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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL RESULTS

The board (the "**Board**") of Directors of the Company is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018 together with comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*3*	**85,721**	74,833
Other income, and other gains and losses, net	*3*	**18,065**	5,888
Administrative and other expenses		**(37,882)**	(36,305)
Allowance for expected credit losses/impairment losses	*12*	**(41,069)**	(1,534)
Finance costs	*5*	**(48,005)**	(44,336)
Loss before income tax	*5*	**(23,170)**	(1,454)
Income tax expense	*6*	**(6,122)**	(10,936)
Loss for the year		**(29,292)**	(12,390)
Loss for the year attributable to:			
Owners of the Company		**(29,625)**	(14,735)
Non-controlling interests		**333**	2,345
		(29,292)	(12,390)
Loss per share attributable to owners of the Company	*8*		
Basic and diluted (Hong Kong cents)		**(2.28)**	(1.13)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(29,292)**	(12,390)
Other comprehensive (expense)/income for the year		
Item that will not be reclassified to profit or loss:		
– Changes in fair value of equity investment at fair value through other comprehensive income ("**FVTOCI**")	**30**	—
Item that will be reclassified to profit or loss:		
– Exchange differences on translation of financial statements of foreign operations	**(26,889)**	39,855
Other comprehensive (expense)/income for the year, net of tax	**(26,859)**	39,855
Total comprehensive (expense)/income for the year	**(56,151)**	27,465
Total comprehensive (expense)/income attributable to:		
Owners of the Company	**(55,719)**	23,978
Non-controlling interests	**(432)**	3,487
	(56,151)	27,465

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	*9*	**1,288**	1,668
Repossessed assets		**2,190**	—
Equity investment at FVTOCI/available-for-sale financial assets		**6,934**	8,405
Deferred tax assets		**26,890**	3,446
		37,302	13,519
Current assets			
Loans to customers	*12*	**299,753**	536,590
Trade receivables	*13*	—	180
Tax recoverable		**355**	—
Prepayment, deposits and other receivables		**2,963**	4,616
Cash and cash equivalents		**193,406**	55,893
		496,477	597,279
Current liabilities			
Accrued expenses, deposits received and other payables		**11,457**	13,180
Tax payable		**5,185**	3,311
Dividend payable to non-controlling interests		—	2,541
Amount due to a shareholder		**499**	2,749
Convertible bonds — liability component		**390,439**	–
		407,580	21,781
Net current assets		**88,897**	575,498
Total assets less current liabilities		**126,199**	589,017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Promissory notes	**20,098**	21,532
Convertible bonds – liability component	**183,178**	527,378
	203,276	548,910
Net (liabilities)/assets	**(77,077)**	40,107
Capital and reserves		
Issued capital	**13,012**	13,012
Reserves	**(102,491)**	10,870
Equity attributable to owners of the Company	**(89,479)**	23,882
Non-controlling interests	**12,402**	16,225
(Capital deficiency)/Total equity	**(77,077)**	40,107

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Issued capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Capital reserve *HK$'000*	Exchange reserve *HK$'000*	Convertible bonds reserve *HK$'000*	Statutory reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	(Capital deficiency)/ Total equity *HK$'000*
As at 1 January 2017	11,812	543,717	131,109	120,794	(87,640)	754,090	16,784	(1,524,289)	(33,623)	15,179	(18,444)
(Loss)/Profit for the year	–	–	–	–	–	–	–	(14,735)	(14,735)	2,345	(12,390)
Other comprehensive income											
Item that will be reclassified to profit or loss											
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	38,713	–	–	–	38,713	1,142	39,855
Other comprehensive income for the year	–	–	–	–	38,713	–	–	–	38,713	1,142	39,855
Total comprehensive income for the year	–	–	–	–	38,713	–	–	(14,735)	23,978	3,487	27,465
Transfer to statutory reserve	–	–	–	–	–	–	4,258	(4,258)	–	–	–
Transactions with owners											
Issue of shares on conversion of convertible bonds	1,200	73,111	–	–	–	(40,784)	–	–	33,527	–	33,527
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2,441)	(2,441)
Transactions with owners	1,200	73,111	–	–	–	(40,784)	–	–	33,527	(2,441)	31,086
As at 31 December 2017	13,012	616,828	131,109	120,794	(48,927)	713,306	21,042	(1,543,282)	23,882	16,225	40,107

