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中金投集团

China Financial Services Holdings Ltd

China Financial Services Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock code: 605)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

	Unaudited six months ended 30 June 2013 HK\$'000	Unaudited six months ended 30 June 2012 HK\$'000	Percentage changes
Turnover	207,172	144,746	43.1%
Profit from operations	183,203	122,038	50.1%
Profit for the period attributable to owners of the Company	120,366	87,388	37.7%
Basic earnings per share	HK3.96 cents	HK2.92 cents	35.6%

FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Financial Services Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2013 (the “Reporting Period”) together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited) for the six months ended 30 June	
	<i>Note</i>	2013	2012
		HK\$'000	HK\$'000
			(Restated)
Turnover	6	<u>207,172</u>	<u>144,746</u>
Other revenue	6	13,013	3,913
Other net income	6	5,442	10,073
Administrative expenses		<u>(42,424)</u>	<u>(36,694)</u>
Profit from operations		183,203	122,038
Finance costs		<u>(17,141)</u>	<u>(255)</u>
Profit before taxation from continuing operations	7	166,062	121,783
Income tax	8	<u>(45,744)</u>	<u>(34,239)</u>
Profit for the period from continuing operations		120,318	87,544
Discontinued operations		<u>–</u>	<u>607</u>
Profit for the period		<u><u>120,318</u></u>	<u><u>88,151</u></u>
Other comprehensive income:			
Exchange differences on translating of financial statements of overseas subsidiaries		(6,980)	(4,175)
Transfer to statement of comprehensive income for disposal of available-for-sale financial assets		<u>(8,015)</u>	<u>(2,930)</u>
Other comprehensive income for the period		<u>(14,995)</u>	<u>(7,105)</u>
Total comprehensive income for the period		<u><u>105,323</u></u>	<u><u>81,046</u></u>

		(Unaudited)	
		For the six months	
		ended 30 June	
		2013	2012
		HK\$'000	HK\$'000
			(Restated)
		<i>Note</i>	
Profit attributable to:			
Owners of the company		120,366	87,388
Non-controlling interests		(48)	763
		120,318	88,151
Total comprehensive income attributable to:			
Owners of the Company		104,023	80,271
Non-controlling interests		1,300	775
		105,323	81,046
Earnings per share (in HK cent)			
– Basic	9	HK3.96 cents	HK2.92 cents
– Diluted		HK3.94 cents	HK2.91 cents
Dividends			
	18	Nil	Nil

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		8,827	10,732
Goodwill	10	622,703	622,703
Available-for-sale investments		45,689	55,359
		677,219	688,794
Current assets			
Consideration receivable from disposal of a subsidiary		15,983	61,543
Forfeited collateral held for sale		2,764	638
Accounts receivable	12	20,479	25,388
Interests receivable	12	6,610	5,533
Short term loans receivable	11	1,215,838	1,071,318
Other receivables, deposits and prepayments		158,525	210,967
Security deposits		31,385	10,923
Cash and cash equivalents		154,955	313,460
		1,606,539	1,699,770
Current liabilities			
Tax payable		43,908	44,177
Interest payable		2,984	–
Other payables, deposits received and accruals		204,162	189,652
Short term borrowings		–	308,103
Liabilities arising from loan guarantee contracts		1,831	1,111
Bank loans	13	25,108	3,700
Dividend payable		1,369	–
		279,362	546,743
Net current assets		1,327,177	1,153,027
Total assets less current liabilities		2,004,396	1,841,821

		30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
	<i>Note</i>		
Non-current liabilities			
Bank loans	<i>13</i>	–	20,966
Deferred tax liabilities	<i>14</i>	10,964	10,964
Convertible note		70,200	–
		81,164	31,930
NET ASSETS		1,923,232	1,809,891
Equity			
Share capital	<i>15</i>	308,154	299,700
Reserves		1,584,410	1,480,823
Total equity attributable to owners of the Company		1,892,564	1,780,523
Non-controlling interests		30,668	29,368
TOTAL EQUITY		1,923,232	1,809,891

