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 2014

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2014	2013	Percentage change
	HK$'000	*HK$'000*	*%*
Turnover	**560,496**	440,724	27.2
After-tax operating profit attributable to equity shareholders (excluding effect on fair value change on convertible note and share-based payment expenses)	**313,842**	273,115	14.9
ROA (After tax operating profit attributable to equity shareholders/(Total assets-Goodwill))	**12.3%**	12.4%	-0.8
ROE (After tax operating profit attributable to equity shareholders/(Total equity attributable to equity shareholders-Goodwill))	**16.6%**	18.6%	-10.8
Profit for the year attributable to equity shareholders of the Company	**293,634**	237,478	23.6
Basic earnings per share (HK cents)	**8.785**	7.749	13.4

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 2014, 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 2014

	Note	**2014** *HK$'000*	2013 *HK$'000*
Turnover	*3*	**560,496**	440,724
Other revenue	*3*	**28,610**	32,569
Other net income/(loss)	*4*	**6,886**	(28,691)
General and administrative expenses		**(143,176)**	(90,180)
Profit from operations		**452,816**	354,422
Share of loss of an associate		**(4)**	(40)
Finance costs	*5(a)*	**(41,399)**	(24,074)
Profit before taxation	*5*	**411,413**	330,308
Income tax	*6*	**(114,930)**	(90,173)
Profit for the year		**296,483**	240,135
Attributable to:			
Equity shareholders of the Company		**293,634**	237,478
Non-controlling interests		**2,849**	2,657
Profit for the year		**296,483**	240,135
Earnings per share (in HK cent)	*8*		
– Basic		**HK8.785 cents**	HK7.749 cents
– Diluted		**HK8.529 cents**	HK7.700 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	2013
	HK$'000	*HK$'000*
Profit for the year	**296,483**	240,135
Other comprehensive (loss)/income 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	**(4,626)**	31,269
Change in fair value of available-for-sale financial assets	**790**	(2,038)
Other comprehensive (loss)/income for the year, net of nil income tax	**(3,836)**	29,231
Total comprehensive income for the year	**292,647**	269,366
Attributable to:		
Equity shareholders of the Company	**289,860**	257,988
Non-controlling interests	**2,787**	11,378
Total comprehensive income for the year	**292,647**	269,366

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment		**5,148**	7,089
Goodwill		**654,528**	656,730
Interest in an associate		**3,856**	3,860
Available-for-sale investments		**31,832**	45,536
		695,364	713,215
Current assets			
Accounts receivable	*9*	**20,631**	22,607
Short-term loans receivables	*10*	**2,162,264**	1,893,678
Interests receivable	*11*	**14,443**	15,635
Forfeited collateral held for sales		**–**	533
Other receivables, deposits and prepayments		**7,892**	7,812
Tax recoverable		**151**	151
Pledged bank and security deposits paid		**146,383**	103,610
Cash and cash equivalents		**153,014**	103,288
		2,504,778	2,147,314
Current liabilities			
Short-term borrowings		**430,735**	416,040
Bank loans		**68,452**	22,894
Convertible note		**26,728**	–
Security deposits received		**–**	109,833
Amount due to an associate		**3,549**	3,561
Other payables, deposits received and accruals		**15,388**	18,299
Liabilities arising from loan guarantee contracts		**639**	6,325
Income received in advance		**7,461**	5,371
Financial derivatives		**266**	1,000
Tax payable		**69,808**	65,031
		623,026	648,354
Net current assets		**1,881,752**	1,498,960
Total assets less current liabilities		**2,577,116**	2,212,175

	2014	2013
	HK$'000	*HK$'000*
Non-current liabilities		
Bank loans	**–**	17,806
Convertible note	**–**	57,802
Deferred tax liabilities	**6,421**	5,356
	6,421	80,964
NET ASSETS	**2,570,695**	2,131,211
EQUITY		
Share capital: nominal value	**–**	312,908
Other statutory capital reserves	**–**	943,981
Share capital and other statutory capital reserves	**1,420,378**	1,256,889
Other reserves	**1,125,257**	833,576
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	**2,545,635**	2,090,465
Non-controlling interests	**25,060**	40,746
TOTAL EQUITY	**2,570,695**	2,131,211

