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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 2014

FINANCIAL HIGHLIGHTS

	Unaudited six months ended 30 June 2014 HK\$'000	Unaudited six months ended 30 June 2013 HK\$'000	Percentage changes
Turnover	279,841	207,172	35.1%
Profit for the period attributable to equity shareholders of the Company	136,450	120,366	13.4%
Basic earnings per share	HK4.19 cents	HK3.96 cents	5.8%
Underlying net profit attributable to equity shareholders (excluding the effects of share based payment expenses and fair value change on convertible note)	160,547	120,366	33.4%

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 2014 (the “Reporting Period”) together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		For the six months	
		ended 30 June	
		2014	2013
	Note	HK\$'000	HK\$'000
Turnover	6	<u>279,841</u>	<u>207,172</u>
Other revenue	6	20,112	13,013
Other net (loss)/income	6	(4,894)	5,442
Administrative expenses		<u>(73,788)</u>	<u>(42,424)</u>
Profit from operations		221,271	183,203
Share of loss of an associate		(4)	–
Finance costs		<u>(26,782)</u>	<u>(17,141)</u>
Profit before taxation	7	194,485	166,062
Income tax	8	<u>(57,121)</u>	<u>(45,744)</u>
Profit for the period		<u>137,364</u>	<u>120,318</u>
Other comprehensive income:			
Exchange differences on translating of financial statements of overseas subsidiaries		(17,640)	(6,980)
Transfer to statement of comprehensive income for disposal of available-for-sale financial assets		<u>(3,985)</u>	<u>(8,015)</u>
Other comprehensive income for the period		<u>(21,625)</u>	<u>(14,995)</u>
Total comprehensive income for the period		<u>115,739</u>	<u>105,323</u>

(Unaudited)		
For the six months		
ended 30 June		
	2014	2013
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to:		
Equity shareholders of the company	136,450	120,366
Non-controlling interests	914	(48)
	137,364	120,318
Total comprehensive income attributable to:		
Equity shareholders of the Company	115,319	104,023
Non-controlling interests	420	1,300
	115,739	105,323
Earnings per share (<i>in HK cent</i>)	<i>10</i>	
– Basic	HK4.19 cents	HK3.96 cents
– Diluted	HK4.17 cents	HK3.94 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		6,574	7,089
Goodwill	11	650,504	656,730
Interest in an associate		3,855	3,860
Available-for-sale investments		39,540	45,536
		700,473	713,215
Current assets			
Accounts receivable	13	46,187	22,607
Interests receivable	13	549	15,635
Short term loans receivable	12	1,859,812	1,893,678
Forfeited collateral held for sales		530	533
Other receivables, deposits and prepayments		124,728	7,812
Security deposits paid		63,789	103,610
Tax recoverable		–	151
Cash and cash equivalents		310,591	103,288
		2,406,186	2,147,314
Current liabilities			
Tax payable		45,082	65,031
Short-term borrowings	14	516,757	416,040
Other payables, deposits received and accruals		24,848	18,299
Income received in advance		396	5,371
Security deposits received		–	109,833
Amount due to an associate		3,561	3,561
Liabilities arising from loan guarantee contracts		3,256	6,325
Financial derivatives		1,000	1,000
Bank loans	15	56,051	22,894
Convertible note	16	33,843	–
		684,794	648,354
Net current assets		1,721,392	1,498,960
Total assets less current liabilities		2,421,865	2,212,175