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Other comprehensive income		Statutory surplus reserve HK\$'000	Retained earnings HK\$'000	Attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
				Exchange fluctuation reserve HK\$'000	Fair value reserve HK\$'000					
At 1 January 2011	174,600	290,487	22,333	11,496	2,290	611	264,012	765,829	8,313	774,142
Exchange adjustment	-	-	-	18,169	-	-	-	18,169	269	18,438
Profit for the year	-	-	-	-	-	-	57,302	57,302	2,073	59,375
Fair value adjustment for financial assets	-	-	-	-	(5,041)	-	-	(5,041)	-	(5,041)
Total comprehensive income	-	-	-	18,169	(5,041)	-	57,302	70,430	2,342	72,772
Transfer to reserve	-	-	-	-	-	8,576	(8,576)	-	-	-
Share issued through acquisition of subsidiaries	125,000	574,980	-	-	-	-	-	699,980	-	699,980
Increase in non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	20,153	20,153
Equity settled share-based transactions	100	475	(216)	-	-	-	-	359	-	359
Application of white wash waiver	-	(250)	-	-	-	-	-	(250)	-	(250)
Pre-acquisition dividend	-	-	-	-	-	-	-	-	122	122
At 31 December 2011 and 1 January 2012	299,700	865,692	22,117	29,665	(2,751)	9,187	312,738	1,536,348	30,930	1,567,278
Exchange adjustment	-	-	-	(13,200)	-	-	-	(13,200)	193	(13,007)
Profit for the year	-	-	-	-	-	-	254,039	254,039	1,610	255,649
Fair value adjustment for financial assets	-	-	-	-	3,336	-	-	3,336	-	3,336
Total comprehensive income	-	-	-	(13,200)	3,336	-	254,039	244,175	1,803	245,978
Pre-acquisition dividend paid	-	-	-	-	-	-	-	-	(778)	(778)
Transfer to reserve	-	-	-	-	-	8,773	(8,773)	-	-	-
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(2,587)	(2,587)
As 31 December 2012	299,700	865,692	22,117	16,465	585	17,960	558,004	1,780,523	29,368	1,809,891
Balance at 1 January 2013 (Audited)	299,700	865,692	22,117	16,465	585	17,960	558,004	1,780,523	29,368	1,809,891
Change in equity for the six months ended 30 June 2013:										
Exchange adjustment	-	-	-	(8,328)	-	-	-	(8,328)	1,348	(6,980)
Profit for the period	-	-	-	-	-	-	120,366	120,366	(48)	120,318
Fair value adjustment for financial assets	-	-	-	-	(8,015)	-	-	(8,015)	-	(8,015)
Total comprehensive income	-	-	-	(8,328)	(8,015)	-	120,366	104,023	1,300	105,323
Shares issued under convertible bonds	4,654	18,617	-	-	-	-	-	23,271	-	23,271
Shares issued under share option scheme	3,800	16,897	(5,135)	-	-	-	-	15,562	-	15,562
Dividend	-	-	-	-	-	-	(30,815)	(30,815)	-	(30,815)
As 30 June 2013	308,154	901,206	16,982	8,137	(7,430)	17,960	647,555	1,892,564	30,668	1,923,232

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale or as financial assets at fair value through profit or loss, which are measured at revalued amounts or fair values, as appropriate.

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

(a) The following new and amended standards are mandatory for the first time for financial year beginning 1 January 2013 and have been adopted by the Group for the financial period ended 30 June 2013. The adoption of these new accounting policies has no material impact on the financial statements of the Group in the current period and prior years.

- HKFRS 19 (Amendment), ‘Employee benefits’
- HKFRS 10, ‘Consolidated financial statements’
- HKFRS 11, ‘Joint arrangements’
- HKFRS 12, ‘Disclosure of interests in other entities’
- HKFRS 13, ‘Fair Value Measurement’
- HKFRS 1 (Amendment), ‘Government Loans’
- HKFRS 7 (Amendment), ‘Financial instruments: Disclosures – Offsetting financial assets and financial liabilities’
- HKAS 1 (Amendment), ‘Presentation of financial statement’
- HKAS 16 (Amendment), ‘Property, Plant and Equipment’
- HKAS 27 (Revised), ‘Consolidated and Separate Financial Statement’
- HKAS 28 (Revised), ‘Investments in Associates and joint ventures’
- HKAS 32 (Amendment), ‘Financial Instruments: Presentation’
- HKAS 34 (Amendment), ‘Interim Financial Reporting’
- HKFRS 1 (Amendment), ‘First-time Adoption of Hong Kong Financial Reporting Standards’

- (b) New and amended standards relevant to the Group that have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

- HKFRS 9, 'Financial instruments'

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

3. FINANCIAL RISK MANAGEMENT

The Group is exposed to a number of financial risks through the normal course of business. In the view of the Board, all aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual accounts for the year ended 31 December 2012.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of the unaudited condensed interim financial information are consistent with those used in the annual accounts for the year ended 31 December 2012.

