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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Percentage change
	2013	2012	
	HK$'000	*HK$'000*	*%*
Turnover	**440,724**	300,601	46.61
After-tax profit of financial services business (excluding effect on fair value change on convertible note)	**273,115**	184,215	48.26
ROA on financial services business (excluding goodwill and effect on fair value change on convertible note)	**12.2%**	10.4%	17.31
ROE on financial services business (excluding goodwill and effect on fair value change on convertible note)	**18.6%**	15.9%	16.98
Profit for the year attributable to equity shareholders of the Company	**237,478**	254,039	-6.52
Basic earnings per share (HK cents)	**7.749**	8.476	-8.58
Cash and cash equivalents	**103,288**	313,460	-67.05
Bank loans, convertible note and short-term borrowings	**514,542**	332,769	54.62
Current ratio	**3.3**	3.1	6.45

The board of directors (the "Board") of China Financial Services Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013, together with the comparative audited consolidated figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 HK$'000	2012 HK$'000
Continuing operations			
Turnover	3	**440,724**	300,601
Other revenue	3	**32,569**	14,867
Other net (loss)/income	4	**(28,691)**	19,093
General and administrative expenses		**(90,180)**	(72,891)
Profit from operations		**354,422**	261,670
Share of loss of an associate		**(40)**	–
Finance costs	5(a)	**(24,074)**	(8,245)
Profit before taxation from continuing operations	5	**330,308**	253,425
Income tax	6	**(90,173)**	(68,218)
Profit for the year from continuing operations		**240,135**	185,207
Discontinued operation			
Profit for the year from discontinued operation		**–**	2,208
Gain on disposal of a subsidiary		**–**	68,234
		–	70,442
Profit for the year		**240,135**	255,649
Attributable to:			
Equity shareholders of the Company		**237,478**	254,039
Non-controlling interests		**2,657**	1,610
Profit for the year		**240,135**	255,649
Profit attributable to equity shareholders of the Company arising from:			
– Continuing operations		**237,478**	184,215
– Discontinued operation		**–**	69,824
Profit for the year		**237,478**	254,039
Earnings per share (in HK cent)	8		
From continuing and discontinued operations			
– Basic		**HK7.749 cents**	HK8.476 cents
– Diluted		**HK7.700 cents**	HK8.453 cents
From continuing operations			
– Basic		**HK7.749 cents**	HK6.147 cents
– Diluted		**HK7.700 cents**	HK6.129 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2013 *HK$'000*	2012 *HK$'000*
Profit for the year	**240,135**	255,649
Other comprehensive income/(loss) for the year, net of nil income tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**31,269**	(13,007)
Change in fair value of available-for-sale financial assets	**(2,038)**	3,336
Other comprehensive income/(loss) for the year, net of nil income tax	**29,231**	(9,671)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**269,366**	245,978
Attributable to:		
Equity shareholders of the Company	**257,988**	244,175
Non-controlling interests	**11,378**	1,803
Total comprehensive income for the year	**269,366**	245,978
Total comprehensive income attributable to equity shareholders of the Company arising from:		
– Continuing operations	**257,988**	174,351
– Discontinued operation	**–**	69,824
	257,988	244,175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment		**7,089**	10,732
Goodwill		**656,730**	622,703
Interest in an associate		**3,860**	–
Available-for-sale investments		**45,536**	55,359
		713,215	688,794
Current assets			
Accounts receivable	9	**22,607**	25,388
Short-term loans receivables	10	**1,893,678**	1,071,318
Interests receivable	11	**15,635**	5,533
Security deposits paid		**103,610**	10,923
Forfeited collateral held for sale		**533**	638
Consideration receivable from disposal of a subsidiary		**–**	61,543
Other receivables, deposits and prepayments		**7,812**	210,967
Tax recoverable		**151**	–
Cash and cash equivalents		**103,288**	313,460
		2,147,314	1,699,770
Current liabilities			
Short-term borrowings		**416,040**	308,103
Bank loans		**22,894**	3,700
Security deposits received		**109,833**	–
Amount due to an associate		**3,561**	–
Other payables, deposits received and accruals		**18,299**	189,652
Liabilities arising from loan guarantee contracts		**6,325**	1,111
Income received in advance		**5,371**	–
Financial derivatives		**1,000**	–
Tax payable		**65,031**	44,177
		648,354	546,743
Net current assets		**1,498,960**	1,153,027
Total assets less current liabilities		**2,212,175**	1,841,821
Non-current liabilities			
Bank loans		**17,806**	20,966
Convertible note		**57,802**	–
Deferred tax liabilities		**5,356**	10,964
		80,964	31,930
NET ASSETS		**2,131,211**	1,809,891

