

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)

2021 Third Quarterly
Report

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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 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 nine months (the “**Period**”) ended 30 September 2021 together with the unaudited comparative figures for the corresponding periods in 2020, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2021

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	4	9,084	7,405	35,071	29,466
Other income and other gains and losses, net	4	446	1,239	2,802	2,176
Administrative and other expenses		(9,175)	(7,457)	(28,688)	(24,204)
Reversal/(Charge) of loss allowance for expected credit losses (“ECLs”) on loans to customers		269	(10,761)	10,871	(23,880)
Fair value loss on financial assets at fair value through profit or loss		(560)	–	(560)	–
Share of loss of a joint venture		(153)	–	(293)	–
Finance costs	5	(9,495)	(12,369)	(30,303)	(37,922)
Loss before income tax	6	(9,584)	(21,943)	(11,100)	(54,364)
Income tax (expenses)/credits	7	(1,062)	667	(8,778)	(98)
Loss for the period		(10,646)	(21,276)	(19,878)	(54,462)
Attributable to:					
Owners of the Company		(11,409)	(21,524)	(21,242)	(55,757)
Non-controlling interests		763	248	1,364	1,295
		(10,646)	(21,276)	(19,878)	(54,462)
			(Restated)		(Restated)
Loss per share attributable to owners of the Company	9				
– Basic and diluted (Hong Kong cents)		(1.35)	(7.43)	(3.06)	(19.50)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2021

	Three months ended 30 September		Nine months ended 30 September	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Loss for the period	(10,646)	(21,276)	(19,878)	(54,462)
Other comprehensive income for the period				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
– Exchange differences on translation of financial statements of foreign operations	611	16,199	7,166	5,990
Other comprehensive income for the period, net of tax	611	16,199	7,166	5,990
Total comprehensive expense for the period	(10,035)	(5,077)	(12,712)	(48,472)
Attributable to:				
Owners of the Company	(10,354)	(6,854)	(14,860)	(50,360)
Non-controlling interests	319	1,777	2,148	1,888
	(10,035)	(5,077)	(12,712)	(48,472)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2021

	Reserves										Total equity	
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Convertible bonds		Statutory reserve	Accumulated losses	Equity attributable to owners of the Company		Non-controlling interests
						reserve	reserve					
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
As at 1 January 2021 (Audited)	14,064	625,385	131,109	282,885	(61,632)	9,282	(2,831)	26,838	(1,046,088)	(20,988)	47,007	26,019
Loss for the period	-	-	-	-	-	-	-	-	(21,242)	(21,242)	1,364	(19,878)
Other comprehensive income												
Item that may be reclassified subsequently to profit or loss:												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	6,382	-	-	-	-	6,382	784	7,166
Other comprehensive income for the period	-	-	-	-	6,382	-	-	-	-	6,382	784	7,166
Total comprehensive expense for the period	-	-	-	-	6,382	-	-	-	(21,242)	(14,860)	2,148	(12,712)
Transactions with owners												
Issue of new shares under rights issue	28,127	43,955	-	-	-	-	-	-	-	72,082	-	72,082
Dividend payable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(588)	(588)
Deemed capital contribution arising from liability portion of convertible bonds	-	-	-	1,361	-	-	-	-	-	1,361	-	1,361
Redemption of 2022 CB (As defined in Interim Report 2021) by cash	-	-	-	-	-	(1,670)	-	-	(342)	(2,012)	-	(2,012)
Transactions with owners	28,127	43,955	-	1,361	-	(1,670)	-	-	(342)	71,431	(588)	70,843
As at 30 September 2021 (Unaudited)	42,191	669,340	131,109	284,246	(55,250)	7,612	(2,831)	26,838	(1,067,672)	35,583	48,567	84,150

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the nine months ended 30 September 2020