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	<i>Note</i>		
Non-current liabilities			
Bank loans	15	20,157	17,806
Convertible note	16	–	57,802
Deferred tax liabilities	17	5,819	5,356
		<u>25,976</u>	<u>80,964</u>
NET ASSETS		<u>2,395,889</u>	<u>2,131,211</u>
Equity			
Share capital	18	1,419,803	312,908
Reserves		<u>934,920</u>	<u>1,777,557</u>
Total equity attributable to equity shareholders of the Company		2,354,723	2,090,465
Non-controlling interests		<u>41,166</u>	<u>40,746</u>
TOTAL EQUITY		<u>2,395,889</u>	<u>2,131,211</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve HK\$'000	Statutory surplus reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	
Balance at 1 January 2013	299,700	865,692	22,117	16,465	585	17,960	558,004	1,780,523	1,809,891
Changes in equity in 2013:									
Profit for the year	–	–	–	–	–	–	237,478	237,478	240,135
Other comprehensive income	–	–	–	22,548	(2,038)	–	–	20,510	29,231
Total comprehensive income	–	–	–	22,548	(2,038)	–	237,478	257,988	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 and 1 January 2014	312,908	943,981	12,919	39,013	(1,453)	18,768	764,329	2,090,465	2,131,211
Changes in equity for the six months ended 30 June 2014:									
Profit for the period	–	–	–	–	–	–	136,450	136,450	137,364
Other comprehensive income	–	–	–	(17,146)	(3,985)	–	–	(21,131)	(21,625)
Total comprehensive income	–	–	–	(17,146)	(3,985)	–	136,450	115,319	115,739
Share issue under Top-up placement	165,000	–	–	–	–	–	–	165,000	165,000
Share issuing expenses	(2,086)	–	–	–	–	–	–	(2,086)	(2,086)
Employees share option benefits	–	–	20,316	–	–	–	–	20,316	20,316
Dividend paid	–	–	–	–	–	–	(34,291)	(34,291)	(34,291)
Transfer to reserve	–	–	–	–	–	1,196	(1,196)	–	–
Transfer to share capital	943,981	(943,981)	–	–	–	–	–	–	–
Balance at 30 June 2014	1,419,803	–	33,235	21,867	(5,438)	19,964	865,292	2,354,723	2,395,889

NOTES TO THE CONDENSED 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”). It was authorized for issue on 20 August 2014. The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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.

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the group and the company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

None of these developments have had a material effect on how the Group’s results and financial positions for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2013.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

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 2013 and 2014.

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	
	2014	2013
	HK\$'000	HK\$'000
Turnover		
Interest income on provision of short-term financing service	8,239	4,317
Financing consultancy service income	269,507	201,738
Loan guarantee service income	2,095	1,117
	<u>279,841</u>	<u>207,172</u>
Other revenue		
Dividend income	333	498
Bank interest income	2,650	1,415
Gross rental income from leasing of premises	7	8
Income from government subsidies	14,235	11,092
Sundry income	2,887	–
	<u>20,112</u>	<u>13,013</u>
Other net (loss)/income		
Loss on fair value change on convertible note	(5,834)	–
Gain on redemption of convertible note	2,053	–
	(3,781)	–
Gain on realisation of share options	19	25
Gain on disposal of available-for-sale investments	1,434	1,745
Exchange gain, net	(2,614)	–
Others	48	3,672
	<u>(4,894)</u>	<u>5,442</u>

7. PROFIT BEFORE TAXATION

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

	(Unaudited)	
	For the six months	
	ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Auditor's remuneration	905	560
Share based payment expenses	20,316	–
Depreciation	2,451	2,215
Operating lease payments	3,608	3,137
Staff cost (excluding employee share option expenses)	16,994	12,703
	<u>16,994</u>	<u>12,703</u>

8. INCOME TAX

	(Unaudited)	
	For the six months	
	ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Current Taxation		
Hong Kong profits tax (under provision in previous years)	–	–
PRC enterprise income tax	57,121	45,744
Deferred taxation	–	–
	<u>57,121</u>	<u>45,744</u>
Tax charge for the period	<u>57,121</u>	<u>45,744</u>

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated net assessable profits for the Reporting Period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2013: 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\$149,726,000 (31 December 2013: HK\$113,966,000) 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. DIVIDENDS

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Final dividend paid during the period:		
2013 final dividend HK1 cent per share		
(2012: HK\$1 cent)	<u>34,291</u>	<u>30,815</u>

10. EARNINGS PER SHARE

(a) Basic earnings per share

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

	(Unaudited) For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share		
(Profit attributable to equity shareholders of the Company)	<u>136,450</u>	<u>120,366</u>
	Number of shares	
Issued ordinary shares at 1 January	3,129,086,336	2,997,002,336
Shares issued under share option scheme	–	38,000,000
Share issued pursuant to subscription agreement	300,000,000	–
Share issued pursuant to conversion of convertible note	<u>–</u>	<u>46,542,000</u>
	3,429,086,336	3,081,544,336
Weighted average number of ordinary shares		
for the purpose of earnings per share	<u>3,253,395,728</u>	<u>3,036,415,441</u>

(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 assuming they were fully exercised and full conversion of the convertible bonds.