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Issued capital *HK$'000*	Share premium* *HK$'000*	Contributed surplus* *HK$'000*	Capital reserve* *HK$'000*	Exchange reserve* *HK$'000*	Convertible bonds reserve* *HK$'000*	FVTOCI reserve* *HK$'000*	Statutory reserve* *HK$'000*	Accumulated losses* *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	(Capital deficiency)/ Total equity *HK$'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 application of HKFRS 9 *(Note 3)*	–	–	–	–	–	–	(1,123)	–	(56,519)	(57,642)	(1,244)	(58,886)
Restated 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)
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(29,625)	(29,625)	333	(29,292)
Other comprehensive expense												
Item that will not be reclassified to profit or loss												
Changes in fair value of equity investment at FVTOCI	–	–	–	–	–	–	30	–	–	30	–	30
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(26,124)	–	–	–	–	(26,124)	(765)	(26,889)
Other comprehensive expense for the year	–	–	–	–	(26,124)	–	30	–	–	(26,094)	(765)	(26,859)
Total comprehensive expense for the year	–	–	–	–	(26,124)	–	30	–	(29,625)	(55,719)	(432)	(56,151)
Transfer to statutory reserve	–	–	–	–	–	–	–	1,325	(1,325)	–	–	–
Transactions with owners												
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,147)	(2,147)
Transactions with owners	–	–	–	–	–	–	–	–	–	–	(2,147)	(2,147)
As at 31 December 2018	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)

* These reserves accounts comprise the consolidated reserves of approximately HK$(102,491,000) (2017: HK$10,870,000) in the consolidated statement of financial position.

Notes:

1. CORPORATE 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, 26th Floor, Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.

During the year ended 31 December 2018, the Company is principally engaged in investment holding. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the provision of short-term financing services in the People's Republic of China (the "**PRC**") and Hong Kong ("**Short-term Financing Services**").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied for the first time the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are relevant and mandatorily effective for the Group's consolidated financial statements for the accounting period beginning on 1 January 2018:

Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to Hong Kong Accounting Standards ("**HKASs**") 28	As part of the Annual Improvements to HKFRS 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers to Investment Property
HK (IFRIC) — Interpretation 22	Foreign Currency Transactions and Advance Consideration

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

HKFRS 9 Financial Instruments

HKFRS 9 have replaced HKAS 39 Financial instruments: recognition and measurement. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items (for example, contract assets, lease receivables and financial guarantee contracts).

In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment under expected credit losses ("**ECL**") model) to items that existed as of the date of initial application (i.e. 1 January 2018) on a retrospective basis based on the facts and circumstances that existed as at 1 January 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of HKAS 39 and hence may not be comparable with the current year information. The cumulative effect of initial application of HKFRS 9 has been recognised as adjustments to the opening retained profits and other component of equity as at 1 January 2018.

(a) Classification and measurement of financial instruments

In general, HKFRS 9 categorises financial assets into the following three classification categories:

— measured at amortised cost;
— measured at FVTOCI;
— measured at fair value through profit or loss ("**FVTPL**").

These classification categories are different from those set out in HKAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and whether the financial assets' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application (i.e. 1 January 2018), and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment as to whether the contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following table shows a reconciliation from how the Group's financial asset existed as of 1 January 2018 were classified and measured under HKAS 39 to how they are classified and measured under HKFRS 9:

	Old classification under HKAS 39	**New classification under HKFRS 9**	**Carrying amount under HKAS 39** *HK$'000*	**Reclassification** *HK$'000*	**Remeasurement** *HK$'000*	**Carrying amount under HKFRS 9** *HK$'000*
Unlisted equity investments	Available for sale financial assets (cost less impairment)	FVTOCI	8,405	—	(1,123) *(Note a)*	7,282
Loans to customers	Loans and receivables	Amortised cost	536,590	—	(73,189) *(Note b)*	463,401
Trade receivables	Loans and receivables	Amortised cost	180	—	(180) *(Note b)*	—
Deposits and other receivables	Loans and receivables	Amortised cost	1,753	—	—	1,753
Cash and cash equivalents	Loans and receivables	Amortised cost	55,893	—	—	55,893

Notes:

(a) From available-for-sale ("**AFS**") equity investments to FVTOCI

The Group had designated the investment in unlisted equity investments (that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies) as at FVTOCI as at the date of initial application of HKFRS 9 (i.e. 1 January 2018) based on the specific transitional provisions set out in HKFRS 9, such investments have to be measured at fair value at the date of initial application (i.e. 1 January 2018). The fair value loss of approximately HK$1,123,000 were adjusted to FVTOCI reserve as at 1 January 2018.