	2013	2012
	HK$'000	*HK$'000*
EQUITY		
Share capital	**312,908**	299,700
Reserves	**1,777,557**	1,480,823
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	**2,090,465**	1,780,523
Non-controlling interests	**40,746**	29,368
TOTAL EQUITY	**2,131,211**	1,809,891

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 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
Changes in equity in 2012:										
Profit for the year	–	–	–	–	–	–	254,039	254,039	1,610	255,649
Other comprehensive income	–	–	–	(13,200)	3,336	–	–	(9,864)	193	(9,671)
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)
Balance at 31 December 2012 and 1 January 2013	299,700	865,692	22,117	16,465	585	17,960	558,004	1,780,523	29,368	1,809,891
Changes in equity in 2013:										
Profit for the year	–	–	–	–	–	–	237,478	237,478	2,657	240,135
Other comprehensive income	–	–	–	22,548	(2,038)	–	–	20,510	8,721	29,231
Total comprehensive income	–	–	–	22,548	(2,038)	–	237,478	257,988	11,378	269,366
Conversion of convertible note	9,308	57,540	–	–	–	–	–	66,848	–	66,848
Shares issued under share option scheme	3,900	20,749	(8,728)	–	–	–	–	15,921	–	15,921
Transfer to retained earnings upon lapse of share options	–	–	(470)	–	–	–	470	–	–	–
Dividend paid	–	–	–	–	–	–	(30,815)	(30,815)	–	(30,815)
Transfer to reserve	–	–	–	–	–	808	(808)	–	–	–
Balance at 31 December 2013	312,908	943,981	12,919	39,013	(1,453)	18,768	764,329	2,090,465	40,746	2,131,211

Notes:

1. **BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial derivatives, which are carried at fair value. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

2. **CHANGES IN ACCOUNTING POLICIES**

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKAS 1 "Presentation of Financial Statements" – Presentation of items of other comprehensive income
HKFRS 10 "Consolidated Financial Statements"
HKFRS 12 "Disclosure of interests in Other Entities"
HKFRS 13 "Fair Value Measurement"
Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7 "Financial Instruments: Disclosures" – Offsetting financial assets and financial liabilities

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1 "Presentation of Financial Statements" – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10 "Consolidated Financial Statements"

HKFRS 10 replaces the requirements in HKAS 27 "Consolidated and Separate Financial Statements" relating to the preparation of consolidated financial statements and HK(SIC) – Int 12 "Consolidation – Special Purpose Entities". It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13 "Fair Value Measurement"

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. These amendments do not have any material impact on the results of operations and financial position of the Group for the years presented.

Amendments to HKFRS 7 "Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 "Financial Instruments: Presentation" and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The adoption of the amendments does not have any significant impact on these financial statements.

3. REVENUE AND SEGMENT REPORTING

a) Revenue

The amount of each significant category of revenue during the year arose from continuing operations is as follows:

	Group	
	2013	2012
	HK$'000	*HK$'000*
Turnover		
Interest income on provision of short-term financing services	**11,120**	21,378
Loan guarantee service income	**1,824**	2,612
Financing consultancy service income	**427,780**	276,611
	440,724	300,601
Other revenue		
Bank interest income	**2,289**	1,039
Rental receivable from operating leases, less direct outgoings of HK$Nil (2012: HK$Nil)	**–**	8,138
Dividend income from listed investments	**1,366**	1,274
Income from government subsidies	**14,565**	4,416
Property consultancy service income	**11,289**	–
Sundry income	**3,060**	–
	32,569	14,867
Total revenue	**473,293**	315,468

b) Segmental Information

i) 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.

ii) 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.

iii) Information about major customers

The Group's customer base is diversified, and turnover of approximately HK$48,411,000 is derived from a customer which has exceeded 10% of the Group's turnover for the year ended 31 December 2013. No single customer of the Group contributed 10% or more of the Group's turnover for year ended 31 December 2012.