	2014	2013
Weighted average number of shares (diluted):		
Weighted average number of ordinary shares		
for the purpose of basic earnings per share	3,253,395,728	3,036,415,441
Effect of deemed issue of shares under		
the Company's share options scheme	16,313,992	15,828,094
Effect of deemed issue of shares under convertible bonds	<u>12,342,630</u>	<u>50,141,934</u>
Weighted average number of ordinary share (diluted)	<u>3,282,052,350</u>	<u>3,102,385,469</u>

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

11. GOODWILL

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount		
At 1 January (Audited)	656,730	622,703
Exchange adjustment	<u>(6,226)</u>	<u>34,027</u>
At 30 June (Unaudited)	<u>650,504</u>	<u>656,730</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 2014. 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 80%, discount rate of 15.72% 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.

12. SHORT-TERM LOANS RECEIVABLE

	30 June 2014 (Unaudited)			31 December 2013 (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	180,379	1,713,299	1,893,678	153,374	919,843	1,073,217
Gross loans advanced	131,151	2,129,537	2,260,688	297,435	3,836,560	4,133,995
Repayment during the period/year	(160,467)	(2,107,049)	(2,267,516)	(273,410)	(3,050,066)	(3,323,476)
Exchange adjustment	96	(24,839)	(24,743)	4,802	7,685	12,487
At 30 June 2014/31 December 2013	151,159	1,710,948	1,862,107	182,201	1,714,022	1,896,223
Allowance for doubtful debts at 30 June 2014/31 December 2013	(1,512)	(783)	(2,295)	(1,822)	(723)	(2,545)
Net balance at 30 June 2014/ 31 December 2013	<u>149,647</u>	<u>1,710,165</u>	<u>1,859,812</u>	<u>180,379</u>	<u>1,713,299</u>	<u>1,893,678</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 2014 (Unaudited)			31 December 2013 (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	20,787	214,816	235,603	58,637	296,276	354,913
Due after 1 month but within 3 months	19,150	684,913	704,063	47,912	658,332	706,244
Due after 3 months	111,222	811,219	922,441	75,652	759,414	835,066
Allowance for doubtful debts	(1,512)	(783)	(2,295)	(1,822)	(723)	(2,545)
	<u>149,647</u>	<u>1,710,165</u>	<u>1,859,812</u>	<u>180,379</u>	<u>1,713,299</u>	<u>1,893,678</u>

13. 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.

14. SHORT-TERM BORROWINGS

In 2013, 北京中金港資產管理有限公司 (“Beijing Zhongjinggang”), a subsidiary of the Company, Wanjia Co-win Asset Management Co. Ltd. (萬家共贏資產管理有限公司) (“Wanjia Co-win”) and Kunshan Noah Xingguang Investment Management (昆山諾亞星光投資管理有限公司) (“Noah Xingguang”) entered into a strategic cooperation agreement and investment agreement (the “Agreements”) for the development of securitization business pursuant to which Wanjia Co-win shall establish an asset management schemes and other financing products on behalf of Beijing Zhongjinggang with durations of one to two years of about RMB500 million in stages using the Group’s short-term loans receivables as assets for securitization. In this regard, the Group shall assign all its rights and benefits in its receivables from its financing services into such asset management schemes and shall guarantee the due recoverability of such receivables. At the expiry of the asset management schemes, Beijing Zhongjinggang shall repay all the proceeds from the schemes to Wanjia Co-win. As at 30 June 2014, the outstanding proceeds not yet repaid by Beijing Zhongjinggang was approximately HK\$516,757,000, with financing cost measured at an annualized rate of 11.5%.

In addition, the Company agreed to provide guarantee for Beijing Zhongjingang in respect of the investment agreement in case Beijing Zhongjingang fail to make repayment to Wanjia Co-win at the expiry of those asset management schemes. As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under this guarantee. The maximum liability of the Company at the end of the reporting period under the single guarantee issued is the outstanding amount of this facility drawn down by Beijing Zhongjingang of approximately HK\$516,757,000. The Company has not recognised any deferred income in respect of this guarantee as its fair value at the end of the reporting period was insignificant.

The amount of interest expense incurred during the Reporting Period amounting to HK\$25,402,000 is included in finance costs.

15. 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	31 December
	2014	2013
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 1 year or on demand	56,051	22,894
After 1 year but within 2 years	20,157	17,806
	76,208	40,700

16. CONVERTIBLE NOTE

On 26 March 2013, the Company issued a 10% guaranteed convertible notes due 2015/16 in the aggregate principal amount of US\$12,000,000 (equivalent to approximately HK\$93,600,000) (the “Convertible Note”) to an independent third party (the “Holder”). The Convertible Note is denominated in US dollars (“US\$”) and carried an interest of 10% per annum payable semi-annually in arrears. The Convertible Note is (i) secured by a fixed legal mortgage over the Company’s entire shareholding in K.P.B. Group Holdings Limited, a direct wholly owned subsidiary of the Company, and (ii) unconditionally and irrevocably guaranteed by Mr. Cheung Siu Lam, the Chairman and executive director of the Company, and Ms. Lo Wan, a non-executive director of the Company, (together the “Guarantors”).