(b) The amount represents additional impairment losses based on the ECL model under HKFRS 9.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. There were no financial liabilities which the Group had previously measured at amortised cost under HKAS 39 that were subject to reclassification upon the application of HKFRS 9.

(b) Impairment under ECL model

HKFRS 9 has introduced the ECL model to replace the "incurred loss" model under HKAS 39. The ECL model requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the ECL model to the financial assets that are subsequently measured at amortised cost (including loans to customers, trade receivables, deposits and other receivables and cash and cash equivalents)

The Group has applied simplified approach to measure lifetime ECL for trade receivables. For the loans to customers as disclosed in the Consolidated Financial Statements, the Group measures ECLs based on lifetime ECL as all loans have contractual maturity of not more than one year. Loss allowance for other financial assets including deposits and other receivables and cash and cash equivalent at amortised cost is measured on 12-month ECL ("**12-m ECL**") basis unless than has been significant increase in credit risk since initial recognition.

In assessing whether the credit risk of financial assets has increased significantly since initial recognition the Group compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on the financial asset as at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information. And in all cases, the Group considers that there has been a significant increase in credit risk when the contractual payments are more than 30 days past due.

The Group considers a financial asset in default (i.e. credit-impaired for ECL calculation) in all cases when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The following table is a reconciliation that shows how the closing loss allowance as at 31 December 2017 determined in accordance with HKAS 39 can be reconciled to the opening loss allowance as at 1 January 2018 determined in accordance with HKFRS 9:

	HK$'000
Loss allowance recognised as at 31 December 2017 under HKAS 39	7,318
Additional loss allowance as a result of the application of the ECL model under HKFRS 9	
— Loans to customers	64,780
Loss allowance recognised as at 1 January 2018 under HKFRS 9	72,098

(c) ***Effect on the Group's accumulated losses and other reserves as of 1 January 2018***

The following table shows the impact of the application of HKFRS 9 on the Group's accumulated losses and other reserves (included the amount allocated to non-controlling interests) as of 1 January 2018:

	Increase in accumulated losses *HK$'000*
Recognition of additional ECLs and written off relating to:	
— Loans to customers	73,189
— Trade receivables	180
Total additional ECLs recognised and written off	73,369
Income tax effect — Deferred tax assets*	(15,606)
	57,763

* The deferred tax assets had been recognised for the above deductible temporary difference as it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

	Decrease in FVTOCI reserve
	HK$'000
Difference between the fair value of in unlisted equity investment as of 1 January 2018 that were previously measured at cost less impairment under HKAS 39 and their aggregate carrying amount under HKAS 39	1,123

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 has replaced HKAS 11 Construction contracts, HKAS 18 Revenue and other revenue-related interpretations. Under HKAS 11 and HKAS 18, revenue arising from construction contracts and provision of services was recognised over time whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 has introduced additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Based on the specific transitional provisions set out in HKFRS 15, the Group had decided to use the cumulative effect transition method and had recognised the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of equity as at the date of initial application (i.e. 1 January 2018). Accordingly, comparative information has not been restated and continues to be presented under HKAS 11 and HKAS 18. Also, the Group has applied the HKFRS 15 requirements only to contracts that were not completed before 1 January 2018.

As mentioned in Note 1, the Group is engaged in the following operations:

— provision of short-term financing to the customers

— provision of financial consultancy services

The interest revenue derived from the provision of short-term financing to customers is recognised in accordance with HKFRS 9 is out of the scope of HKFRS 15.