	Reserves										Total equity	
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Convertible bonds		Statutory reserve	Accumulated losses	Equity attributable to owners of the Company		Non-controlling interests
						reserve	reserve					
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 1 January 2020 (Audited)	13,012	616,828	131,109	280,749	(85,125)	10,978	(3,079)	25,563	(968,668)	21,367	49,620	70,987
Loss for the period	-	-	-	-	-	-	-	-	(55,757)	(55,757)	1,295	(54,462)
Other comprehensive income												
Item that may be reclassified subsequently to profit or loss:												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	5,397	-	-	-	-	5,397	593	5,990
Other comprehensive income for the period	-	-	-	-	5,397	-	-	-	-	5,397	593	5,990
Total comprehensive expense for the period	-	-	-	-	5,397	-	-	-	(55,757)	(50,360)	1,888	(48,472)
Transactions with owners												
Issue of new shares upon placing	1,052	8,557	-	-	-	-	-	-	-	9,609	-	9,609
Dividend payable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,032)	(3,032)
Redemption of 2022 CB (As defined in Interim Report 2021) by cash	-	-	-	-	-	(1,696)	-	-	1,696	-	-	-
Transactions with owners	1,052	8,557	-	-	-	(1,696)	-	-	1,696	9,609	(3,032)	6,577
As at 30 September 2020 (Unaudited)	14,064	625,385	131,109	280,749	(79,728)	9,282	(3,079)	25,563	(1,022,729)	(19,384)	48,476	29,092

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2021

1. GENERAL INFORMATION

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 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 Period, the Company is principally engaged in investment holding. The Group is principally engaged in the provision of short-term financing services in the People's Republic of China (the "PRC") and Hong Kong.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The unaudited condensed consolidated financial statements of the Group for the three months and nine months ended 30 September 2021 (the "Third Quarterly Financial Statements") have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622, Laws of Hong Kong) and Chapter 18 of the GEM Listing Rules.

The Third Quarterly Financial Statements have been prepared under the historical cost basis except for investment properties and certain financial instruments which were stated at fair value. The Third Quarterly Financial Statements were presented in Hong Kong dollars ("HK\$"), which is same as the functional currency of the Company, and rounded to the nearest thousand unless otherwise indicated.

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 performances of the Group since 31 December 2020, 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 interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They shall be read in conjunction with the Group's audited financial statements for the year ended 31 December 2020 (the "Annual Report").

The preparation of Third Quarterly Financial Statements requires the Directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. 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.

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

2.1 *Basis of Preparation (Continued)*

The Third Quarterly 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 Third Quarterly Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Annual Report, except for the initial adoption of HKAS 28 "Investments in Associates and Joint Ventures", details of which are described in Note 2.3, and the adoption of the standards, amendments and interpretation issued by the HKICPA that are first effective from the current accounting periods beginning on 1 January 2021.

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

At the date of authorisation of the Third Quarterly Financial Statements, the Group has not early adopted any new/revised HKFRSs that are not yet effective for the current period. The Directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but not yet in a position to reasonably estimate their impact on the Group's Third Quarterly Financial Statements.

2.3 *HKAS 28: Investments in Associates and Joint Ventures*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group reassesses whether it has joint control of an arrangement and whether the type of joint arrangement in which it is involved has changed, if facts and circumstances change.

The Group's investment in a joint venture is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

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. On this basis, the management of the Group considered that the Group only has one operating segment which is the provision of short-term financing services to the customers. 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 and revenues are based on the location in which customers are located.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile.

All the Group's revenue are derived from PRC during the three months and nine months ended 30 September 2021 and 30 September 2020, being the single geographical region.

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

	Three months ended 30 September		Nine months ended 30 September	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue				
Revenue from other sources				
Interest income from loans to customers	8,676	7,394	34,550	27,319
Settlement gain from distressed debt assets classified in loans to customers	-	5	113	1,098
	8,676	7,399	34,663	28,417
Revenue from contracts with customers within HKFRS 15				
Financial consultancy income	408	6	408	1,049
Short-term financing services income	9,084	7,405	35,071	29,466
Other income and other gains and losses, net				
Exchange difference, net	27	276	151	111
Bank interest income	401	1,431	1,725	2,416
Gain on modification of terms of promissory note (Note 1)	-	-	-	215
Investment income	-	-	26	-
Loss on disposal of property, plant and equipment	-	(2)	-	(7)
Loss on disposal of investment property	-	(1,009)	-	(1,009)
Rental income from investment properties	8	6	50	18
Settlement gain on early redemption of convertible bonds (Note 2)	-	433	126	247
Sundry income	10	104	724	185
	446	1,239	2,802	2,176