5. SEGMENTAL INFORMATION

(a) Operating segment information

The Group engaged in a single type business of provision of short-term financing services. Accordingly, no operating segment information is presented.

(b) Geographical Information

The geographical location of customers is based on the location at which the goods are delivered and services are rendered. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in the People's Republic of China ("PRC"), no analysis on revenue from external customers and non-current assets by location are presented.

(c) Information about major customers

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the period ended 30 June 2012 and 2013.

6. TURNOVER, OTHER REVENUE AND OTHER NET INCOME

The Group's turnover, other revenue and other net income for the Reporting Period arose from the following activities:

	(Unaudited) For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Turnover		
Interest income on provision of short-term financing service	4,317	12,986
Financing consultancy service income	201,738	130,778
Loan guarantee service income	1,117	982
	<u>207,172</u>	<u>144,746</u>
Other revenue		
Dividend income	498	458
Bank interest income	1,415	532
Gross rental income from leasing of premises	8	2,155
Income from government subsidies	11,092	768
	<u>13,013</u>	<u>3,913</u>
Other net income		
Change in fair value of financial assets at fair value through profit or loss, net	–	738
Gain on disposal of fixed assets	–	495
Gain on realisation of share options	25	46
Gain on sales of available-for-sale financial assets	1,745	2,475
Exchange gain, net	–	–
Others	3,672	6,319
	<u>5,442</u>	<u>10,073</u>

7. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging:

	(Unaudited) For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Auditor's remuneration	560	613
Depreciation	2,215	1,105
Operating lease payments	3,137	2,901
Staff cost	12,703	8,022

8. INCOME TAX

	(Unaudited) For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000 (Restated)
Current Taxation		
Hong Kong profits tax (under provision in previous years)	–	–
PRC enterprise income tax	45,744	29,745
Deferred taxation	–	4,494
Tax charge for the period	45,744	34,239

Hong Kong profits tax has been provided for at the rate of 16.5% (2012: 16.5%) on the estimated net assessable profits for the Reporting Period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2012: 25%).

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised the deferred tax assets in respect of the tax losses of HK\$72,503,000 (31 December 2012: HK\$60,876,000) due to unpredictability to future profit streams. The unrecognised tax losses, mainly arising from companies incorporated in Hong Kong, can be carried forward indefinitely.

9. EARNINGS PER SHARE

(a) Basic earnings per share

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

	(Unaudited) For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit attributable to owners of the Company)	120,366	87,388
	Number of shares	
Issued ordinary shares at 1 January	2,997,002,336	2,997,002,336
Shares issued under share option scheme	38,000,000	–
Share issued pursuant to conversion of convertible bond	46,542,000	–
	3,081,544,336	2,997,002,336
Weighted average number of ordinary shares for the purpose of earnings per share	3,036,415,441	2,997,002,336

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share options scheme assuring they were fully exercised and full conversion of the convertible bonds.

	2013	2012
Weighted average number of shares (diluted):		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,036,415,441	2,997,002,336
Effect of deemed issue of shares under the Company's share options scheme	15,828,094	2,712,720
Effect of deemed issue of shares under convertible bonds	50,141,934	—
Weighted average number of ordinary share (diluted)	<u>3,102,385,469</u>	<u>2,999,715,056</u>

The convertible bonds are anti-dilutive and are ignored in the calculation of diluted earnings per share.

10. GOODWILL

	Group	
	2013	2012
	HK\$'000	HK\$'000
Carrying amount		
At 1 January (Audited)	622,703	622,703
At 30 June (Unaudited)	<u>622,703</u>	<u>622,703</u>

Goodwill is allocated to the Group's cash-generating unit ("CGU") of short-term financing operation.