4. OTHER NET (LOSS)/INCOME

	Group	
	2013	2012
	HK$'000	*HK$'000*
Gain on disposal of available-for-sale investments	**3,160**	5,239
Gain on disposal of property, plant and equipment	**–**	6,189
Fair value change on convertible note	**(35,637)**	–
Fair value change of financial derivatives in respect of a decumulator contract	**(1,000)**	–
Gain on disposal of forefeited collateral held for sales	**124**	–
Exchange gain, net	**4,537**	104
Others	**125**	7,561
	(28,691)	19,093

5. PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

The Group's profit from continuing operations before taxation is arrived at after charging/(crediting):

	2013	2012
Continuing operations	***HK$'000***	*HK$'000*
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	**1,729**	501
Interest on short-term borrowings	**22,345**	7,744
Total interest expenses on financial liabilities not at fair value through profit or loss	**24,074**	8,245

Continuing operations	2013 HK$'000	2012 HK$'000
(b) Staff costs (including directors' remuneration):		
Salaries, allowances and other benefits	**21,811**	18,785
Contributions to defined contribution retirement plans	**2,975**	2,453
	24,786	21,238
(c) Other items:		
Depreciation	**4,497**	4,087
Operating lease charges in respect of properties	**5,645**	6,410
Auditors' remuneration	**1,285**	1,235
Impairment loss for short-term loans receivables	**578**	366
Reversal of impairment loss for short-term loans receivables	**–**	(35)

6. INCOME TAX

Taxation (relating to continuing operations) in the consolidated statement of profit or loss represents:

	Group	
	2013	2012
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Over-provision in respect of prior years	**(8)**	–
Current tax – PRC Enterprise Income Tax		
Provision for the year	**95,603**	57,281
Under-provision in respect of prior years	**366**	309
Deferred tax		
Origination and reversal of temporary differences	**(5,788)**	10,628
	90,173	68,218

7. DIVIDEND

The directors recommend the payment of a final dividend of HK1 cent per share for the year ended 31 December 2013 (2012: HK1 cent per share). The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company from continuing operations and discontinued operation of HK$237,478,000 and HK$Nil (2012: HK$184,215,000 and HK$69,824,000) respectively and the weighted average of 3,064,612,374 ordinary shares (2012: 2,997,002,336 ordinary shares) in issue during the year, calculated as follows:

(i) ***Profit attributable to equity shareholders of the Company***

	2013	2012
	HK$'000	*HK$'000*
Profit attributable to equity shareholders		
– Continuing operations	**237,478**	184,215
– Discontinued operation	**–**	69,824
	237,478	254,039

(ii) ***Weighted average number of ordinary shares (basic)***

	2013 Number of Shares	2012 Number of Shares
Issued ordinary shares at 1 January	**2,997,002,336**	2,997,002,336
Effect of convertible note converted	**37,233,600**	–
Effect of share options exercised	**30,376,438**	–
Weighted average number of ordinary shares at 31 December	**3,064,612,374**	2,997,002,336

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company from continuing operations and discontinued operation of HK$237,478,000 and HK$Nil (2012: HK$184,215,000 and HK$69,824,000) respectively and the weighted average number of ordinary shares of 3,084,113,830 shares (2012: 3,005,451,262 shares), calculated as follows:

(i) ***Profit attributable to equity shareholders of the Company (diluted)***

	2013	2012
	HK$'000	*HK$'000*
Profit attributable to equity shareholders		
– Continuing operations	**237,478**	184,215
– Discontinued operation	**–**	69,824
Profit attributable to equity shareholders (diluted)	**237,478**	254,039

(ii) Weighted average number of ordinary shares (diluted)

	2013 *Number of Shares*	2012 *Number of Shares*
Weighted average number of ordinary shares (basic) at 31 December	**3,064,612,374**	2,997,002,336
Effect of deemed issue of shares under the Company's share option scheme	**19,501,456**	8,448,926
Weighted average number of ordinary shares (diluted) at 31 December	**3,084,113,830**	3,005,451,262

Note: During the year ended 31 December 2013, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding convertible note since the conversion would result in an increase in diluted earnings per share.

