,000 was recognised in the consolidated statement of profit or loss.

The fair value of the Group's investment property as at 30 June 2019 have been arrived at on the basis of valuation carried out by Valtech Valuation Advisory Limited, an independent professional valuer. The valuation of investment property have been arrived at adopting direct comparison approach with reference to comparable sale transactions for similar properties in the same location and condition.

13. REPOSSESSED ASSETS

In 2018, the Group obtained an asset by taking possession of collaterals held as security in relation to a loan to a borrower. The nature and carrying value of the asset held as at the end of the reporting period are summarised as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Repossessed property – residential property in Beijing	–	2,190

It comprises property in respect of which the Group has acquired access or control through court proceeding. The Group will proceed to dispose of the property within a reasonable time after possession, which is not expected to be within 12 months from the end of reporting period.

During the Interim Period, the residential property in Beijing has been changed from repossessed assets to investment property held for rental purpose at the inception of an operating lease to an individual.

14. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The equity investment at fair value through other comprehensive income (“FVTOCI”) is an unlisted equity investment that represented 7% equity interest of 瀋陽金融商賈開發區互聯小額貸款有限公司 (Shenyang Hulian Micro-financing Company Limited*) (“Shenyang Hulian”), a private entity incorporated in the PRC, which is principally engaged in the provision of micro-financing services business. The Group designated its investment in Shenyang Hulian at FVTOCI (non-recycling), as the investment is held for long-term strategic purpose. No dividends were received on this investment during the Interim Period (2018: Nil).

15. LOANS TO CUSTOMERS

		30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
	Note		
Principal and interest receivable:			
Pawn loans		299,553	238,498
Micro-credit loans		128,391	114,109
Entrusted loans		12,106	54,934
<hr/>			
Loans to customers, gross		440,050	407,541
Less: Allowance for ECLs	15(b)	(116,067)	(107,788)
<hr/>			
Loans to customers, net		323,983	299,753

* English name is for identification purpose only.

15. LOANS TO CUSTOMERS (Continued)

The loans to customers are arising from the Group's pawn loans, micro-credit loans and entrusted loans services. They represented loan principal and interest receivables from pawn loans, micro-credit loans and entrusted loans. The customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The loan periods granted to customers are mainly ranging from one month to one year.

Allowance for ECLs on loans to customers which are short-term in duration (i.e. loan-term of less than one year) are always measured at an amount equal to lifetime ECLs.

(a) Credit Quality Analysis

Based on the requirements of HKFRS 9, credit quality analysis of loans to customers before allowance for ECLs as at the end of reporting period, is as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Neither overdue nor credit-impaired	277,876	252,420
Overdue but not credit-impaired		
– overdue within 30 days	8,751	41,068
– overdue 30 to 90 days	44,469	77,001
Overdue and credit-impaired		
– overdue more than 90 days	108,954	37,052
	440,050	407,541

In assessing and measuring the impairment allowance for the Group's loans to customers, as described in the above table, the management of the Company categorised the loans into mainly 3 categories: (a) neither overdue nor credit-impaired, (b) overdue but not credit-impaired and (c) overdue and credit-impaired. The management of the Company considered a number of factors in determining whether the loans are credit-impaired and concluded that, based on the Group's past experience in loan financing business and relevant forward looking information available to the Group, loans with more than 90 days past due are considered as credit-impaired.

The Group considers the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast directions of conditions as at the reporting date.

15. LOANS TO CUSTOMERS (Continued)

(b) Movement of allowances for ECLs on loans to customers are as follows:

	Period from 1 January 2019 to 30 June 2019 (Unaudited) HK\$'000	Year ended 31 December 2018 (Audited) HK\$'000
At the beginning of the reporting period	107,788	72,098
Charged to profit or loss	8,524	41,069
Exchange realignments	(245)	(5,379)
At the end of the reporting period	116,067	107,788

Specifically, in estimating the amount of ECL, the management of the Company uses various approaches taking into account (i) aging of the Group's loans to customers based on the categories as described above and (ii) the difference between the effective interest rate charged by the Group to the borrowers, which in the opinion of the directors of the Company reflect the market borrowing rate of the respective borrowers and the rate that the Group would charge to borrowers with low credit risk, which the management of the Company believes that the difference best reflects the Group's exposure credit risk. The Group also takes into account forward-looking information, e.g. the applicable GDP growth and unemployment rate, etc. The Group has recognised allowance for ECLs, representing approximately 26.4% of the gross carrying amount, against all loans to customers as at 30 June 2019 (year ended 31 December 2018: approximately 26.4%).