Impairment test for cash-generating unit containing goodwill

The recoverable amount of the CGU represents the value-in-use at 30 June 2013. The valuation used the discount cash flow approach and the value-in-use calculations based on financial budgets approved by management covering a three-year period. Management determined the budgeted gross margin based on past performance and its expectation for market development. The growth rates used are by references to the forecasts based on the funds available for the Group's loan financing business and does not exceed the forecasts included in industry reports. The discount rates used are pre-tax and reflects specific risks relating to the relevant operating segments. Cashflow beyond the three-year period are extrapolated using the estimated gross margin of 88%, discount rate of 13.52% and 3% growth rate. The growth rate does not exceeds the long-term average growth rate for the business in which the CGU operates.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.

11. SHORT-TERM LOANS RECEIVABLE

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Pawn loan receivables	Other short- term loan receivables	Total	Pawn loan receivables	Other short- term loan receivables	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	151,840	919,478	1,071,318	116,718	694,445	811,163
Gross loans advanced	101,600	1,083,883	1,185,483	766,000	1,049,382	1,815,382
Repayment during the year	(173,189)	(872,858)	(1,046,047)	(729,866)	(826,139)	(1,556,005)
Exchange adjustment	2,171	4,297	6,468	522	2,155	2,677
	<u>82,422</u>	<u>1,134,800</u>	<u>1,217,222</u>	<u>153,374</u>	<u>919,843</u>	<u>1,073,217</u>
At 30 June 2013/ 31 December 2012	82,422	1,134,800	1,217,222	153,374	919,843	1,073,217
Allowance for doubtful debts at 30 June 2013/ 31 December 2012	(824)	(560)	(1,384)	(1,534)	(365)	(1,899)
	<u>(824)</u>	<u>(560)</u>	<u>(1,384)</u>	<u>(1,534)</u>	<u>(365)</u>	<u>(1,899)</u>
Net balance at 30 June 2013/ 31 December 2012	<u>81,598</u>	<u>1,134,240</u>	<u>1,215,838</u>	<u>151,840</u>	<u>919,478</u>	<u>1,071,318</u>

The Group offers pawn loans secured by tangible personal property, such as real estate merchandise, and other short-term loans commonly known as short-term loans. A typical short-term loan generally has a term of 30 days to 360 days. All of the short-term loans receivables are expected to be recovered within one year.

Maturity profile

The maturity profile of short-term loans receivables at the end of the reporting period, based on maturity dates, is as follows:

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Pawn loan receivables	Other short- term loan receivables	Total	Pawn loan receivables	Other short- term loan receivables	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due within 1 month or on demand	2,423	237,010	239,433	97,999	580,065	678,064
Due after 1 month but within 3 months	30,148	373,341	403,489	28,736	208,596	237,332
Due after 3 months	49,851	524,449	574,300	26,639	131,182	157,821
Allowance for doubtful debts	(824)	(560)	(1,384)	(1,534)	(365)	(1,899)
	<u>81,598</u>	<u>1,134,240</u>	<u>1,215,838</u>	<u>151,840</u>	<u>919,478</u>	<u>1,071,318</u>

12. ACCOUNTS RECEIVABLE & INTERESTS RECEIVABLE

Accounts receivable represent the financing consultancy fee income not yet received during the Reporting Period. All the accounts receivable and interests receivable will be settled according to contract terms and are expected to be recovered within one year. The carrying amount of accounts and interests receivable approximate to their fair values.

13. BANK LOANS

At the end of the Reporting Period, all the bank loans of the Group, which were all obtained in PRC and denominated in RMB, are listed as follows:

	Group	
	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within 1 year or on demand		
Bank loans – secured	25,108	3,700
Bank loans – unsecured	–	–
	25,108	3,700
After 1 year but within 5 years		
Bank loans – secured	–	20,966
	25,108	24,666

14. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the period are as follows:

	Group Withholding tax HK\$'000
At 1 January 2013 (Audited)	10,964
Charge to profit or loss	–
At 30 June 2013 (Unaudited)	10,964

Under the PRC Enterprise Income Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

15. SHARE CAPITAL

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised				
Ordinary share of HK\$0.10 each	4,000,000,000	400,000	4,000,000,000	400,000
Issued and fully paid				
At 31 December 2011 and 1 January 2012	2,997,002,336	299,700		
At 30 June 2013	3,081,544,336	308,154		