9. ACCOUNTS RECEIVABLE

	Group	
	2013 *HK$'000*	2012 *HK$'000*
Accounts receivable	**22,607**	25,388

All the accounts receivable are expected to be recovered within one year.

a) Ageing analysis

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date, is as follows:

	2013 *HK$'000*	2012 *HK$'000*
Within 30 days	**4,205**	23,036
30 – 90 days	**5,559**	–
Over 90 days	**12,843**	2,352
	22,607	25,388

Accounts receivable are due on the date of billing.

b) Accounts receivable that are not impaired

	2013 *HK$'000*	2012 *HK$'000*
Past due but not impaired	**22,607**	25,388

Accounts receivable that was past due but not impaired relates to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

10. SHORT-TERM LOANS RECEIVABLES

	2013 HK$'000	2012 HK$'000
Pawn loan receivables	**182,201**	153,374
Other short-term loan receivables	**1,714,022**	919,843
	1,896,223	1,073,217
Allowance for doubtful debts		
– Collectively assessed (see note b below)	**(2,545)**	(1,899)
	1,893,678	1,071,318

All the Group's short-term loans receivables in the PRC were denominated in RMB. The short-term loans receivables in the PRC carry interest plus service charge at a monthly effective rate of 0.9% to 4.6% (2012: 1% to 3.5%). As at 31 December 2013, the Group held collaterals with value of approximately RMB4,580 million (2012: RMB3,191 million) in total over the pawn loans receivable and other short-term loans receivable.

A typical short-term loan generally has a term of 30 days to 180 days. All of the short-term loans receivables are expected to be recovered within one year.

a) Maturity profile

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

	2013 Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000	2012 Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000
Due within 1 month or on demand	**58,637**	**296,276**	**354,913**	97,999	580,065	678,064
Due after 1 month but within 3 months	**47,912**	**658,332**	**706,244**	28,736	208,596	237,332
Due after 3 months	**75,652**	**759,414**	**835,066**	26,639	131,182	157,821
Allowance for doubtful debts – Collectively assessed	**(1,822)**	**(723)**	**(2,545)**	(1,534)	(365)	(1,899)
	180,379	**1,713,299**	**1,893,678**	151,840	919,478	1,071,318

b) Impairment of short-term loans receivables

Impairment losses in respect of short-term loans receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against short-term loans receivables directly.

The movements in allowance for doubtful debts, which are collectively assessed, during the year is as follows:

	2013 Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000	2012 Pawn loan receivables HK$'000	Other short-term loan receivables HK$'000	Total HK$'000
At 1 January	**1,534**	**365**	**1,899**	1,167	400	1,567
Impairment loss recognised	**237**	**341**	**578**	366	–	366
Reversal of impairment loss	**–**	**–**	**–**	–	(35)	(35)
Exchange adjustment	**51**	**17**	**68**	1	–	1
At 31 December	**1,822**	**723**	**2,545**	1,534	365	1,899

c) **Analysed by credit quality**

	2013			2012		
	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*
Short-term loans receivables that are not impaired						
– Neither past due nor impaired	**–**	**1,560,643**	**1,560,643**	–	883,326	883,326
– Past due but not impaired	**–**	**81,072**	**81,072**	–	–	–
	–	**1,641,715**	**1,641,715**	–	883,326	883,326
Short-term loans receivables that are impaired collectively						
– Not past due	**182,201**	**72,307**	**254,508**	153,374	36,517	189,891
– Past due	**–**	**–**	**–**	–	–	–
Allowance for doubtful debts	**(1,822)**	**(723)**	**(2,545)**	(1,534)	(365)	(1,899)
	180,379	**71,584**	**251,963**	151,840	36,152	187,992
Total	**180,379**	**1,713,299**	**1,893,678**	151,840	919,478	1,071,318

Short-term loan receivables that were neither past due nor impaired relate to recognised and creditworthy borrowers for whom there was no recent history of default.

Short-term loans receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11. INTERESTS RECEIVABLE

	Group	
	2013	2012
	HK$'000	*HK$'000*
Interests receivable	**15,635**	5,533

All of the interests receivable are expected to be recovered within one year.

a) **Maturity profile**

As at the end of the reporting period, the maturity profile of interests receivable based on maturity date, is as follows:

	2013	2012
	HK$'000	*HK$'000*
Due within 1 month or on demand	**15,321**	1,977
Due after 1 month but within 3 months	**–**	3,556
Due after 3 months but within 6 months	**314**	–
	15,635	5,533

Interests receivable are due on the date of billing (or maturity date of the loan receivables, if earlier).