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	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 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 and 1 January 2014	**312,908**	**943,981**	**12,919**	**39,013**	**(1,453)**	**18,768**	**764,329**	**2,090,465**	**40,746**	**2,131,211**
Changes in equity in 2014:										
Profit for the year	–	–	–	–	–	–	293,634	293,634	2,849	296,483
Other comprehensive income	–	–	–	(4,564)	790	–	–	(3,774)	(62)	(3,836)
Total comprehensive income	–	–	–	(4,564)	790	–	293,634	289,860	2,787	292,647
Equity settled share-based transactions	–	–	20,316	–	–	–	–	20,316	–	20,316
Shares issued under share option scheme	575	–	(216)	–	–	–	–	359	–	359
Shares issued under Top-up placement	165,000	–	–	–	–	–	–	165,000	–	165,000
Share issue expenses in relation to Top-up placement	(2,086)	–	–	–	–	–	–	(2,086)	–	(2,086)
Transition to no-par value regime on 3 March 2014 *(see note below)*	943,981	(943,981)	–	–	–	–	–	–	–	–
Dividend paid	–	–	–	–	–	–	(34,291)	(34,291)	–	(34,291)
Acquisition of non-controlling interests in a subsidiary	–	–	–	–	–	–	16,012	16,012	(18,473)	(2,461)
Transfer to reserve	–	–	–	–	–	2,374	(2,374)	–	–	–
Balance at 31 December 2014	**1,420,378**	**–**	**33,019**	**34,449**	**(663)**	**21,142**	**1,037,310**	**2,545,635**	**25,060**	**2,570,695**

Note: In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital.

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 listed investments, financial derivatives and convertible note, 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 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*

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 HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements as the Group does not have any impaired non-financial assets or CGU whose recoverable amount is based on fair value less costs of disposal.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

3. REVENUE AND SEGMENT REPORTING

a) Revenue

The amount of each significant category of revenue during the year is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Turnover		
Interest income on provision of short-term financing services	**30,020**	11,120
Financing consultancy service income	**527,279**	427,780
Total interest income on provision of short-term financing services and financing consultancy service income	**557,299**	438,900
Loan guarantee service income	**3,197**	1,824
	560,496	440,724
Other revenue		
Bank interest income	**5,299**	2,289
Dividend income from listed investments	**1,302**	1,366
Income from government subsidies	**19,535**	14,565
Property consultancy service income	**–**	11,289
Sundry income	**2,474**	3,060
	28,610	32,569
Total revenue	**589,106**	473,293

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 services are rendered. Substantially, over 90% 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, thus no single customer of the Group contributed 10% or more of the Group's turnover for the year ended 31 December 2014. Turnover of approximately HK$48,411,000 was derived from a customer which has exceeded 10% of the Group's turnover for year ended 31 December 2013.

4. OTHER NET INCOME/(LOSS)

	Group	
	2014	2013
	HK$'000	*HK$'000*
Gain on disposal of available-for-sale investments	**4,902**	3,160
Gain/(loss) on fair value change on convertible note	**108**	(35,637)
Gain on redemption of convertible note	**2,053**	–
(Loss)/gain on translation of convertible note at FVTPL denominated in a foreign currency into the functional currency	**(170)**	516
	1,991	(35,121)
Gain/(loss) on fair value change of financial derivatives in respect of decumulator contracts	**734**	(1,000)
Gain on disposal of forfeited collateral held for sales	**4**	124
Exchange (loss)/gain, net	**(817)**	4,021
Others	**72**	125
	6,886	(28,691)