The Group's allowance for ECLs on loan to customers may also take into account the subsequent settlement, certain collateral valuation and the management's judgement on the marketability of the collateral properties and customers' capability of payment.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Prepayments	301	2,017
Deposits	408	408
Other receivables	692	538
	1,401	2,963

17. AMOUNT DUE TO A SHAREHOLDER

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

18. CONVERTIBLE BONDS

As part of the acquisition consideration upon the completion of the Group's acquisition of the Prima Finance Group in 2014, the Company had issued zero-coupon convertible bonds with the principal amount of HK\$420,200,000 ("**2019 CB**") as part of the Initial Consideration (as defined in Annual Report 2015) to Exuberant Global Limited, Busting Capital Limited and Time Prestige Holdings Limited (collectively, the "**Vendors**") of the Prima Finance Group. In 2015, the Company issued zero-coupon convertible bonds in the principal amount of HK\$236,000,000 ("**2020 CB**") to the Vendors.

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

On 20 February 2019, the Company executed the amendment deeds, to extend the maturity date of the 2019 CB by 3 years from 24 June 2019 to 24 June 2022 ("**2022 CB**"), and the 2020 CB by 3 years from 5 February 2020 to 5 February 2023 ("**2023 CB**") (i.e. the Alteration). Save for the aforesaid Alteration, all other terms and condition of the 2019 CB and the 2020 CB shall remain unchanged.

Pursuant to Rule 34.05 of the GEM Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. The Company has obtained the approval of the Alteration from the Exchange on 2 May 2019, which is subject to (i) shareholders' approval on the amendment deeds; and (ii) fulfillment of all other conditions of the amendment deeds.

The amendment deeds and transactions contemplated thereunder are considered to be connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. As disclosed in the announcement of the Company dated 7 May 2019, the Company has obtained the approval from independent shareholders on the amendment deeds and transactions contemplated thereunder at the special general meeting held on 7 May 2019.

Details of the Alteration are set out in the Company's announcements dated 20 February 2019 and 7 May 2019, and the circular of the Company dated 30 March 2019.

There was no conversion or redemption of the convertible bonds during the six months ended 30 June 2019 and the year ended 31 December 2018 or subsequent to the end of the reporting period.

18. CONVERTIBLE BONDS (Continued)

As at 30 June 2019, the Company has 2 series of zero-coupon convertible bonds outstanding. Summary of the convertible bonds is as follows:

Series	Date of issue	Maturity date	Conversion price per share	Principal amount as at 1 January 2018 (Audited) HK\$'000	Amount converted into shares during the year	Outstanding principal amount as at 31 December 2018 (Audited) HK\$'000	Amount converted into shares during the period	Outstanding principal amount as at 30 June 2019 (Unaudited) HK\$'000
2022 CB	25 June 2014	24 June 2022	HK\$0.35	387,200	-	387,200	-	387,200
2023 CB	6 February 2015	5 February 2023	HK\$0.35	194,000	-	194,000	-	194,000

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

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

The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the 2019 and 2020 CB is calculated using effective interest rate ranging from 8.72% to 8.87% (year ended 31 December 2018: 8.72% to 8.87%) per annum.

The Alteration constituted a significant modification and was accounted for as an extinguishment of the 2019 and 2020 CB and the recognition of the 2022 CB and 2023 CB. In light of the terms of the 2022 and 2023 CB set out above, the Company reassessed, as at the date of the Alteration, the fair values of the 2022 and 2023 CB. The net effect on liability component of the Alteration is a deemed capital contribution of HK\$159,955,000 recognised in equity while the net effect on equity component of the Alteration is a gain of HK\$702,328,000 transfer from convertible bonds reserve to accumulated losses.

The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the 2022 and 2023 CB is calculated using effective interest rate ranging from 10.96% to 11.09% (year ended 31 December 2018: N/A) per annum.