Revenue from providing financial consultancy services is recognised in the accounting period in which the services are rendered. Revenue is recognised progressively over time using the input method based on the proportion of the actual staff costs incurred relative to the estimated total staff costs because the Group believes that it was an enforcement right to be paid for work done to date if the customer were to cancel the service agreement before the consulting services was fully completed taking into account the contract terms and the relevant laws and regulations in the PRC. As there was no contract not completed as at 1 January 2018, no transition impact on the opening accumulated losses.

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 As originally presented	**Effect of adoption of HKFRS 9**	**1 January 2018 restated**
	HK$'000	***HK$'000***	***HK$'000***
Non-current Assets			
Available-for-sale financial assets	8,405	(8,405)	—
Equity investment at FVTOCI	—	7,282	7,282
Deferred tax assets	3,446	15,606	19,052
Total non-current assets	13,519		28,002
Current Assets			
Loan and account receivables	536,590	(73,189)	463,401
Trade receivables	180	(180)	—
Total current assets	597,279		523,910
Net assets/(Net liabilities)	40,107		(18,779)
Reserves			
— FVTOCI reserve	—	(1,123)	(1,123)
— Accumulated losses	(1,543,282)	(56,519)	(1,599,801)
Non-controlling interests	16,225	(1,244)	14,981
Total equity/(Capital deficiency)	40,107		(18,779)

The Group has not early applied the following new and amendments HKFRSs, which have been issued but are not yet effective, in these consolidated financial statements:—

		Effective for annual reporting periods beginning on or after
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019 *
HKAS 28 and HKFRS 10 Amendments	Sale or Contribution of Assets between an Investor and its associate or Joint Venture	To be determined*
HKFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK (IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
HKFRS 3 Amendments	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8 Amendments	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

* The amendments were original intended to be effective for annual periods beginning on or after 1 January 2018. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Group has already commenced an assessment of the related impact of adopting the above new and amendments to HKFRSs. So far, it has preliminarily concluded that the above new and amendments to HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group except for the following:

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sale and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon the adoption of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

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.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$10,492,000 (2017: HK$14,694,000). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. The new requirement to recognise a right-to-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements. In addition, the adoption of the new requirements may result in changes in measurement, presentation and disclosure as indicated above.

In addition, the Group currently considers refundable rental deposits paid of approximately HK$453,000 (2017: HK$431,000) as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments and included in the carrying amount of right-to-use assets.

The directors of the Company expected that, such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not raise in a significant impact to the consolidated financial performance in the Group's future financial statements.

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

The Group's revenue represents the short-term financing services income, net of direct financing costs. An analysis of the Group's revenue, other income and other gains and losses, net is as follows:

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue			
Interest income from loans to customers		**73,276**	72,137
Financial consultancy income		**12,445**	2,771
Interest expense on funds for loans to customers	*5*	**—**	(75)
Short-term financing services income, net		**85,721**	74,833
Other income, and other gains and losses, net			
Bank interest income		**1,089**	825
Waive of interest expenses on promissory notes*		**3,200**	—
Loss on disposal of property, plant and equipment		**(31)**	(125)
Investment income		**1,183**	—
Recovery of bad debt#		**12,570**	—
Sundry income		**54**	5,188
		18,065	5,888

* During the year, the Group negotiated with the holder of promissory notes, which is an independent third party (the "**Holder**") to the Group, in relation to the waiver arrangement. Pursuant to the agreement, the Holder agreed to irrevocably and unconditionally waive the coupon interest on promissory notes for two financial years of 2017 and 2018.

The amount represented the bad debts relating to loans to customers written off in previous years subsequently settled during the year ended 31 December 2018.

4. 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 Group has determined that it 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 the customers are located; assets and capital expenditure are attributed to the segments based on the locations of the assets.

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 and non-current assets are principally attributable to the PRC, being the single geographical region.

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

	Revenue from external customers Year ended 31 December		**Specified non-current assets As at 31 December**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operation				
Hong Kong	**—**	—	**338**	573
PRC	**85,721**	74,833	**3,140**	1,095
	85,721	74,833	**3,478**	1,668

The customer base in short-term financing services segment is diversified and there is one (2017: Nil) customer individually contributed to 10% or more of the Group's revenue for the year ended 31 December 2018 in the amount of approximately HK$11,189,000 (2017: Nil).