The Guarantors have agreed to (i) guarantee the due performance of the Company of its obligations under the relevant subscription agreement and convertible note instrument and (ii) deposit, together with Arbalice Holdings Limited (a company controlled by the Guarantors) a total of 2,032,552,240 shares of the Company held by them into the cash securities trading accounts open and maintained with a custodian, which is an affiliated company of the Holder and an independent third party.

The principal terms of the Convertible Note are as follows:

(a) Optional conversion

The Convertible Note will, at the option of the Holder, be convertible (unless previously redeemed, converted or purchased and cancelled) at any time on and after 26 March 2013 up to (i) the second anniversary of the issue date of the Convertible Note or (ii) the third anniversary of the issue date of the Convertible Note (subject to the prior written agreement by the Company, the Holder and the Guarantors for such extension) into fully paid ordinary shares with par value of HK\$0.10 each of the Company (the “Shares”) at an initial conversion price (the “Conversion Price”) of HK\$0.50 per share and a fixed exchange rate of US\$1.00 to HK\$7.757 (the “Prevailing Rate”).

The Conversion Price is subject to adjustment in the manner set out in the relevant convertible bond instrument. According to this convertible bond instrument, the Conversion Price will be reset as follows:

- (i) Upon each and every exercise of the conversion right of the Holder, if the volume weighted average of the closing price of the Shares (the “Weighted Average Market Price”) for the period of 30 consecutive trading days ending on the trading day immediately prior to the date of conversion and multiplied by 110% (the “Conversion Reset Price”) is less than the then current conversion price, the then conversion price will be adjusted to the Conversion Reset Price for and only for the purpose of such exercise, subject to the floor price of HK\$0.50 per share.
- (ii) At the option of the Holder, if the Weighted Average Market Price for the period of 30 consecutive trading days ending on the trading day immediately prior to 31 December of a financial year (the “Annual Reset Date”) (the “Annual Reset Price”) is less than the then current conversion price, the then conversion price will be reset to the Annual Reset Price on the relevant Annual Reset Date, subject to the floor price of HK\$0.50 per share.
- (iii) At the option of the Company, if the Weighted Average Market Price for the period of 30 consecutive trading days ending on the trading day immediately prior to the Annual Reset Date is higher than the Annual Reset Price of the previous financial year, the then conversion price will be reset to the Annual Reset Price of such financial year on the Annual Reset Date, subject to the floor price of HK\$0.50 per share.

(b) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Convertible Note will be redeemed by the Company on:

- (i) the date falling on the second anniversary of issue date of the Convertible Note at the redemption amount equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date falling on the second anniversary of issue date of the Convertible Note; or
- (ii) the date falling on the third anniversary of issue date of the Convertible Note (subject to the prior written agreement by the Company, the Holder and the Guarantors for such extension) at the redemption amount equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus (1) an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the date of issue up to and including the date falling on the second anniversary of issue date of the Convertible Note and (2) an additional amount that would yield an internal rate of return of 18% on the outstanding Convertible Note calculated from the date immediately following the second anniversary of issue date of the Convertible Note up to and including the date falling on the third anniversary of issue date of the Convertible Note.

(c) Redemption at the option of the Company

On giving not less than 30 days but not more than 60 days' notice to the Holder at any time after expiry of the first anniversary of the issue date of the Convertible Note and prior to the date of maturity, the company may redeem all or some only of the Convertible Note at a redemption price equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date fixed for early redemption.

If the Company redeems 50% or more of the principal amount of the outstanding Convertible Note, a written consent of the Holder approved by an ordinary resolution of the Holder must be obtained.

(d) Redemption at the option of the Holder

The Holder will have the right to require the Company to redeem all or some of the Convertible Note at the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 22% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date fixed for such redemption when one of the following events of default occurs:

- (i) there is a change of control of the Company;
- (ii) the Shares cease to be listed or admitted to trading on The Stock Exchange of Hong Kong Limited or, if applicable, the Alternative Stock Exchange; or
- (iii) the other events as mentioned in the announcement of the Company dated 15 March 2013 and the relevant convertible bond instrument.