16. OPERATING LEASE COMMITMENT

As lessee

The Group leases certain of its office properties, director's quarter and short-term financing operation under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

At the statement of financial position date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within one year	8,418	9,006
In the second to fifth years, inclusive	14,365	16,916
After the fifth year	4,652	1,236
	27,435	27,158

17. RELATED PARTY TRANSACTIONS

For the six months period, the Group had the following significant transaction with related parties:

Compensation of key management personnel of the Group

	(Unaudited) For the six months ended 30 June 2013 HK\$'000	2012 HK\$'000
Salaries, allowances and other benefits	2,041	1,859
Pension scheme contribution	8	6
	2,049	1,865

18. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2012: Nil).

19. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 13 August 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro Economic Environment

Global economy continued its slow path to recovery in an intricate environment in the first half of 2013. Though China's economy is generally stable, SMEs, which contribute over 60% GDP, still face many formidable challenges. In recent years, the government has been intensifying its efforts to create political and financial environments favourable for SMEs, and dedicated to alleviating their loan difficulties and liquidity shortage by continuing to promote financial liberalization and development of non-bank financial institutions. In September 2012, the government issued the 12th Five-Year Plan for the Development and Reform of the Financial Industry, which specified "supporting private participation in the establishment of village banks, loan companies, rural mutual cooperatives and other new forms of rural financial institutions and small loan companies", so as to step up financial services to "agriculture, farmers and rural areas" and small and micro enterprises, lending political support and systematical guarantee to SMEs and micro enterprises.

Business Review

As the economic center of China, Beijing witnesses robust demand for loan financing. However, in the face of difficulties in getting bank loans, most SMEs seek diversified financial services & products from non-bank institutions to meet their short-term and rapid financing needs. The SMEs-oriented financing service is now still in its infancy, with serious problems like shortage of funds and license. So loans for SMEs are obviously in short supply.

As the largest provider of loan financing services to SMEs in Beijing, we keep exploring new ways to serve SMEs. We provide various professional products flexible in structure for SMEs via existing services like pawn, small loan and financial guarantee. Meanwhile, with steady and low-cost financing capability, we are committed to innovating our products to meet market demand for diversified financial services. Moreover, by dint of rich industry experience of our management team and background resources, we have established extensive business channels with outstanding competitive edges in business expansion, financing channels and risk control.

In the first half of 2013, fuelled by robust demand for short-term financing in China, our revenues increased significantly: the turnover expanded 43.1% to HK\$207,172,000; the profit for the period attributable to owners of the Company gained 37.7% to about HK\$120,366,000; earnings per share reached HK3.96 cents (vs. HK2.92 cents in the first half of 2012). The direct financing amount exceeded HK\$1,215,838,000, up 34.1% over the same period last year.

Broaden Financing Channels and Keep Improving Profitability

In the first half of 2013, we actively cooperated with banks, trust institutions and funds in order to expand capital sources:

- In March 2013, we issued convertible bonds of about US\$12 million in total to China Construction Bank Corporation ("CCB"), which further bolstered our capital base and can help us expand our financing business to SMEs. On 26 April 2013, CCB converted US\$3 million convertible bonds to 46.54 million shares of the Company, which were equivalent to 1.53% of the enlarged share capital of the Company.

- In March 2013, we cooperated with Sino-Australian International Trust Co., Ltd in launching the Trust Plan for No. V Collective Fund of SMEs' Development Fund to raise RMB500 million within five years, of which the first RMB107 million has been in place. Thanks to cooperation with Sino-Australian International Trust Co., Ltd we have acquired enormous financing channels and enjoyed competitive rates, thereby effectively reducing SMEs' financing cost and enabling them to achieve more efficient business management and capital operation.
- In July 2013, we joined hands with Kunshan Noah Xingguang Investment Management Co., Ltd. under Noah Holdings Limited (China's largest third-party wealth management institution) and Wanjia Co-win Asset Management Co., Ltd. to issue asset securitization products, and planned to raise RMB500 million in the next one to two years, of which the first RMB120 million has been fully raised. These products, the first of the private asset securitization projects in the industry, provided a drive for us to expand and develop our loan business.