5. LOSS BEFORE INCOME TAX

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

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Finance costs			
Effective interest expenses on			
— convertible bonds		**46,239**	42,581
— promissory notes		**1,766**	1,753
— others		**—**	2
Interest expense on funds for loans to customers		**—**	75
		48,005	44,411
Less: interest expense included in revenue	*3*	**—**	(75)
		48,005	44,336
Other items			
Staff costs (excluding directors' emoluments)			
Salaries, allowance and other benefits		**16,075**	14,025
Pension scheme contributions		**1,986**	1,948
		18,061	15,973
Auditor's remuneration			
— Audit services		**878**	883
Depreciation of property, plant and equipment	*10*	**621**	925
Minimum lease payments under operating leases for land and buildings		**3,820**	5,731
Exchange difference, net		**(458)**	647

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current income tax		
PRC		
Current tax charge for the year	**12,032**	11,194
Over-provision in respect of prior years	**(225)**	(111)
	11,807	11,083
Withholding tax on dividends	**2,267**	236
Deferred tax credit	**(7,952)**	(383)
Income tax expense	**6,122**	10,936

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 and 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 year ended 31 December 2018, no provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising in Hong Kong (2017: 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% (2017: 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%. Upon the announcement of preferential tax treatment, the EIT rate of Lhasa has changed to 9% for the year 2015 to 2017, the EIT rate of Lhasa has been resumed to 15% since 1 Jan 2018.

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% (2017: 10%).

The income tax expense for the year can be reconciled to the accounting profit/(loss) before income tax per the consolidated income statement as follows:

	2018	2017
	HK$'000	*HK$'000*
Loss before income tax	**23,170**	(1,454)
Tax calculated at the rates applicable to the tax jurisdiction concerned	**(4,477)**	2,140
Tax effect on income not taxable for tax purpose	**(708)**	(757)
Tax effect on expenses not deductible for tax purpose	**10,604**	10,382
Tax concession received	**—**	(954)
Over-provision in respect of prior years	**(225)**	(111)
Utilisations of tax losses	**(1,339)**	—
Withholding Tax on dividends	**2,267**	236
Income tax expense for the year	**6,122**	10,936

7. DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2018 (2017: Nil). The Directors do not recommend for payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

8. LOSS PER SHARE

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

The calculations of diluted loss per share for the year are based on the loss for the year 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 year 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 year ended 31 December 2018, as the Company's outstanding convertible bonds had an anti-dilutive (2017: 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 year ended 31 December 2018 are equal (2017: equal).

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

	2018	2017
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company, used in basic loss per share calculation	**(29,625)**	(14,735)
Adjustment of profit/(loss) attributable to owners of the Company: Interest saving of the convertible bonds	**—***	—*
Loss attributable to owners of the Company, used in the diluted loss per share calculation	**(29,625)**	(14,735)

	2018	2017
	'000	*'000*
Share		
Weighted average number of ordinary shares for basic loss per share calculation *('000)*	**1,301,118**	1,298,488
Effect of dilutive potential ordinary shares: Conversion of convertible bonds *('000)*	**—***	—*
Weighted average number of ordinary shares for diluted loss per share calculation *('000)*	**1,301,118**	1,298,488

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

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost				
As at 1 January 2017	1,066	2,125	715	3,906
Additions	505	137	227	869
Disposal/Written off	(1,065)	(459)	(52)	(1,576)
Exchange realignments	—	96	61	157
As at 31 December 2017 and 1 January 2018	506	1,899	951	3,356
Additions	—	201	139	340
Disposal/Written off	—	(120)	(166)	(286)
Exchange realignments	—	(72)	(48)	(120)
As at 31 December 2018	**506**	**1,908**	**876**	**3,290**
Accumulated depreciation				
As at 1 January 2017	962	677	504	2,143
Disposal/Written off	(1,028)	(374)	(49)	(1,451)
Charge for the year	230	545	150	925
Exchange realignments	—	29	42	71
As at 31 December 2017 and 1 January 2018	164	877	647	1,688
Disposal/Written off	—	(83)	(158)	(241)
Charge for the year	179	386	56	621
Exchange realignments	—	(37)	(29)	(66)
As at 31 December 2018	**343**	**1,143**	**516**	**2,002**
Net carrying amount				
As at 31 December 2018	**163**	**765**	**360**	**1,288**
As at 31 December 2017	342	1,022	304	1,668