Notes:

- On 21 February 2020, the Company and the holder of the promissory note, which is an independent third party to the Group, entered into an amendment agreement, to extend the maturity date of the promissory note with principal amount of HK\$5,000,000, by 1 year from 6 February 2020 to 6 February 2021 and to carry interest at the rate of 8% per annum based on the actual number of borrowing days. The modification was not accounted for as an extinguishment and gain on modification of terms of HK\$215,000 was recognised in profit or loss for the modification.

4. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES, NET (Continued)

Notes: (Continued)

2. On 25 March 2021, the Company and the holder of 2022 CB, which is an independent third party of the Company, entered into redemption agreements, to early redeem the zero-coupon convertible bonds with aggregate principal amount of HK\$10,000,000 by cash settlement of approximately HK\$9,300,000. The redemption prices were allocated to the liability component and the equity component on the same basis as used in the allocation of the fair value of 2022 CB at initial recognition. At the date of redemption, a settlement gain on early redemption, representing the differences between the redemption prices allocated to the liability component and the carrying amount of the liability component, of approximately HK\$126,000 and the redemption prices allocated to the equity component of approximately HK\$206,000, were recognised in profit or loss and equity respectively. Upon the redemption of 2022 CB, the remaining amount of the convertible bonds reserve attributable to the redeemed 2022 CB of approximately HK\$34,000 was transferred to accumulated losses.

5. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Effective interest expenses on:				
– Convertible bonds	9,434	12,166	30,019	36,475
– Promissory notes	–	155	109	1,311
– Lease liabilities	61	48	175	136
	9,495	12,369	30,303	37,922

6. LOSS BEFORE INCOME TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Staff costs (excluding Directors' emoluments)				
Salaries, allowance and other benefits	3,665	3,039	10,502	9,456
Pension scheme contributions	456	292	1,302	862
	4,121	3,331	11,804	10,318
Auditor's remuneration	331	164	779	696
Depreciation of property, plant and equipment	132	117	414	307
Depreciation of right-of-use assets	444	817	1,329	2,425
Repossessed assets written off	2	–	2,280	–
Short-term or low value lease payments	440	–	1,316	–
Variable lease payment income	–	–	–	(71)

7. INCOME TAX EXPENSES/(CREDITS)

The amount of income tax expenses/(credits) in the unaudited condensed consolidated income statement represents:

	Three months ended 30 September		Nine months ended 30 September	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Current income tax				
The PRC				
Current tax charge for the period	946	1,018	4,922	3,934
Under/(Over)-provision in respect of prior periods	-	-	198	(3)
	946	1,018	5,120	3,931
Withholding tax on dividends	-	1,005	892	2,137
Deferred tax charged/(credited)	116	(2,690)	2,766	(5,970)
Income tax expenses/(credits)	1,062	(667)	8,778	98

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 Bermuda, the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax under these jurisdictions.

For the Period, no provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong (2020: 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% (2020: 25%). Pursuant to the relevant laws and implementation rules announced by the People's Government of the Tibet Autonomous Region, 拉薩嘉德財務顧問有限公司 (Lhasa Jiade Financial Consultant Company Limited*), a subsidiary of the Group established in Tibet of the PRC is subject to the EIT at 15% for the Period (2020: 15%). According to the Notice on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises issued by Ministry of Finance and the State Administration of Taxation, the taxable income in period ended 30 September 2021 and 2020 of certain subsidiaries of the Group established in the PRC were less than Renminbi ("RMB") 3 million, which satisfies the provisions of the notice above. During the Period, the part of taxable income that is not in excess of RMB1 million is reduced to 25% of original total taxable income, and the applicable EIT rate is 20%. Additionally, the part of taxable income that is between RMB1 million and RMB3 million is reduced to 50% of original total taxable income, and the applicable EIT rate is 20%.