b) **Interests receivable that are not impaired**

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**342**	5,533
Past due but not impaired	**15,293**	–
	15,635	5,533

Interests receivable that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Interests receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. OTHER INFORMATION

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2013 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, Crowe Horwath (HK) CPA Limited. The unqualified auditor's report is included in the Annual Report to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Environment

In 2013, despite the slow recovery of the global economy and existence of many uncertainties in macro-economic growth, China's economy maintained a good momentum of growth on a relatively stable basis. In 2013, China's GDP reached RMB56.88 trillion, and the economic growth rate was 7.7%. As an important contributor to GDP, SMEs was still facing challenges from financing difficulties and shortage of liquidity in the financial system. In order to safeguard the sustained and healthy development of the SME sector, the central government last year continued to increase efforts in financial marketization reform and development of non-bank financial institutions, introduced a number of reform measures and the development policies to improve the financial environment for SMEs. With the support of the favorable domestic economic environment and financial reform, the SME financing market had a gradually increasing space of development, so as to promote a long-term stable development of SME financial service institutions.

Business Review

Being the largest private owned SME financial service provider in Beijing region, the Group is always committed to innovation of financial products to meet the diverse financial needs of the market. With a good low-cost financing capability, the Group provides SMEs with rich and flexible financial products through pawn, small loan, financial guarantee, finance lease and other existing licence resources, a wide range of funding sources and strict risk control ability under the leadership of professional management team.

During the year, benefiting from China's rising demand for short-term financing business, the Group's total revenue achieved a remarkable increase: the Group recorded a turnover of HK$440,724,000, representing a significant increase of 46.6% as compared with HK$300,601,000 of last year. Excluding the impact of fair value change on convertible note of approximately HK$35,637,000, the Company's after-tax profit of financial services business recorded a significant growth of 48.3% to HK$273,115,000 as compared to HK$184,215,000 of last year. Return on assets of financial services business (excluding goodwill and effect on fair value change on convertible note) is 12.2%, an increase of 17.3% and return on net assets of financial business (excluding goodwill and effect on fair value change on convertible note) is 18.6%, an increase of 17.0% as compared to corresponding ratios in last year. Profit attributable to equity shareholders of the Company after taking into accounts the effect on fair value change on convertible note amounted to approximately HK$237,478,000, a decrease of 6.5% as compared to HK$254,039,000 of last year. Earnings per share reached 7.749 HK cents, representing an decrease of 8.6% (2012: 8.476 HK cents). Scale of direct loans exceeded HK$1,800,000,000, a significant increase of 76.8% over the same period last year.

Innovating financing channels and expanding scale of loans

During the year, the Group actively carried out strategic cooperation with banks, trust agencies and funds, to effectively broaden the financing channels, reduce financing costs and enhance the profitability of the Group.

In March 2013, the Group issued a total amount of approximately US$12 million convertible bonds to CCB International (Holdings) Limited, which not only complemented the Company's available credit funds reserves, but also further strengthened the cooperation between CFS and state-owned banks, and provided a wider channel for future expansion of the capital base of the Group.

Since July 2013, the Group has issued an asset securitization product jointly with Kunshan Noah Xingguang Investment Management Co., Ltd., a subordinate of Noah (China) Holdings, China's largest third-party wealth manager, and Wanjia Gongying Asset Management Co., Ltd., with a plan to raise funds of RMB500 million in the next one to two years. As of the end of 2013, the product asset securitization obtained overwhelming response from the market and approximately HK$308 million has been raised by the Group. By innovatively launching this industry's first private asset securitization product, the Group not only seized the rising market demand for financing-related products, but also achieved broadening of financing channels, provided a stable sufficient working capital for the continued growth of our core business, and created greater flexibility for loan portfolio management.

Enriching licence resources and expanding product range

In order to provide diversified and professional products with flexible structures, expand its business scale in Beijing and increase its market share, the Group has been committed to expanding its own licence resources. In October 2013, the Group obtained the consent of the Miyun County Government of Beijing and Miyun County Development and Reform Commission to establish a foreign small loan company in Miyun County. Miyun County Government said it would actively support and assist the Group in communication with the relevant government departments in Beijing. It is expected to get a registered capital of RMB400 million in 2014, and its operating area is not restricted by its place of incorporation. In addition, the Group is expanding its licences and business in cities outside Beijing, mainly targeting at small loan licence in Shanghai, Shenzhen and Chengdu.