18. CONVERTIBLE BONDS (Continued)

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

	Period from 1 January 2019 to 30 June 2019 (Unaudited) HK\$'000	Year ended 31 December 2018 (Audited) HK\$'000
Equity component		
At the beginning of the reporting period	713,306	713,306
Extinguishment of the 2019 and 2020 CB	(713,306)	-
Recognition of the 2022 and 2023 CB	10,978	-
At the end of the reporting period	10,978	713,306
Liability component		
At the beginning of the reporting period	573,617	527,378
Effective interest expenses before the Amendments	17,021	46,239
Deemed capital contribution	(159,955)	-
Effective interest expenses of the 2022 and 2023 CB	6,704	-
At the end of the reporting period	437,387	573,617
Face value, at the end of the reporting period	581,200	581,200

The liability portion of convertible bonds was analysed as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Current liabilities	-	390,439
Non-current liabilities	437,387	183,178
	437,387	573,617

19. PROMISSORY NOTES

	Period from 1 January 2019 to 30 June 2019 (Unaudited) HK\$'000	Year ended 31 December 2018 (Audited) HK\$'000
At the beginning of the reporting period	20,098	21,532
Effective interest expenses	882	1,766
Interest payments	(1,600)	–
Waive of interest expenses	–	(3,200)
Carrying value at the end of the reporting period	19,380	20,098
Face value, at the end of the reporting period	20,000	20,000

As at 30 June 2019, the promissory notes bear interest of 8% per annum and mature in 5 years from the date of issue of 6 February 2015. The effective interest rates of the promissory notes were determined to be approximately 9.01% (year ended 31 December 2018: 9.01%) per annum. The promissory notes were classified under current liabilities (year ended 31 December 2018: non-current liabilities) and measured at amortised cost.

20. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
As at 1 January 2018, 31 December 2018 and 30 June 2019, ordinary shares of HK\$0.01 each	10,000,000	100,000
Issued and fully paid:		
As at 1 January 2018, 31 December 2018 and 30 June 2019, ordinary shares of HK\$0.01 each	1,301,118	13,012

21. OPERATING LEASE COMMITMENTS

As Lessee

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from 3 to 16 years. None of the leases includes contingent rentals.

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

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within one year	–	1,732
In the second to fifth years, inclusive	–	6,255
Over five years	–	2,505
		<hr/>
	–	10,492

As Lessor

The Group leases out investment property under operating leases, with lease negotiated for term of 2.5 years. None of the leases includes contingent rentals.

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

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within one year	27	–
In the second to fifth years, inclusive	32	–
	<hr/>	
	59	–

22. FAIR VALUE MEASUREMENTS

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

22. FAIR VALUE MEASUREMENTS (Continued)

(a) Financial instruments and non-financial instruments measured at fair value

As at the end of the reporting period, the financial instruments and non-financial instruments measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	Fair value at	Fair value measurements as at		
	30 June 2019 HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets:				
Investment property – residential property in Beijing	3,105	-	-	3,105
Unlisted equity investment	6,928	-	-	6,928
	10,033	-	-	10,033

	Fair value at	Fair value measurements as at		
	31 December 2018 HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets:				
Unlisted equity investment	6,934	-	-	6,934

During the Interim Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The movement in the fair value measurement in level 3 are as follows:

Unlisted equity investment:

	Period from 1 January 2019 to 30 June 2019 (Unaudited) HK\$'000	Year ended 31 December 2018 (Audited) HK\$'000
At the beginning of the reporting period	6,934	7,282
Net unrealised gains recognised in other comprehensive income during the reporting period	-	30
Exchange realignments	(6)	(378)
At the end of the reporting period	6,928	6,934

The movements in the investment property under Level 3 fair value measurements during the Interim Period are presented in Note 12. Fair value adjustment on investment property is recognised in the line item "fair value gains on investment property" on the face of the unaudited condensed consolidated statement of profit or loss.

(b) Financial instruments not measured at fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised costs are not materially different from their fair values as at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

During the Interim Period, the Group is principally engaged in short-term financing services in the PRC and Hong Kong.

The Group recorded total revenue for the Interim Period of approximately Hong Kong dollars (“**HK\$**”) 29,965,000 (2018: approximately HK\$37,115,000), representing a decrease of approximately HK\$7,150,000 as compared with the corresponding period last year.