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%. Pursuant to Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "Arrangement") and Guoshihan (2009) No. 81, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Arrangement and other applicable laws, the 10% withholding tax on the dividends that the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. During the Period, as a subsidiary of the Group received approval from in-charge tax authority, the applicable withholding tax rate is reduced to 5% (2020: 10%).

* English name is for identification purpose only.

8. DIVIDEND

The Directors do not recommend for payment of a dividend for the Period (2020: Nil).

9. LOSS PER SHARE

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

The calculations of diluted loss per share for the current period and prior period are based on the loss 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 period and prior period 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 months and nine months ended 30 September 2021, as the Company's outstanding convertible bonds had an anti-dilutive (2020: anti-dilutive) effect to the basic loss per share calculation, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore, the basic and diluted loss per share for the three months and nine months ended 30 September 2021 are equal (2020: equal).

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

	Three months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(11,409)	(21,524)
Adjustment of loss attributable to the owners of the Company:		
Interest saving of the convertible bonds	—*	—*
Loss attributable to the owners of the Company, used in the diluted loss per share calculation	(11,409)	(21,524)

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

9. LOSS PER SHARE (Continued)

	Three months ended	
	2021	2020
	(Unaudited)	(Unaudited)
	'000	'000
		(Restated)
Share		
Weighted average number of ordinary shares for basic loss per share calculation (Notes a and b)	843,829	289,715
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*
Weighted average number of ordinary shares for diluted loss per share calculation (Notes a and b)	843,829	289,715

Notes:

- (a) The weighted average number of ordinary shares of 843,829,233 for the three months ended 30 September 2021 is derived from 281,276,411 shares in issue as at 1 January 2021 and after taking into account of the effect of the respective adjustment in relation to the rights issue which became unconditional and completed as announced on 15 March 2021.
- (b) The weighted average number of ordinary shares of 289,714,704 for the three months ended 30 September 2020 is derived from 1,301,118,056 shares in issue as at 1 January 2020 and after taking into account of the effect of (i) placing of shares under general mandate completed on 17 February 2020; (ii) the share consolidation with effect on 8 April 2020; and (iii) the respective adjustment in relation to the rights issue which became unconditional and completed as announced on 15 March 2021.

	Nine months ended	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(21,242)	(55,757)
Adjustment of loss attributable to the owners of the Company:		
Interest saving of the convertible bonds	—*	—*
Loss attributable to the owners of the Company, used in the diluted loss per share calculation	(21,242)	(55,757)

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

9. LOSS PER SHARE (Continued)

	Nine months ended	
	2021	2020
	(Unaudited)	(Unaudited)
	'000	'000
		(Restated)
Share		
Weighted average number of ordinary shares for basic loss per share calculation (Notes a and b)	693,630	285,916
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*
Weighted average number of ordinary shares for diluted loss per share calculation (Notes a and b)	693,630	285,916

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

Notes:

- The weighted average number of ordinary shares of 693,629,690 for the Period is derived from 281,276,411 shares in issue as at 1 January 2021 and after taking into account of the effect of the respective adjustment in relation to the rights issue which became unconditional and completed as announced on 15 March 2021.
- The weighted average number of ordinary shares of 285,915,979 for the nine months ended 30 September 2020 is derived from 1,301,118,056 shares in issue as at 1 January 2020 and after taking into account of the effect of (i) placing of shares under general mandate completed on 17 February 2020; (ii) the share consolidation with effect on 8 April 2020; and (iii) the respective adjustment in relation to the rights issue which became unconditional and completed as announced on 15 March 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

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

The Group recorded total revenue for the Period of approximately HK\$35,071,000 (2020: approximately HK\$29,466,000), representing an increase of approximately HK\$5,605,000 as compared with the corresponding period last year. The increase was mainly attributable to the increase in interest income from loans to customers during the Period.

The administrative and other expenses for the Period has increased by approximately HK\$4,484,000 to approximately HK\$28,688,000 (2020: approximately HK\$24,204,000).

The Group recorded reversal of loss allowance for ECLs on loans to customers for the Period of approximately HK\$10,871,000 (2020: charge of loss allowance for ECLs of approximately HK\$23,880,000), representing a decrease in charge of loss allowance for ECLs of approximately HK\$34,751,000 as compared with the corresponding period in 2020. The turnaround was mainly due to the improvement on the customers' aging after the containment of COVID-19 pandemic in the PRC.