Refining business segments and seeking opportunities to expand

The Group's main business include: direct financing, financial guarantee, special financing and intermediate service. During the year, the Group actively expanded business scope, sought high-margin market segments, and achieved significant growth in a number of businesses.

During the year, the Group's direct financing business recorded a significant growth, with total loans receivable amounting to HK$1.8 billion, increased by 76.8% year on year. Financial institution secured financing also achieved rapid development, with amount guaranteed up to HK$190 million, increased by 167% year on year.

Furthermore, benefiting from rising demands of car dealers, the Group's unique car trade financing service also achieved significant growth during the year, with revenue recording over HK$1,000,000. As the Group's another innovative financial service product, such business serves small and medium-sized car dealers. By working with the banks, the Group provided small and medium-sized car dealers with bank credit financial support, which not only reduced the financing cost for clients in the car trade market, but also increased the merchants' cash flow flexibility to achieve the healthy development of enterprises.

Optimizing information management and improving efficiency of operation

During the year, in order to meet the needs for rapid growth and expansion in other cities, the Group further optimized the information management system, strengthened the unified management of customer resources, and speeded up the approval process for the company's business, so that accounting efficiency can be improved, and thus providing real-time and effective data support for the Group's decision-making in various levels.

Prospects

Looking forward to 2014, China's economy is expected to maintain steady growth, the financial market environment will be more open, and urban development will create more business opportunities. Benefit from this, SMEs will usher in more opportunities for business growth and thus face a greater demand for short-term financing, which will create a favorable market environment for the development of SME financing service providers.

In the future, the Group will not only strive to consolidate its strategic position in Beijing, improve local licence resources, such as registering licences with a greater capital scale, but also strategically expanded business into Tianjin, Shanghai, Shenzhen, Chengdu and other cities. Currently, the Group has started or planned to apply for small loan company and financing guarantee company licences in Tianjin, Shanghai, Chengdu and other cities. In addition, the Group will continue to broaden the financing channels, and continue to raise funds through asset securitization, trust schemes and other non-bank financing channels, to expand the scale of business and promote improvement of profitability. The Group will also introduce more talents and strengthen all-round service to enhance customer stickiness.

FINANCIAL REVIEW

Turnover generated from financing business includes interest income of approximately HK$11,120,000, financing consultancy service income of approximately HK$427,780,000 and loan guarantee service income of approximately HK$1,824,000.

As at 31 December 2013, the aggregate amount of loan guarantee provided by the Group was approximately HK$189,942,000. The guarantee income is recognized over the life of guarantee contracts. General and administrative expenses for the year 2013 were approximately HK$90,180,000. The increase in administrative expenses was due to more talented people was recruited to cater future business growth during the year.

Finance Costs

Finance costs for the year under review were approximately HK$24,074,000, representing an increase of 192% over HK$8,245,000 for 2012. The increase in financial costs mainly due to the cost of funds we raised from assets securitization schemes during the year.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 31 December 2013, current assets of the Group comprised cash and bank balances of approximately HK$103,288,000, short-term loans receivables of approximately HK$1,893,678,000, accounts and interests receivable of approximately HK$38,242,000, other receivables, deposits and prepayments of approximately HK$7,812,000, and security deposits paid of approximately HK$103,610,000. Non-current assets mainly comprised property, plant and equipment of about HK$7,089,000, goodwill of about HK$656,730,000, and available-for-sale investments of approximately HK$45,536,000. Current liabilities mainly comprised liabilities arising from loan guarantee contracts of approximately HK$6,325,000, other payables, deposits received and accrual of approximately HK$18,299,000, short-term borrowings of approximately HK$416,040,000, security deposits received of approximately HK$109,833,000, tax payable of approximately HK$65,031,000 and short-term bank loans of about HK$22,894,000. Non-current liabilities mainly comprised fair value of convertible note of approximately HK$57,802,000, bank loans of about HK$17,806,000 and deferred tax liabilities of about HK$5,356,000.

Liquidity and Gearing Ratio

The Group maintains a healthy liquidity position. As at 31 December 2013, the current ratio of the Group was 3.3 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings (bank loans plus other borrowings) divided by total equity. As at 31 December 2013, the gearing ratio was about 19.3%.