5. PROFIT BEFORE TAXATION

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

		2014	2013
		HK$'000	*HK$'000*
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**2,155**	1,729
	Interest on short-term borrowings	**39,244**	22,345
	Total interest expenses on financial liabilities not at fair value through profit or loss	**41,399**	24,074
(b)	Staff costs (including directors' remuneration):		
	Salaries, allowances and other benefits	**28,285**	21,811
	Equity-settled share-based payment expenses	**4,236**	–
	Contributions to defined contribution retirement plans	**4,477**	2,975
		36,998	24,786
(c)	Other items:		
	Depreciation	**4,940**	4,497
	Operating lease charges in respect of properties	**6,487**	5,645
	Auditors' remuneration	**1,538**	1,285
	Reversal of undue liability provision and guarantee compensation provision	**(3,150)**	–
	Impairment loss for short-term loans receivables	**1,269**	578
	Impairment loss on available-for-sale investments	**5,936**	–
	Consultancy fee	**14,576**	10,363
	Equity-settled share-based payment expenses	**20,316**	–

6. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	Group	
	2014	2013
	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	**113,360**	95,603
Under-provision in respect of prior years	**492**	366
Deferred tax		
Origination and reversal of temporary differences	**1,078**	(5,788)
	114,930	90,173

No provision for profits tax arising in Hong Kong has been made as the Group has no income assessable for profits tax for the year in Hong Kong (2013: Nil).

The provision for the PRC Enterprise Income Tax of the subsidiaries established in the PRC is calculated at 25% (2013: 25%) of the estimated taxable profits for the year.

7. DIVIDEND

The directors recommend the payment of a final dividend of HK2.2 cents per share for the year ended 31 December 2014 (2013: HK1.0 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 of HK$293,634,000 (2013: HK$237,478,000) and the weighted average number of 3,342,447,980 ordinary shares (2013: 3,064,612,374 ordinary shares) in issue during the year, calculated as follows:

(i) Profit attributable to equity shareholders of the Company

	2014	2013
	HK$'000	*HK$'000*
Profit attributable to equity shareholders	**293,634**	237,478

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

	2014	2013
	Number of Shares	Number of Shares
Issued ordinary shares at 1 January	**3,129,086,336**	2,997,002,336
Effect of convertible note converted	**–**	37,233,600
Effect of share options exercised	**484,932**	30,376,438
Effect of Top-up placement	**212,876,712**	–
Weighted average number of ordinary shares at 31 December	**3,342,447,980**	3,064,612,374

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK$291,643,000 (2013: HK$237,478,000) and the weighted average number of ordinary shares of 3,419,494,030 shares (2013: 3,084,113,830 shares), calculated as follows:

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

	2014	2013
	HK$'000	*HK$'000*
Profit attributable to equity shareholders	**293,634**	237,478
Effect of gain recognised on convertible note	**(1,991)**	–
Profit attributable to equity shareholders (diluted)	**291,643**	237,478

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

	2014	2013
	Number of Shares	Number of Shares
Weighted average number of ordinary shares (basic) at 31 December	**3,342,447,980**	3,064,612,374
Effect of deemed issue of shares under the Company's share option scheme	**13,417,398**	19,501,456
Effect of conversion of convertible note	**63,628,652**	–
Weighted average number of ordinary shares (diluted) at 31 December	**3,419,494,030**	3,084,113,830

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	
	2014	2013
	HK$'000	*HK$'000*
Accounts receivable	**20,631**	22,607

All of the Group's accounts receivable were arising from the PRC and are denominated in Renminbi ("RMB") and 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:

	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**8,067**	4,205
31 – 90 days	**7,401**	5,559
Over 90 days	**5,163**	12,843
	20,631	22,607

Accounts receivable are due on the date of billing.

b) Accounts receivable that are not impaired

	2014	2013
	HK$'000	*HK$'000*
Past due but not impaired	**20,631**	22,607

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

	Group	
	2014	2013
	HK$'000	*HK$'000*
Pawn loan receivables	**302,724**	182,201
Other short-term loans receivables	**1,863,350**	1,714,022
	2,166,074	1,896,223
Allowance for doubtful debts		
– Collectively assessed (see note b below)	**(3,810)**	(2,545)
	2,162,264	1,893,678

Approximately HK$2,086,075,000 (2013: HK$1,893,678,000) of the Group's short-term loans receivables were arising from the PRC and are denominated in RMB. The short-term loans receivables in the PRC carry interest plus service charge at a monthly effective rate of 1.0% to 4.5% (2013: 0.9% to 4.6%), and the short-term loans receivables in Hong Kong carry interest at a monthly effective rate of 1.5% to 3.0% (2013: nil). As at 31 December 2014 and 2013, in the opinion of the Company's directors, the Group held collateral with value not less than the carrying amount of the pawn loan receivables and other short-term loans receivables.