(e) Compulsory conversion at the option of the Company

The Company will have an one-off right to require the Holder, by giving not less than 30 days but not more than 60 days' prior notice in writing, to exercise the conversion rights for one-quarter of the principal amount of the outstanding Convertible Note, provided that (i) the company has delivered audited accounts showing that the Company has attained either the 2012 financial targets or the 2013 financial targets to the satisfaction of the Holder and (ii) no event of default specified above having occurred.

During the year ended 31 December 2013, the Company exercised this right to require the Holder to convert one-quarter of the principal amount of the outstanding Convertible Note.

The Convertible Note consists of liability component, conversion option and other embedded derivatives which are not closely related to the host liability contract. As the functional currency of the Company is HK\$, the conversion of the Convertible Note denominated in US\$ and the effect of optional conversion mentioned in part (a) above will not result in settlement by exchange of a fixed amount of cash in HK\$, the functional currency of the Company, for a fixed number of the Company's shares. In accordance with the requirement of HKAS 39 "Financial Instruments – Recognition and Measurement", it was determined that the Convertible Note does not contain any equity component and the entire Convertible Note was designated as "financial liabilities at FVTPL" which requires the Convertible Note to be carried at fair value at the end of the reporting period and the changes in fair values are recognised in the consolidated statement of profit or loss. During the year ended 31 December 2013, a loss on change in its fair value of approximately HK\$35,637,000 is included in "Other net (Loss)/Income" in the consolidated statement of profit or loss.

On 26 April 2013, the Company reached the 2012 financial target. So the Company executed its right to request the Holder to convert one-quarter of the principal amount of the Convertible Note in aggregate principal amount of US\$3,000,000 (equivalent to approximately HK\$23,271,000) at a conversion price of HK\$0.50 per share.

On 20 November 2013, the Holder converted the Convertible Note in aggregate principal amount of US\$3,000,000 (equivalent to HK\$23,271,000) at the conversion price of HK\$0.50 per share.

The Company totally allotted 93,084,000 new ordinary shares in respect of the above two conversions.

On 14 May 2014, the Company redeemed the Convertible Note in aggregate principal amount of US\$3,000,000 together with unpaid accrued interest at an internal rate of return 17% to the Holder.

As at 30 June 2014, the outstanding principal amount of the Convertible Note was US\$3,000,000.

The Convertible Note was valued at fair value by the management with reference to a valuation report carried out by Greater China Appraisal Limited, an independent and recognised international business valuer, on 30 June 2014, at approximately US\$4,365,144.21 (equivalent to approximately HK\$33,843,000).

The Convertible Note was measured at fair value with changes in fair value recognised in profit or loss. The movement of the Convertible Note is set out below:

	Original currency US\$'000	Shown as HK\$'000
At 1 January 2014 (Fair value)	7,455	57,802
Interest payment	(577)	(4,504)
Change in fair value recognised in profit or loss	487	3,781
Redemption	(3,000)	(23,400)
Exchange gain	—	164
At 30 June 2014	<u>4,365</u>	<u>33,843</u>

The fair value of the Convertible Note at the end of the reporting period is determined by using the Monte Carlo Simulation model. The inputs into the model are as follows:

	2014
Stock price	HK\$0.67
Conversion price	HK\$0.50
Expected volatility (<i>note a</i>)	43.89%
Expected life (<i>note b</i>)	0.74 years
Risk-free rate (<i>note c</i>)	0.0867%
Expected dividend yield (<i>note d</i>)	1.582%

Notes:

- (a) Expected volatility was determined by calculating the historical volatility of the Company's share price.
- (b) Expected life was the expected remaining life of the option.
- (c) The risk free rate is determined by reference to the yield of the USD Treasury Actives (IYC 25) Zero Coupon Yield.
- (d) The expected dividend yield was based on the historical dividend payment record of the Company.

Any changes in the major inputs into the model will result in changes in the fair value of the Convertible Note.

17. DEFERRED TAX LIABILITIES

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

	Group Withholding tax HK\$'000
At 1 January 2014 (Audited)	5,356
Charge to profit or loss	463
At 30 June 2014 (Unaudited)	5,819

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.

18. SHARE CAPITAL

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised				
Ordinary share of HK\$0.10 each	<u>4,000,000,000</u>	<u>400,000</u>	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid				
At 31 December 2013 and				
1 January 2014	3,129,086,336	312,908		
Issue of new shares	300,000,000			
Transfer from share premium [#]	<u> </u>	<u>1,106,895</u>		
At 30 June 2014	<u>3,429,086,336</u>	<u>1,419,803</u>		

[#] Prior to 3 March 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the New Companies Ordinance, on 3 March 2014 any amount outstanding to the credit of the share premium account has become part of the Company's share capital. The use of share capital as from 3 March 2014 is governed by the New Companies Ordinance.