10. INTANGIBLE ASSETS

	Pawn Licences *HK$'000*
Cost	
As at 1 January 2017	149,000
Exchange realignments	11,251
As at 31 December 2017 and 1 January 2018	160,251
Exchange realignments	(8,302)
As at 31 December 2018	151,949
Accumulated amortisation and impairment losses	
As at 1 January 2017	149,000
Exchange realignments	11,251
As at 31 December 2017 and 1 January 2018	160,251
Exchange realignments	(8,302)
As at 31 December 2018	151,949
Net carrying amount	
As at 31 December 2018	—
As at 31 December 2017	—

Pawn licences

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

The impairment assessment of the Pawn Licences was included in the impairment assessment of the Short-term Financing CGU that includes goodwill (as defined in Note 11). As at 31 December 2016, the recoverable amount of the Short-term Financing CGU fell below its carrying amount, the directors of the Company concluded that, assessed together with goodwill (Note 11) should be fully impaired.

11. GOODWILL

	Short-term Financing CGU *HK$'000*
Cost	
As at 1 January 2017	628,341
Exchange realignments	47,446
As at 31 December 2017 and 1 January 2018	675,787
Exchange realignments	(35,008)
As at 31 December 2018	640,779
Accumulated impairment losses	
As at 1 January 2017	628,341
Exchange realignments	47,446
As at 31 December 2017 and 1 January 2018	675,787
Exchange realignments	(35,008)
As at 31 December 2018	640,779
Net carrying amount	
As at 31 December 2018	—
As at 31 December 2017	—

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

Goodwill acquired through business combinations in prior years had been allocated to the Short-term Financing CGU for impairment test.

As at 31 December 2016, in light of unfavourable operating environment and keen competition of the short-term financing industry, including the relatively lower interest rate environment in the PRC and increasing number of competitors, that were expected to have a negative impact on the future cash flows that could be generated by the Short-term Financing CGU, the directors of the Company had re-estimated the cash flows that could be generated from the Short-term Financing CGU. Based on the fair value less costs of disposal estimated using the revised cash flow projections and using the income approach, the directors of the Company concluded that goodwill and Pawn Licenses allocated to the Short-term Financing CGU had been fully impaired.

12. LOANS TO CUSTOMERS

	2018	2017
	HK$'000	*HK$'000*
Principal and interest receivable:		
Pawn loans	**238,498**	316,862
Micro-credit loans	**114,109**	120,964
Entrusted loans	**54,934**	106,082
Loans to customers, gross	**407,541**	543,908
Less:		
Allowance for ECLs/impairment losses	**(107,788)**	(7,318)
Loans to customers, net	**299,753**	536,590

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.

The following is a credit quality analysis of loans to customers before allowance for ECLs as at 31 December 2018 under the requirements of HKFRS 9.

	2018
	HK$'000
Neither overdue nor credit-impaired	**252,420**
Overdue but not credit-impaired	
— overdue within 30 days	**41,068**
— overdue 30 to 90 days	**77,001**
Overdue and credit-impaired	
— overdue more than 90 days	**37,052**
	407,541

The following is a credit quality analysis of loans to customers before allowance for impairment losses as at 31 December 2017 under the requirements of HKAS 39.

	2017
	HK$'000
Neither past due nor impaired	106,081
Not yet past due	290,926
1 to 30 days past due	85,006
31 to 90 days past due	14,599
91 to 180 days past due	21,125
181 to 365 days past due	14,212
Over 365 days past due	11,959
	543,908

13. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables from third parties	**—**	180

Following the application of HKFRS 9 on 1 January 2018, the balance is written off as the directors of the Company, are of the opinion that the Group had no reality prospect of recovery for such amount.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2018.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our opinion, we draw attention to Note 3.1 to the Consolidated Financial Statements which indicates that the Group recorded a loss of approximately HK$29,292,000 for the year ended 31 December 2018 and had capital deficiency of approximately HK$77,077,000 as of 31 December 2018. In addition, the Group's issued convertible bonds, as described in the Consolidated Financial Statements, will expire on 24 June 2019 and the Group is required to repay 105% of the outstanding principal amount amounting to approximately HK$406,560,000. However, the cash and cash equivalents held by the Group was only amounted to approximately HK$193,406,000 as at 31 December 2018. These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

During the year ended 31 December 2018, the Group is principally engaged in short-term financing services in the PRC and Hong Kong.