A typical short-term loan generally has a term of 30 days to 365 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:

	2014			2013		
	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	**15,009**	**60,729**	**75,738**	58,637	296,276	354,913
Due after 1 month but within 3 months	**13,437**	**403,923**	**417,360**	47,912	658,332	706,244
Due after 3 months but within 6 months	**39,322**	**354,173**	**393,495**	75,652	604,912	680,564
Due after 6 months	**234,956**	**1,044,525**	**1,279,481**	–	154,502	154,502
Allowance for doubtful debts						
– Collectively assessed	**(3,027)**	**(783)**	**(3,810)**	(1,822)	(723)	(2,545)
	299,697	**1,862,567**	**2,162,264**	180,379	1,713,299	1,893,678

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:

	2014			2013		
	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	**1,822**	**723**	**2,545**	1,534	365	1,899
Impairment loss recognised	**1,206**	**63**	**1,269**	237	341	578
Exchange adjustment	**(1)**	**(3)**	**(4)**	51	17	68
At 31 December	**3,027**	**783**	**3,810**	1,822	723	2,545

c) Analysed by credit quality

	2014			2013		
	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	–	1,777,638	1,777,638	–	1,560,643	1,560,643
– Past due but not impaired	–	7,372	7,372	–	81,072	81,072
	–	1,785,010	1,785,010	–	1,641,715	1,641,715
Short-term loans receivables that are assessed for impairment collectively						
– Not past due	302,724	78,340	381,064	182,201	72,307	254,508
– Past due	–	–	–	–	–	–
Allowance for doubtful debts	(3,027)	(783)	(3,810)	(1,822)	(723)	(2,545)
	299,697	77,557	377,254	180,379	71,584	251,963
Total	299,697	1,862,567	2,162,264	180,379	1,713,299	1,893,678

Short-term loans 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	
	2014	2013
	HK$'000	*HK$'000*
Interests receivable	**14,443**	15,635

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

Approximately HK$13,706,000 (2013: HK$15,635,000) of the Group's interests receivable were arising from the PRC and are denominated in RMB. 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 invoice date (or maturity date of loans receivables, if earlier), is as follows:

	2014	2013
	HK$'000	*HK$'000*
Due within 1 month or on demand	**14,443**	15,321
Due after 1 month but within 3 months	**–**	–
Due after 3 months but within 6 months	**–**	314
	14,443	15,635

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

	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**2,060**	342
Past due but not impaired	**12,383**	15,293
	14,443	15,635

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 2014 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

Industry Overview

During the year, China's economic growth was tapering amid the volatile market environment. As the key growth engines in our community, SMEs contributed over 60% to the country's GDP, yet these companies still struggle in obtaining financing support within the banking system. In view of this, the government implemented various benign measures to allay the funding bottlenecks for SMEs.

In July 2014, the State Council promulgated new measures emphasizing active and steady development for small and medium financial institutions which served "agriculture, rural areas and farmers" related SMEs. These new measures stressed on propelling the expansion and development of debt financing instruments, direct financing, capital market instruments and insurance products, bolstering policy support in the development of medium, small and micro enterprises.

Amid the volatile macro environment, property oversupply and shrinking demand have posed impact to the housing price throughout the year. Despite the low market sentiment, sale price of commercial and residential properties in Beijing remained stable, particularly the area within the fourth ring. Sales volume in January 2015 demonstrated a visible rebound in tier-1 cities.

As a leading SMEs financial service provider in China, the Group recognized the struggles SMEs are facing. We endeavoured to help business owners to get the funding and financial services they need by offering an array of diversified financial services and solutions featuring efficiency and flexibility.