Fair Value Estimation

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

Employee and Remuneration Policies

As at 31 December 2013, the Group had approximately 110 employees in Mainland China and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also sets up a share option scheme for the purpose of providing incentives to eligible employees. For the year under review, total staff costs were about HK$21,811,000.

Bank Borrowings

The Group's bank borrowings were about HK$40,700,000. The debt maturity profile of the Group as at 31 December 2013 is analyzed below:

	2013	2012
	HK$'000	*HK$'000*
Within 1 year	**22,894**	3,700
After 1 year but within 5 years	**17,806**	20,966
	40,700	24,666

Contingent Liabilities

The Group provides loan guarantee service to small-to medium-sized enterprises in China. As at 31 December 2013, the Group had contingent liabilities in relation to the loan guarantee business of approximately HK$189,942,000 in which approximately HK$2,181,000 and HK$1,635,000 were recognised as undue liability provision and guarantee compensation provision respectively in the consolidated statement of financial position. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have material adverse effect on the Group's financial situation or operational results.

Convertible Note

On 15 March 2013, the Company (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 note ("Convertible Note") in the principal amount of US$12 million (equivalent to approximately HK$93 million). The net proceeds from the Convertible Note of approximately HK$90 million will be used for general working capital and business development of the Group. The Convertible Note shall carry an interest of 10% per annum payable semi-annually in arrears. Completion of the issue of the Convertible Note to the Subscriber took place on 26 March 2013. On 26 April 2013 and 20 November 2013, an aggregate principal sum of approximately HK$46,542,000 of the Convertible Note was converted by the Subscriber. The Convertible Note was designated as financial liabilities though profit and loss and at year end date the fair value of the Convertible Note was approximately HK$57,802,000.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company considers that good corporate governance practices to be essential to the promotion of shareholder value and investor confidence.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code.

During the financial year ended 31 December 2013, the Company has complied with the code provisions set out in the CG Code during the period from 1 January 2013 to 31 December 2013, save and except for code provisions A.1.1, A.2.1, A.6.1 and A.6.7.

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. The Board met twice during the year ended 31 December 2013 for approving the final results for the year ended 31 December 2012 and interim results for the period ended 30 June 2013 and transacting other business.

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 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.

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

One non-executive director and one independent non-executive director of the Company did not attend the 2013 annual general meeting of the Company because of their job arrangements.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct, which laid down terms no less exacting than those set out in Appendix 10 of the Listing Rules, regarding directors' transactions in securities of the Company. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers throughout the year ended 31 December 2013.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company, which comprises all independent non-executive directors, has reviewed the consolidated financial statements of the Group for the year, including the accounting principles and accounting standards adopted by the Company, and discussed matters relating to auditing, internal controls and financial reporting.

FINAL DIVIDEND

The Board recommends payment of a final dividend of HK1 cent per ordinary share of the Company for the financial year ended 31 December 2013 (2012: HK1 cent per ordinary share), to the shareholders of the Company whose names are on the register of members on Wednesday, 28 May 2014, subject to the approval by the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Tuesday, 20 May 2014 ("AGM") and compliance with the Companies Ordinance and other relevant rules and regulations. The payment of final dividend will be made on or about 20 June 2014.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 16 May 2014 to Tuesday, 20 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 15 May 2014.

For determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM, the register of members of the Company will be closed from Monday, 26 May 2014 to Wednesday, 28 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend as stated in this announcement, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 23 May 2014.

SCOPE OF WORK OF CROWE HORWATH (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2013 as set out in the preliminary announcement have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Crowe Horwath (HK) 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 Crowe Horwath (HK) CPA Limited on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.cfsh.com.hk). The 2013 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

ACKNOWLEDGEMENT

The Board would like to take this opportunity to express our sincere thanks to all stakeholders for their supports during the year.

On behalf of the Board
China Financial Services Holdings Limited
Cheung Siu Lam
Chairman

Hong Kong, 20 March 2014

As at the date of this announcement, the Board comprised Mr Cheung Siu Lam (Chairman), Mr Chan Yuk Ming (Vice Chairman), Mr Luo Rui (Chief Executive Officer) and Madam Guan Xue Ling as executive Directors, Mr Tao Ye and Madam Lo Wan as non-executive Directors, and Mr Wang Jian Sheng, Mr Chan Chun Keung, Mr Liu Hui and Mr Tsang Kwok Wai, as independent non-executive Directors.