On 11 April 2014, the Company grants 130,000,000 share options to eligible grantees (Details were set out in the announcement dated 11 April 2014). The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model.

The table below presents the valuation parameters in the course of the valuation.

Option-lot	Option A (i)	Option A (ii)	Option B (i)	Option B (ii)
Fair value of option granted :	HK\$0.1425	HK\$0.1424	HK\$0.1998	HK\$0.1996
Valuation date :	11 April 2014	11 April 2014	11 April 2014	11 April 2014
Underlying share price :	HK\$0.660	HK\$0.660	HK\$0.660	HK\$0.660
Exercise price :	HK\$0.660	HK\$0.660	HK\$0.660	HK\$0.660
Volatility :	41.028%	41.028%	41.461%	41.461%
Risk free rate :	0.427%	0.427%	1.112%	1.112%
Dividend Yield :	1.56%	1.56%	1.56%	1.56%
First exercise date :	11 April 2014	11 April 2015	11 April 2015	11 April 2016
Maturity date :	10 April 2016	10 April 2016	11 April 2018	11 April 2018
Time to maturity :	519	519	1,040	1,040
Number of options :	30,000,000	30,000,000	10,000,000	10,000,000

Option-lot	Option C (i)	Option C (ii)	Option C (iii)
Fair value of option granted :	HK\$0.4624	HK\$0.4623	HK\$0.4620
Valuation date :	11 April 2014	11 April 2014	11 April 2014
Underlying share price :	HK\$0.660	HK\$0.660	HK\$0.660
Exercise price :	HK\$0.660	HK\$0.660	HK\$0.660
Volatility :	74.583%	74.583%	74.583%
Risk free rate :	2.230%	2.230%	2.230%
Dividend Yield :	1.56%	1.56%	1.56%
First exercise date :	11 April 2015	11 April 2016	11 April 2017
Maturity date :	11 April 2024	11 April 2024	11 April 2024
Time to maturity :	2,600	2,600	2,600
Number of options :	16,650,000	16,650,000	16,700,000

* *Figures above are subject to rounding*

Notes:

- (1) The underlying share price is the closing price on the Valuation Date.
- (2) The exercise price is the strike price of the Options.
- (3) The annual volatility of the underlying share is referenced from Bloomberg.
- (4) The annualized risk free rate is referenced from Bloomberg.

- (5) The dividend yield is referenced from historical dividend and share price information from Bloomberg.
- (6) First exercise date is the first date the option grantees are allowed to exercise the Options.
- (7) Maturity date is the date the Options expired.
- (8) The time to maturity is the duration of the Options life.
- (9) Number of options is the number of options granted to the grantee in each lot.

19. 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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	7,503	4,413
In the second to fifth years, inclusive	11,928	3,352
After the fifth year	<u>2,236</u>	<u>—</u>
	<u>21,667</u>	<u>7,765</u>

20. 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	
	2014	2013
	HK\$'000	HK\$'000
Salaries, allowances and other benefits	1,805	2,041
Pension scheme contribution	9	8
	1,814	2,049

21. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2013: Nil).

22. 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 20 August 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE CALENDAR

Fund Raising

March 2014:

Raised about RMB150 million through asset securitization product;

April 2014:

Top up Placing of 300,000,000 shares to raise about HK\$162.7 million

Strategic cooperation

May 2014:

Established a small loan joint venture in Shanghai with Wanjia Co-win Asset Management Co., Ltd.;

Signed a strategic cooperation agreement with Bank of Tianjin, Beijing Branch;

June 2014:

Signed a strategic cooperation agreement with Beijing Home Link Group;

Signed a strategic cooperation agreement with Weiye Wo Ai Wo Jia Group;

Signed a strategic cooperation agreement with Beijing Huicong International Information Co., Ltd.

INDUSTRY REVIEW

In 2013, the State Council of the PRC issued the State Department Guo Fa (2013) Article No. 67 “Opinion on Providing Financial Support for Economic Restructuring and Transformation” (國發(2013) 67號文《關於金融支持經濟結構調整和轉型升級的指導意見》), in order to resolve the problems that small and medium enterprises (SMEs) faced in obtaining bank financing in the PRC. To ensure the healthy development of non-bank financial institutions, the government bolstered its support in easing the high financing costs problem and funding bottlenecks for many SMEs.