Strategy Implementation

Broadened our sources of funding

2014 is a critical year and a year of change for the Group. During the year, we stepped up efforts in exploring different sources of funding. Our efforts were paid off as seen in our innovative and diversified funding vehicles. On 23 April 2014, the Company completed a Top-up placement and issued a total of 300,000,000 ordinary shares. The proceeds from the Top-up placement was HK$165,000,000 and the expenses in relation to the placement was HK$2,086,000, resulting in a net increase in cash proceeds of HK$162,914,000. In December 2014, we entered into a placing agreement with Convoy Investment Services Limited, to arrange subscriptions for HK$250 million aggregate principal amount of seven-year 7% bonds during a 12-month placing period. In March 2015, we issued 300 milion 6.5% RMB-denominated senior bonds due 2018 (the "Bonds") which was unconditionally and irrevocably guaranteed jointly and severally, by the Company and China United SME Guarantee Corporation ("Sinoguarantee"), a third party guarantor. The Bonds was officially listed on Hong Kong Stock Exchange on 6 March 2015. The Company believes it is the first non-bank financial institution ("NBFI") to issue public listed bonds in the market.

Extended geographic reach across our business

In October 2014, the Group has commenced its lending business in Hong Kong and established a subsidiary in Shanghai to tap the rising demand of financing solutions for SMEs. Our Hong Kong subsidiary has demonstrated strong growth momentum during the Year. As of 31 December 2014, the accumulated loan amount in HK has reached HK$76 million. The expansion in the two first-tier cities is in line with its expansion strategy of establishing coverage in top-tier cities with transparent legal environment, highly liquidate property market and stable population inflow.

Continued to diversify our product offerings

During the year under review, the Group introduced a new product to our product portfolio by offering second lien loan product to customers. To solidify our distribution channels of such product, the Group signed strategic cooperation agreements with two of the largest property agencies in Beijing, namely Beijing Zhong Rong Xin Financial Guarantee Company Limited, a corporation operated by Beijing Home Link Group ("Home Link"), and Beijing Weijia Anjie Investment Guarantee Company Limited, a subsidiary of Weiye Wo Ai Wo Jia Group ("WYWAWJ"), respectively, in May 2014. As of 31 December 2014, accumulated loan amount of second lien loan product we extended in Beijing has reached HK$111.8 million.

On 31 December 2014, the Group obtained the approval by Beijing Municipal Bureau of Financial Work for the establishment of Beijing Zhongjin Chengkai Small Loan Company Limited jointly with Beijing Urban Development Fund (Limited Partnership). Beijing Zhongjin Chengkai Small Loan Company Limited is intended to provide small loan services in most districts of Beijing.

Fostered cooperative ties with reputable corporations

Apart from the cooperative agreements with Home Link and WYWAWJ, we have also entered into a cooperative agreement with Beijing Huicong International Information Co., Ltd. ("Beijing HC"), the second largest B2B e-commerce operator, and Bank of Tianjin, Beijing Branch (the "BTBB") to strengthen our distribution channel and build a broader customer base. Our strategy has proven its effectiveness as our number of customers has increased significantly throughout the year.

Further enhanced our operational efficiency

Supported by our in-house IT team, we have developed an Enterprise Resource Planning ("ERP") system which helps to consolidate various data in relation to our loan portfolio during the year. With such ERP system in place, our sales team and risk management team are able to obtain relevant information on a real-time and firm-wide basis, thereby improving our risk management capability, reducing our transaction costs and enhancing our credit evaluation abilities through more expedient data collection and analysis.

Prospect

Looking into 2015, we will continue to strengthen our position in Beijing, including by focussing on strengthening the services we already provide in Beijing, stepping up efforts in product innovation, fostering strategic partnerships with large corporations, deepening our brand image and increasing our license resource in order to increase our market share. Meanwhile, we will also seek to grow the business in Hong Kong and Shanghai. The two new markets are expected to be the impetus to grow our business in the years ahead.