The Group recorded total revenue for the year ended 31 December 2018 of approximately Hong Kong dollar ("**HK$**") 85,721,000 (2017: approximately HK$74,833,000), representing an increase of approximately HK$10,888,000 as compared with last year. The revenue increment for the year ended 31 December 2018 was mainly attributable to the significant increase in the financial consultancy income of approximately HK$9,674,000, as the Group has provided a consultancy service in relation to acquisition of equity interest in an independent third party and received a fee of RMB10,000,000, in which constituted a discloseable transaction and disclosed in the Company's announcement dated 25 June 2018.

The administrative and other expenses for the year ended 31 December 2018 has slightly increased from approximately HK$36,305,000 in the year 2017 to approximately HK$37,882,000.

The loss attributable to the owners of the Company for the year ended 31 December 2018 was approximately HK$29,625,000 (2017: approximately HK$14,735,000). The increase in loss attributable to the owners of the Company was mainly attributable to the significant increase in allowance for expected credit losses on loans to customers from approximately HK$1,534,000 for the year ended 31 December 2017 to approximately HK41,069,000 for the year ended 2018 due to the first-time adoption of Hong Kong Financial Reporting Standards 9 Financial Instruments ("**HKFRS 9**"). The Group applies HKFRS 9 in 31 December 2018 for the first time, while the comparative figures in the previous year is reported under HKAS 39 and is not comparable to the information presented for the year ended 31 December 2018. Difference arising from the adoption of HKFRS 9 have been recognised directly in the reserves as of 1 January 2018.

Short-term Financing Services

During the year ended 31 December 2018, the revenue of short-term financing services was approximately HK$85,721,000 (2017: approximately HK$74,833,000). The operating results of the short-term financing services recorded a profit before income tax of approximately HK$30,411,000 (2017: approximately HK$51,569,000). The significant decrease in segment profit for the year ended 31 December 2018 when compared with last year was the mainly attributable to the significant increase in allowance for expected credit losses on loans to customers for the year 31 December 2018 which has been discussed above.

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 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 providers 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 maximum the value of shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had other debts comprising promissory notes and liability component of convertible bonds of approximately HK$593,715,000 (2017: approximately HK$548,910,000). 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 31 December 2018, the Group had cash and cash equivalents of approximately HK$193,406,000 (2017: approximately HK$55,893,000) which were mainly denominated in HK$ 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 31 December 2018, the gearing ratio for the Group was approximately negative 6.6 due to the Company's negative equity position (2017: approximately positive 23.0), calculated based on the total debts of approximately HK$593,715,000 (2017: approximately HK$548,910,000) over shareholder's equity of approximately negative HK$89,479,000 (2017: approximately positive HK$23,882,000). The debt ratio was approximately 1.14 (2017: approximately 0.93), 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 of the Company (the "**Shareholders**"), issue new shares or sell assets to reduce debt.

CAPITAL STRUCTURE

The capital structure of the Group as at 31 December 2018 is summarised as follows:

(i) Bank Borrowings

There were no bank borrowings outstanding as at 31 December 2018 (2017: Nil).

(ii) Promissory Notes

As at 31 December 2018, the Company had promissory notes issued as part of consideration for the acquisition of the Prima Finance Holdings Limited and its subsidiaries (collectively referred to as the "**Prima Finance Group**") outstanding. Summary of the promissory notes is as follows.

Date of issue	**Principal amount as at 1 January 2018** *(HK$)*	**Interest rate per annum**	**Principal repayment due date**	**Redeemed principal amount** *(HK$)*	**Outstanding principal amount as at 31 December 2018** *(HK$)*
6 February 2015	20,000,000	8%	6 February 2020	—	20,000,000

(iii) Convertible Bonds

As at 31 December 2018, the Company had 2 series of non-interest bearing convertible bonds issued as part of consideration of the acquisition of the Prima Finance Group outstanding. Summary of the convertible bonds is as follows.