In August 2013, the State Council promulgated the Implementation on Supporting Healthy Development of Small and Micro Enterprises (國務院關於支持小微企業健康發展的實施意見) (Guo Ban Fa [2013] No. 87), which clearly stated the importance of providing diversified and innovative financial service offerings to SMEs. This encourages financial institutions to develop innovative and bespoke financial solutions and products for SMEs which cater different characteristics and types of SMEs in different stages of development. Meanwhile, it also stated that the State will actively develop small financial institutions and open up the channels for private capital to gain access into the financial sector, as well as establish financial institutions for SMEs with wide coverage by providing differentiated products with cost-effectiveness.

In the first half of 2014, China’s economy recovered in a moderate manner amidst the ever-changing external environment, SMEs is one of the key economic growth drivers in China, contributing over 50% of the country’s GDP, yet these companies faced severe challenges in obtaining financial support and increasing finance costs problem. This year, the government continued to issue various policies with the aim of optimizing the financing structure and improving the financial environment for SMEs. In July 2014, the State Council promulgated 10 new measures to ease enterprises’ higher financing cost, particularly for small and micro enterprises. These new measures included active and steady development of small and medium financial institutions that serve small and micro enterprises and SMEs serving “agriculture, rural areas and farmers”, expansion of debt financing instruments, vigorous development of direct financing, development of multi-level capital markets; vigorous development and support of insurance products for small and micro enterprises in obtaining credit services, and thereby providing policy support and system security for the development of medium, small and micro enterprises.

BUSINESS REVIEW

China Financial Services Holdings Limited is one of the leading Small and Medium Enterprises (SMEs) financial service providers in Northern China. Our mission is to provide SMEs with diversified financial solutions and products with flexibility through different licences. The Group sharpens its competitive edge through stepping up its efforts in product improvement, launching diversified standardized products and fastening strategic partnerships with large corporations in order to expand the Group's customer base.

Operation

During the period under review, major events included:

Zhongjin Chengkai (Beijing) Small Loan Company Limited was established with registered capital of RMB400 million, of which, 80% equity interest is owned by the Company and 20% by Beijing Urban Development Investment Fund. The operation regions of the Small Loan Company are not restricted to its place of incorporation and can be utilized in all districts within Beijing city. Beijing Urban Development Investment Fund is 80% owned by CDB Capital and 20% by Beijing Municipal Commission of Development and Reform. CDB Capital is a wholly-owned subsidiary of China Development Bank with registered capital of approximately RMB50 billion. The joint venture is expected to obtain low cost capital from China Development Bank in future.

The Company signed comprehensive strategic cooperation agreements with Beijing Zhong Rong Xin Financial Guarantee Company Limited (a company operated by Beijing Home Link Group) and Beijing Weijia Anjie Investment Guarantee Company Limited (a subsidiary of Weiye Wo Ai Wo Jia Group) to develop direct housing loans, real estate second lien mortgage loans, financial guarantee and other financial services so as to roll out the Group's standardized real estate loan businesses. Weiye Wo Ai Wo Jia Group and Beijing Home Link Group are the largest and the second largest property agencies in Beijing. (Details of the cooperation agreements were set out in the announcements dated 4 June 2014 and 5 June 2014 respectively).

In addition, by entering into a strategic cooperation agreement with Beijing Huicong International Information Co., Ltd, the Company can leverage the resources of HC360.COM in domestic B2B e-commerce platform to expand the Company's client base (Details of the cooperation agreement were set out in the announcement dated 26 June 2014).

The Company also entered into a strategic cooperation agreement with Bank of Tianjin, Beijing Branch. Pursuant to the agreement, Bank of Tianjin, Beijing Branch will refer the Company to their new and existing customers to consider using the personal and SME loan services of the Group (Details of the cooperation agreement were set out in the announcement dated 15 May 2014).

Regional Expansion

The Company partners with Wanjia Co-Win Asset Management Co., Ltd to set up a small loan joint venture company in Shanghai with registered capital of RMB200 million, in which, the Company is the controlling shareholder.

As the sustainability and long term growth of our financial business relies on our ability to effectively manage the default risk of our loan portfolio, the Group will continue to adopt sound and prudent risk management policies despite business expansions into other cities outside our head quarters in Beijing.