Actively Segment Markets and Expand Business Scope

Our main businesses cover direct financing, financing guaranteed by financial institutions, special financing and intermediary service. In the first half of 2013, we vigorously expanded our business scope and sought high-profit market segments. As a result, we made satisfactory progress in special financing like automobile trade financing.

- Direct financing and financing guaranteed by financial institutions

In the first half of 2013, benefiting from rising loan demands from SMEs in China and supply shortage in the market, we maintained rapid growth in direct financing, recording a total loans receivable of HK\$1,215,838,000 based on a year-on-year growth of 34.1%. Besides, we have achieved satisfactory growth in financing guaranteed by financial institutions, registering a turnover of HK\$1,117,000 based on a year-on-year growth of 13.7%.

An analysis by major category of SME customers is shown below:

SME customers	% on loans receivable balances	% on outstanding loan guarantees
Property development & construction companies	17.9	–
Services companies and retail suppliers	46.5	60.6
High technology companies	4.8	14.6
Manufacturing and processing companies	14.4	24.8
Commercial property management companies	16.4	–

- Automobile trade financing

In the first half of 2013, we posted growth in our special automobile trade financing business. This business is mainly aimed at small and medium automobile dealers in the automobile trade sector. Through cooperation with banks, we provide the dealers with bank credit funds, thereby greatly reducing their financing cost, increasing their capital turnover and promoting their healthy development.

Strictly Control Risks to Stay Ahead of the Peers

In the first half of 2013, we continued to strengthen our ability of asset evaluation and risk management, monitor asset quality through direct evaluation, collateral valuation, loan examination and approval, post-loan management, etc., thereby lowering the risks and ensuring fund security to the greatest extent. We accepted only healthy assets of high quality as collaterals for our financing service, with balance of loans accounting for merely about 35% of balance of collaterals. We maintained an industry-leading historical loss rate of zero by virtue of our excellent ability in collateral recognition and disposal and well-established examination and approval system.

Outlook

In July 2013, the government introduced policies on financial support for adjusting, transitioning and upgrading the economic structure, encouraging private capital to sponsor and establish financial institutions such as private banks, financial leasing companies and consumer finance companies which run business at their own risk, encouraging local governments to establish credit risk compensation funds for small and micro enterprises, accelerating SMEs' credit system establishment, and guiding the sound development of financing guarantee companies. We envision a more open financial market environment in the second half of 2013 based on our optimistic expectation on the global economy, the steadily rising domestic economy and China's reform of the financial system.

We will continue to maintain our principle of prudent operation, actively expand financing channels, make innovation in financial service products, strengthen risk control and management, thus obtaining more safe and reliable capital to constantly expand our business scale.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 30 June 2013, current assets of the Group comprised cash and bank balances of approximately HK\$154,955,000, security deposits of HK\$31,385,000, short-term loans receivable of approximately HK\$1,215,838,000, accounts and interests receivable of HK\$27,089,000, and other receivables, deposits and prepayments of approximately HK\$158,525,000. Non-current assets mainly comprised goodwill of about HK\$622,703,000 and available-for-sale investments of approximately HK\$45,689,000. Current liabilities mainly comprised dividend payable of approximately HK\$1,369,000, bank loans of approximately HK\$25,108,000, liabilities arising from loan guarantee contracts of about HK\$1,831,000, other payables, deposits received and accrual of approximately HK\$204,162,000, tax payable of approximately HK\$43,908,000 and interest payable of about HK\$2,984,000.

The increase in finance cost during the Reporting Period was mainly due to provision of effective interest costs for convertible bonds and related expenses, cost incurred to Sino-Australian International Trust Co., Ltd in relation to No. V Collective Fund and borrowings from other parties.

Liquidity and Gearing Ratio

The Group maintains a healthy liquidity position. As at 30 June 2013, the current ratio of the Group was 5.75 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings divided by total equity. As at 30 June 2013, the gearing ratio was about 0.05.

Fair Value Estimation

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to approximate their fair values.

Employee and Remuneration Policies

As at 30 June 2013, the Group had approximately 100 employees in PRC and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group has also set up a share option scheme for the purpose of providing incentives to eligible employees. For the Reporting Period, total staff costs were about HK\$12,703,000.