Date of issue	Principal amount as at 1 January 2018 *(HK$)*	Maturity Date	Conversion Price per share	Amount converted into shares during the year *(HK$)*	Outstanding principal amount as at 31 December 2018 *(HK$)*	Number of Shares to be issued upon full conversion as at 31 December 2018
25 June 2014	387,200,000	24 June 2019	HK$0.35	—	387,200,000	1,106,285,714
6 February 2015	194,000,000	5 February 2020	HK$0.35	—	194,000,000	554,285,714

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 12 April 2018, 拉薩嘉德財務顧問有限公司(Lhasa Jiade Financial Consultant Company Limited*), an indirect wholly-owned subsidiary of the Company, subscribed for the investment product issued by 北京首御投資有限公司(Beijing Shouyu Investment Limited Company*), a limited liability company established in the PRC, and registered with 銀川產權交易中心(有限公司)(Yinchuan Property Rights Trading Center*), a legal entity approved by the Yinchuan Municipal Government and established under the laws of the PRC, in an aggregate amount of RMB20,000,000 (equivalent to approximately HK$22,788,000), which was subsequently redeemed on 29 December 2018.

As the relevant applicable percentage ratios (as defined under Rule 19.07 of the GEM Listing Rules) of the Subscription exceed 5% but are less than 25%, the Subscription constitutes a disclosable transaction of the Company under Chapter 19 of the GEM Listing Rules.

Details of the abovementioned Subscription are set out in the Company's announcement dated 12 April 2018.

During the year ended 31 December 2018, save as disclosed above, the Group did not process any other significant investment, acquisition or disposal of subsidiaries or associated companies.

CHARGE OF GROUP ASSETS

As at 31 December 2018, the Group did not have any assets under charge (2017: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 31 December 2018, 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.

As 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 31 December 2018, 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 31 December 2018, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedging or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liability (2017: Nil).

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 77 employees (2017: 78). 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-end bonuses 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 our employees. Staff costs, excluding Directors' emoluments, for the year ended 31 December 2018 amounted to approximately HK$18,061,000 (2017: approximately HK$15,973,000).

The Company adopted the share option scheme where 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 year ended 31 December 2018.

EVENTS AFTER REPORTING PERIOD

Connected Transaction in relation to the Proposed Extension of Maturity Date of Convertible Bonds

On 20 February 2019, the Company executed the amendment deeds, to extend the maturity date of the 2014 Convertible Bonds (as defined in the Company's announcement dated 20 February 2019) by 3 years from 24 June 2019 to 24 June 2022, and the 2015 Convertible Bonds (as defined in the Company's announcement dated 20 February 2019) by 3 years from 5 February 2020 to 5 February 2023 (i.e. the Alteration). Save for the aforesaid proposed Alteration, all other terms and conditions of the 2014 Convertible Bonds and the 2015 Convertible Bonds shall remain unchanged.

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. 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 will make an application for the approval of the proposed Alteration.

A circular is expected to be despatched to the Shareholders in accordance with the GEM Listing Rules on 30 March 2019 (the "**Circular**"). Details of the proposed Alteration are set out in the Company's announcement dated 20 February 2019 and the Circular.

Save as disclosed above, there is no material subsequent event undertaken by the Group after 31 December 2018 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable growth of the Group and for safeguarding the interests and the Group's assets.

Throughout the year ended 31 December 2018, the Company had complied with all the code provisions set out in the Appendix 15 Corporate Governance Code and Corporate Governance Report (the "**CG Code**") of the GEM Listing Rules with the exception of the following deviations:

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.

CODE PROVISION A.6.7

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

A non-executive Director was unable to attend the annual general meeting of the Company held on 24 May 2018 as he had other business engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by Directors on terms equivalent to 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 year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group and recommended to the Board for approval. The Audit Committee has also considered selected accounting, internal control, risk management and financial reporting matters of the Group, in conjunction with the external auditor (if appropriate) of the Company.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this announcement, there is sufficient public float of the Company's issued shares as required under the GEM Listing Rules throughout the year ended 31 December 2018.

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

Hong Kong, 28 March 2019

As at the date of this announcement, 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 announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company's website at http://www.capitalfinance.hk.