The Group has completed the acquisition of 25% equity interest in 宣威瑞草生物科技有限公司 (Xuan Wei Rui Cao Biological Technology Company Limited*, "**Xuan Wei**"), which is classified as investment in a joint venture, in May 2021. As the joint venture is still in its early stage of establishment and certain setup costs were incurred, the Group, therefore, recorded share of loss of a joint venture for the Period of approximately HK\$293,000 (2020: N/A).

The loss attributable to the owners of the Company for the Period was approximately HK\$21,242,000 (2020: approximately HK\$55,757,000). The decrease in loss was mainly due to the effect of (i) increase in total revenue; (ii) decrease in charge of loss allowance for ECLs on loans to customers (net of corresponding deferred tax impacts); and (iii) decrease in finance costs as a result of partial redemptions of convertible bonds and redemptions of promissory note made by the Group during the year ended 31 December 2020 and the Period.

PROSPECTS

Looking forward, the persistent tensions between China and the United States of America, combined with the COVID-19 pandemic keep continuing to bring uncertainties to the market and the operations of businesses. The domestic economy in the PRC is still facing downward pressure. In this regard, the People's Bank of China is carrying out prudent and moderately flexible monetary policies to continue to maintain necessary support for the economic recovery and encourage commercial banks to place more resources to provide financing services to micro and small businesses (the "MSBs"). Despite the uncertainties in market and fierce competition in the financial industry, the Group will continue to offer fast and flexible short-term financing services to the MSBs and individual borrowers. At the same time, the Group will also actively adjust its operation strategy on its short-term financing services business and seek optimisation and transformation to maintain its competitiveness in the market.

The Group acquired 25% equity interest in Xuan Wei, which is principally engaged in the recycling of tobacco wastes in the PRC. The related output products include bio-organic fertilizer, biopesticide, biological insecticide and tobacco extracts etc.. This acquisition will enable the Group to capture the opportunity of green production, technological innovation and agricultural industry development in the PRC and diversify the income stream and business risks.

* English name is for identification purpose only.

PROSPECTS (Continued)

Going forward, the management of the Group will maintain a prudent and stable strategy and react proactively to the challenges and opportunities ahead. The Group will continue to explore business opportunities to broaden and diversify our income stream and adopt cost-effective policies to improve the overall financial performance of the Group and to maximise the value for our shareholders.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

FURTHER PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group currently does not have any firm intention or specific plans for material investments or capital assets.

FUND RAISING ACTIVITIES

Rights Issue on the Basis of Two Rights Shares for Every One Existing Share held on Record Date on a Non-underwritten Basis

On 3 December 2020, the Company proposed to implement the rights issue on the basis of two (2) rights shares for every one (1) existing share held on 8 February 2021, being the record date, at the subscription price of HK\$0.135 per rights share, to raise up to approximately HK\$75.9 million before expenses by issuing up to 562,552,822 rights shares, with nominal value of HK\$0.05 each, to the qualifying shareholders of the Company (the "**Rights Issue**"). The net subscription price per rights share after deducting the related expenses of the Rights Issue was approximately HK\$0.13 per share. The Rights Issue was proposed to proceed on a non-underwritten basis irrespective of the level of acceptance of the provisional allotted rights shares and the Company would make compensatory arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules to dispose of the unsubscribed rights shares and the non-qualifying unsold rights shares to independent placees for the benefit of the shareholders of the Company to whom they were offered by way of the Rights Issue. The Company therefore appointed a placing agent to place the unsubscribed rights shares under the Rights Issue to independent placees at a placing price not less than the subscription price of the Rights Issue (i.e. HK\$0.135 per share). The closing price of the share was HK\$0.129 per share as quoted on the Exchange on 3 December 2020, being the date of the announcement of the proposed Rights Issue.

In view of the recent economic environment and the Group's indebtedness position, the Directors considered that the Rights Issue shall be able to strengthen the capital base, enhance the liquidity and lower the gearing ratio of the Company and give the qualifying shareholders of the Company an equal opportunity to maintain their respective pro-rata shareholding interests in the Company.