The administrative and other expenses for the Interim Period has increased by approximately HK\$2,267,000 to approximately HK\$18,221,000 (2018: approximately HK\$15,954,000).

The loss attributable to the owners of the Company for the Interim Period was approximately HK\$25,696,000 (2018: profit attributable to the owners of the Company of approximately HK\$896,000). The turnaround from profit to loss was mainly due to the decrease in revenue and the increase in the charge of allowance for expected credit losses on loans to customers as a result of the slowdown in the PRC’s economic growth.

The Group recorded a deemed capital contribution arising from the liability portion of convertible bonds of approximately HK\$159,955,000 in equity as a result of extension of maturity date of convertible bonds (i.e. the Alteration). Details of the Alteration are set out in the Company’s circular dated 30 March 2019, and announcements dated 20 February 2019 and 7 May 2019 respectively.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the Interim Period, the Group did not process any other significant investment, acquisition or disposal of subsidiaries or associated companies.

PROSPECTS

Looking ahead, despite the complicated international and domestic environments, a further deepening reform and opening-up policy will be crucial to China in 2019. The Board believes that the development of the financial sector will play an important role to the economy of China in 2019. The Board is of the view that small-and-medium-sized enterprises (“**SMEs**”) will maintain a stable development in line with the overall national economic growth in China. The Group will continue to benefit from the strong demand for short term financing services by SMEs, and tighten control over financing activities of PRC banks. The Group being a financing services provider in Beijing, the PRC, provides resolution for the predicament of demanding and costly financing problem for SMEs. Going forward to 2019, while maintaining consistent availability of liquidity for the money lending business, the Group will closely monitor its cash position and at the same time will continue to look for opportunities to broaden and diversify our income stream so as to improve the overall operational performance of the Group and maximise the value of shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group has other debts comprising promissory notes and liability component of convertible bonds of approximately HK\$456,767,000 (31 December 2018: approximately HK\$593,715,000). The Group will try to obtain future financing, and whenever possible and appropriate, raise fund via equity funding activities in order to further reduce the financing cost.

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$158,916,000 (31 December 2018: approximately HK\$193,406,000) which are mainly denominated in HK\$ and RMB. To manage liquidity risk, management monitors forecasts of the Group's liability position and cash and cash equivalent position on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations.

As at 30 June 2019, the gearing ratio for the Group was approximately positive 10.6 (31 December 2018: approximately negative 6.6 due to the Group's negative equity position), calculated based on the total debts (comprising other debts) of approximately HK\$456,767,000 (31 December 2018: approximately HK\$593,715,000) over shareholder's equity of approximately HK\$43,119,000 (31 December 2018: approximately negative HK\$89,479,000). The debt ratio was approximately 0.89 (31 December 2018: approximately 1.14), calculated as total liabilities over total assets of the Group.

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

CAPITAL STRUCTURE

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

(i) *Bank Borrowings*

There was no bank borrowings outstanding as at 30 June 2019 and 31 December 2018.

(ii) *Promissory Notes*

As at 30 June 2019, the Company had outstanding promissory notes in the principal amount of HK\$20,000,000 issued on 6 February 2015. Summary of the promissory notes is as follows. Further details are set out in Note 19 to the unaudited condensed consolidated financial statements.

Date of issue	Principal amount as at 1 January 2019 (HK\$)	Interest rate per annum	Principal repayment due date	Redeemed principal amount (HK\$)	Outstanding principal amount as at 30 June 2019 (HK\$)
6 February 2015	20,000,000	8%	6 February 2020	-	20,000,000

(iii) *Convertible Bonds*

As at 30 June 2019, the Company had 2 series of zero-coupon convertible bonds, 2022 CB and 2023 CB (the definition and its details are set out in Note 18 to the unaudited condensed consolidated financial statements). Summary of the convertible bonds is as follows:

Date of issue	Principal amount as at 1 January 2019 (HK\$)	Maturity Date	Conversion Price per share	Amount converted into shares during the Interim Period (HK\$)	Outstanding principal amount as at 30 June 2019 (HK\$)	Number of Shares to be issued upon full conversion as at 30 June 2019
25 June 2014	387,200,000	24 June 2022	HK\$0.35	-	387,200,000	1,106,285,714
6 February 2015	194,000,000	5 February 2023	HK\$0.35	-	194,000,000	554,285,714

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 30 June 2019, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currency, i.e. RMB, used by the respective group entities.