OUTLOOK

Looking into the second half of 2014, the PRC economy is expected to grow in a stable manner and urbanization development will propel the development for SMEs, boosting the demand for financing, thereby creating lucrative opportunities for SMEs' financing service providers.

The Group will continue to strengthen its leading position in the Beijing region, while gradually pushing forward its regional expansion plan in Shanghai. The Group will also identify other 1st tier cities to complement its business development in the future. The Group will focus on developing innovative products and customer services, consolidate and reinforce its competitive advantages in risk management, and further enhance our product mix by developing standardized financial products.

The Group will also continue to broaden its financing channels by expanding its funding source to ensure a continuous flow of secured and reliable capital, in order to further lift our profitability.

FINANCIAL REVIEW

The Group continued to deliver satisfactory growth for the six months ended 30 June 2014 (the “Reporting Period”). Our outstanding loans to customers at the end of the Reporting Period was about HK\$1,859,812,000, up 53.0% as compared to that of the corresponding period last year. As at 30 June 2014, the aggregate amount of loan guarantee provided by the Group was approximately HK\$122,205,000. Turnover for the Reporting Period amounted to HK\$279,841,000, up 35.1% as compared to the corresponding period last year. Profit attributable to equity shareholders in the Reporting Period was HK\$136,450,000, up 13.4% as compared to the corresponding period last year. Excluding the effects of share-based payment expenses and change in fair value of convertible notes, underlying net profit attributable to equity shareholders rose 33.4% to approximately HK\$160,547,000.

Turnover

Turnover including interest income amounted to approximately HK\$8,239,000, financing consultancy service income amounted to approximately HK\$269,507,000 and loan guarantee service income amounted to approximately HK\$2,095,000.

Administrative Expenses

General and administrative expenses for the Reporting Period were approximately HK\$73,788,000. The increase in administrative expenses was mainly due to the expenses incurred in granting share options to eligible grantees and increase in commissions paid to our sales people during the Reporting Period. Share options without a vesting period are expensed immediately on the date of grant while share option with a vesting period will be amortized over the vesting period.

Finance Costs

Finance costs for the Reporting Period were approximately HK\$26,782,000, representing an increase of 56.2% over the corresponding period in 2013. The increase was attributable to the cost of funds obtained from assets securitization schemes.

Financial Resources and Capital Structure

The assets of the Group were mainly comprised of short term loans receivables of approximately HK\$1,859,812,000, accounting for 59.9% of the total assets of the Group as of 30 June 2014. Other major assets include goodwill of about HK\$650,504,000, accounts and interests receivables of about HK\$46,736,000, security deposits paid of approximately HK\$63,789,000, other receivables, deposits and prepayments of approximately HK\$124,728,000, available-for-sale investments of approximately HK\$39,540,000 and cash and cash equivalents of approximately HK\$310,591,000.

Current liabilities mainly comprised short-term borrowings of approximately HK\$516,757,000, bank loans of approximately HK\$56,051,000, convertible note of approximately HK\$33,843,000, other payables, deposits received and accruals of approximately HK\$24,848,000, liabilities arising from loan guarantee contracts of about HK\$3,256,000 and tax payable of about HK\$45,082,000. Non-current liabilities includes bank loans of about HK\$20,157,000 and deferred tax liabilities of about HK\$5,819,000.

Employee and Remuneration Policies

As at 30 June 2014, the Group had approximately 153 employees in the PRC and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also set up a share option scheme for the purpose of providing incentives to eligible grantees. For the Reporting Period, total staff costs including employee share option expenses were about HK\$27,584,000.

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") with 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. The issuance of the Convertible Bonds to the Subscriber was completed on 26 March 2013. Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Bonds shall be redeemed on 25 March 2015. Pursuant to 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 14 May 2014, the Company redeemed one-half of the outstanding principal amount of the Convertible Bonds, i.e. US\$3 million. The remaining outstanding principal amount of the Convertible Bonds amounted to US\$3 million.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 2014.

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 three independent non-executive directors, has reviewed the interim results for six months ended 30 June 2014. 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 control 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 2014 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, 20 August 2014

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

Executive Directors:

Mr Luo Rui (*Chief Executive Officer*)

Madam Guan Xue Ling

Mr Cheung Chai Hong

Non-executive Directors:

Mr Cheung Siu Lam (*Chairman*)

Mr Chan Yuk Ming (*Vice-chairman*)

Mr Tao Ye

Independent Non-executive Directors:

Mr Chan Chun Keung

Mr Wang Jian Sheng

Mr Tsang Kwok Wai