The Rights Issue was approved by the independent shareholders of the Company at the special general meeting of the Company held on 26 January 2021 and subsequently became unconditional and completed as announced on 15 March 2021. As such, 131,967,283 shares and 430,585,539 shares were issued and allotted under the Rights Issue and the placing respectively. The details of the net proceeds and the use of proceeds from the Rights Issue are set out in the section headed "Use of Proceeds" below.

Details of the Rights Issue are set out in the Company's announcements dated 3 December 2020, 26 January 2021, 4 March 2021 and 15 March 2021, the Company's circular dated 7 January 2021 and the Company's prospectus dated 9 February 2021 (the "**Prospectus**").

During the Period, save as disclosed above, the Group did not process any fund raising activities.

USE OF PROCEEDS

Rights Issue on the Basis of Two Rights Shares for Every One Existing Share held on Record Date on a Non-underwritten Basis

The actual net proceeds raised from the Rights Issue was approximately HK\$72.1 million. Up to 30 September 2021, the Group has utilised the net proceeds as follows:

	Intended use of net proceeds as stated in the Prospectus HK\$'000	Actual use of net proceeds up to 30 September 2021 HK\$'000	Unutilised net proceeds up to 30 September 2021 HK\$'000	Expected timeline for the intended use
Repayment of promissory note	5,400	5,400	–	N/A
Repayment of convertible bonds	35,000	35,000	–	N/A
Establishment of new business on biotechnology side and business development of the Group in the PRC	20,000	6,149	13,851	On or before 31 December 2021
General working capital	11,682	11,682	–	N/A
	72,082	58,231	13,851	

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

As at 30 September 2021, 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 held	Approximate percentage of shareholding in the Company (Note)
Mr. Zhang Wei	Beneficial owner	68,257,920	8.09
Ms. Li Wei	Beneficial owner	43,762,800	5.19

Note: The percentage represents the number of shares interested divided by the number of the issued shares as at 30 September 2021 (i.e. 843,829,233 shares).

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

Long Positions in the Shares (Continued)

Save for disclosed above, as at 30 September 2021, 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 the Company and the Exchange pursuant to the Model Code (as defined below).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the 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 September 2021, 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 share capital:

Long Position in the Shares

Name of substantial shareholder	Number of shares interested			Percentage of the issued share capital of the Company (Note 4)
	Direct interests	Deemed interests	Total interests	
Exuberant Global Limited (Note 1)	151,670,856	–	151,670,856	17.97
Mr. Dai Di (Note 1)	–	151,670,856	151,670,856	17.97
Bustling Capital Limited (Note 2)	104,039,999	–	104,039,999	12.32
Ms. Jin Yu (Note 2)	–	104,039,999	104,039,999	12.32
Mr. Dai Hao (Notes 2 and 3)	–	104,039,999	104,039,999	12.32

Notes:

- The 151,670,856 shares held by Exuberant Global Limited ("**Exuberant Global**") represent (i) 40,000,000 shares; and (ii) 111,670,856 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 151,670,856 shares held by Exuberant Global.
- The 104,039,999 shares held by Bustling Capital Limited ("**Bustling Capital**") represent (i) 10,000,000 shares; and (ii) 94,039,999 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 104,039,999 shares.

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

(Continued)

Long Position in the Shares (Continued)

Notes: *(Continued)*

3. By virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is deemed to be interested in 104,039,999 shares held by Bustling Capital.
4. The percentage represents the number of shares interested divided by the number of the issued shares as at 30 September 2021 (i.e. 843,829,233 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 September 2021, 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.

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 of the GEM Listing Rules (the "**Model Code**"). 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 Period.

INTERESTS IN A COMPETING BUSINESS

During the 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 interest with the Group.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee, 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, 9 November 2021

As at the date of this report, the executive Directors are Mr. Zhang Wei and Ms. Li Wei and the independent non-executive Directors are Mr. Chen Yihua, Mr. Lee Zak Yuen and Dr. Wong Wing Kuen, Albert.

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