The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 30 June 2019, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

As at 30 June 2019, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedgings or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions.

CHARGE OF GROUP ASSETS

As at 30 June 2019 and 31 December 2018, the Group did not have any assets under charged.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 30 June 2019, the Group employed a total of 78 employees (31 December 2018: 77). The salaries and benefits of the Group's employees are maintained at a competitive level and employees are rewarded on a discretionary performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Year-ended bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to its employees. Staff costs, excluding Directors' emoluments, for the Interim Period amounted to approximately HK\$7,778,000 (30 June 2018: approximately HK\$6,555,000).

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

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liability (31 December 2018: Nil).

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

As at 30 June 2019, 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 Director	Capacity	Number of ordinary shares ("Shares") held	Approximate percentage of shareholding in the Company
Mr. Zhang Wei	Beneficial owner	77,016,789	5.92

Save for disclosed above, as at 30 June 2019, none of the Directors nor the 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 (as defined below).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, as at 30 June 2019, the following companies and persons (other than a director or chief executive of the Company as disclosed under 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) had interests in more than 5% of the Company's issued shares:

Long Position in the Shares

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

Notes:

- The 1,384,571,429 Shares held by Exuberant Global Limited ("**Exuberant Global**") represent (i) 294,200,000 Shares; and (ii) 1,090,371,429 Shares to be issued upon full conversion of the convertible bonds. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 1,384,571,429 Shares held by Exuberant Global.
- The 161,142,857 Shares held by Time Prestige Holdings Limited ("**Time Prestige**") represent (i) 26,800,000 Shares; and (ii) 134,342,857 Shares to be issued upon full conversion of the convertible bonds. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the 161,142,857 Shares. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 402,857,142 Shares held by Bustling Capital Limited ("**Bustling Capital**").
- The 402,857,142 Shares held by Bustling Capital represent (i) 67,000,000 Shares; and (ii) 335,857,142 Shares to be issued upon full conversion of the convertible bonds. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the 402,857,142 Shares. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the 161,142,857 Shares held by Time Prestige.
- Silver Palm Limited ("**Silver Palm**") is wholly and beneficially owned by Mr. Wang Jia Sheng ("**Mr. Wang**"). Accordingly, Mr. Wang is deemed to be interested in the 71,428,571 Shares held by Silver Palm.
- The percentage represents the number of Shares interested divided by the number of the issued Shares as at 30 June 2019 (i.e. 1,301,118,056 Shares).

Save as disclosed above, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who, as at 30 June 2019, had an interest or a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

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

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

No share option was granted, outstanding, lapsed, cancelled or exercised at any time during the Interim Period. As at 30 June 2019, there was no outstanding share option under the Share Option Scheme.

As at the date of this report, a maximum of 130,111,805 shares, representing approximately 10% of the existing issued share capital of the Company, are available for issuance under the Share Option Scheme.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

INTERESTS IN A COMPETING BUSINESS

During the Interim Period, none of the Directors, the controlling shareholders or substantial shareholders of the Company or any of their respective close associates (as defined in the GEM Listing Rules) had engaged in any business that competes or might compete with the business of the Group, or had any other conflict of interests with the Group.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

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

CODE PROVISION A.2.1

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

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

CHANGES OF DIRECTORS’ INFORMATION

Below is the change in the information of Directors up to the date of this report that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Dr. Wong Wing Kuen, Albert, an independent non-executive director of the Company, has been appointed as an independent non-executive director of Dexin China Holdings Company Limited (Stock Code: 2019), a company listed on the Main Board of the Exchange with effect from 11 January 2019.

Except as set out in this report, there is no other change in the information of the Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019.

AUDIT COMMITTEE

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

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

Hong Kong, 12 August 2019

As at the date of this report, the executive Directors are Mr. Zhang Wei and Mr. Yang Bo, the non-executive Director is Mr. Zang Wei and the independent non-executive Directors are Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen, Albert.

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>.