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

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

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

On 15 March 2013, the Company (as the issuer), Chance Talent Management Limited (the Subscriber), Cheung Siu Lam and Lo Wan (the joint Guarantors) entered into the Subscription Agreement in respect of the issue of the convertible bonds ("Convertible Bonds") in the principal amount of US\$12 million (equivalent to approximately HK\$93 million). The net proceeds from the Convertible Bonds of approximately HK\$90 million will be used for general working capital and business development of the Group. The Convertible Bonds shall carry an interest of 10% per annum payable semi-annually in arrears. Completion of the issue of the Convertible Bonds to the Subscriber took place on 26 March 2013. Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Bonds shall be redeemed on 25 March 2015. Under the Subscription Agreement, an event of default occurs if there is a change of control such that either: (a) the Guarantors cease, directly or indirectly, to be able to exercise or control the exercise of 50% or more of the voting rights attaching to the issued share capital of the Company on a fully diluted basis (a "Control Stake"); (b) any person or persons (other than the Guarantors), acting individually or together, directly or indirectly, acquires (or unconditionally will acquire) a Control Stake or the right to appoint or remove all or the majority of the Directors or other governing body; or (c) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other person or persons, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring a Control Stake in the Company or the successor entity.

On 26 March 2013, the Guarantors and the Custodian entered into the Custodian Deed pursuant to which the Guarantors and Arbalice Holdings Limited shall deposit a total of 2,032,552,240 Shares held by them, into the cash securities trading accounts opened and maintained with the Custodian.

The major undertakings and obligations of the Guarantors and Arbalice Holdings Limited under the Custodian Deed are as follows:

- (a) each of them shall not, without the prior written consent of the Subscriber, create or attempt to create or permit to subsist or arise any mortgage, charge, pledge, lien, assignment, hypothecation or other security interest on or over or affecting the Custodian Shares or any part of it;

- (b) each of them shall not dispose of the Custodian Shares or any part of them or agree to do so; and
- (c) each of them shall not do or cause or permit to be done anything which may in any way reduce, jeopardise or otherwise prejudice the value of the Custodian Shares.

Pursuant to the Custodian Deed, after one-quarter of the total principal amount of all outstanding Convertible Bonds have been converted, the Guarantors and Arbalice Holdings Limited together may make an one-off request to the Subscriber and the Custodian to transfer one-quarter of the Custodian Shares to such other account(s) as notified to the Custodian.

On 26 April 2013, the Subscriber converted one-quarter of the total principal amount of the Convertible Bonds, i.e. US\$3 million, to 46,542,000 Shares of the Company.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the Reporting Period, except for code provisions A.1.1, A.2.1 and A.6.1:

Code Provision A.1.1

Code provision A.1.1 stipulates that at least 4 regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary.

Code Provision A.2.1

Code provision A.2.1 stipulates that the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Board considers that the responsibilities of the Chairman and Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Code Provision A.6.1

Code provision A.6.1 stipulates that every newly appointed director of the issuer should receive a comprehensive, formal and tailored induction on his first appointment, and subsequently such briefing and professional development as is necessary to ensure that he has a proper understanding of operations and business of the issuer and his responsibilities under statute, common law, Listing Rules, applicable legal requirements and other regulatory requirements and the business/governance policies of the issuer.

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Company Code throughout the six months ended 30 June 2013.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

AUDIT COMMITTEE

The Audit Committee, which comprises four independent non-executive directors, has reviewed the interim results for six months ended 30 June 2013. The Audit Committee considered that the interim financial report for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Chief Financial Officer or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal controls system of the Group and reports to the Board on any material issues and makes recommendations to the Board.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.cfsh.com.hk.

The 2013 Interim Report will be despatched to shareholders and published on both websites in due course.

On behalf of the Board
Cheung Siu Lam
Chairman

Hong Kong, 13 August 2013

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Mr Cheung Siu Lam (*Chairman*)
Mr Chan Yuk Ming (*Vice-chairman*)
Mr Luo Rui
Madam Guan Xue Ling

Non-executive Directors:

Madam Lo Wan
Mr Tao Ye

Independent Non-executive Directors:

Mr Wang Jian Sheng
Mr Chan Chun Keung
Mr Tsang Kwok Wai
Mr Liu Hui