We will also seek to extend our product offerings to complement the demand of loan in different markets. With regard to the operations of small loan services through Beijing Zhongjin Chengkai Small Loan Company Limited, we plan to launch two new products, namely, mortgage loan services and automobile loan services, which will allow us to expand our short-term financing services to individuals who borrow loans for personal consumption purposes.

Our ability to expand our business scale and diversify our product mix relies upon our ability to continue to increase our sources of funding. We intend to continue to utilise various means to raise capital. On shore, we intend to continue to raise funds through our asset-backed financing programme, and to continue to borrow from banks. In addition, leveraging the Group's public company status, we plan to continue accessing the international capital markets in various manners, including via bond offerings and share placements.

Looking into the future, we will continue to develop innovative products and customer services, consolidate and reinforcing our competitive advantages in risk management, and further enhancing our product mix by developing standardized financial products. With these effective measures in place, I firmly believe that we are poised to capture the growth in the industry fuelled by rising financing demand in the long run.

BUSINESS REVIEW

We are a major integrated SME financial service provider in China, principally engaged in the provision of (i) short-term financing services, primarily comprised of pawn loans and small loans and (ii) financial guarantee services to SMEs, microenterprises and individuals. Being a listed non-state owned non-bank SME financial service provider in China, the Group is always committed to the innovation of financial products to meet the diverse financial needs of the market. With the capability of obtaining diversified source of funding, the Group provides SMEs with flexible financing solutions.

During the year, the Group's turnover amounted to HK$560,496,000, representing a significant increase of 27.2% as compared with HK$440,724,000 in 2013. Return on assets (After tax operating profit attributable to equity shareholders/(Total assets-Goodwill)) was 12.3%, a decrease of 0.8% and return on equity (After tax operating profit attributable to equity shareholders/(Total equity attributable to equity shareholders-Goodwill)) is 16.6%, a decrease of 10.8%. Profit attributable to equity shareholders of the Company amounted to approximately HK$293,634,000, an increase of 23.6% as compared to HK$237,478,000 of last year. Basic earnings per share reached HK 8.785 cents, representing an increase of 13.4% (2013: HK 7.749 cents).

SHORT-TERM FINANCING

Our short-term financing services primarily comprised of pawn loans and small loans. The majority of the pawn loans we extend to customers are secured by collateral in the form of real estate and automobiles. Pawn loans secured by real estate property account for majority of our short-term financing in terms of outstanding loan amount. We also provide pawn loans secured by automobiles to retailers of high-end imported automobiles who use the loan proceeds to procure new automobiles. In July 2014, we began providing second lien loan product to individuals and SMEs. As for our small loan segment, we engage in both secured and unsecured financing, with the majority of the small loans we provide being secured by real estate.

With the aim to promoting healthy and steady development of the economy, the People's Bank of China ("PBOC") has promulgated various moves throughout the year. In November 2014, the PBOC announced benchmark loan and deposit interest rate cut for the first time in more than two years, with the aim of reducing financing costs for businesses. In February 2015, the PBOC decided to cut required reserve ratio and lowered the one-year deposit and lending rate to further its support to small and micro enterprises.

Despite the benign measures promulgated by PBOC throughout the year, revenue from our short-term financing business surged 27.0% y-o-y to HK$557,299,000, mainly attributable our successful launch of second lien loan product and expansion in geographic coverage. The total loan receivable amounted to HK$2,162,264,000, up 14.2% as compared to 2013 (2013:HK$1,893,678,000). Evolving demand of short-term financing also fueled the growth in the number of short-term financing customers. Number of customers reached 721 in 2014, up 37.9% from that of 2013.

FINANCIAL GUARANTEE

In respect of our financial guarantee services, we guarantee the repayment of loans our customers borrow from banks or other financial institutions. Currently, customers of our financial guarantee services are auto dealers that use the loans to procure new vehicles.

The outstanding guarantee liability of our financial guarantee services totaled HK$28.4 million, down 85% as compared to HK$190 million last year. Revenue from our financial guarantee business accounted for approximately 0.6% of our turnover in the year.

FINANCIAL REVIEW

Turnover

Our total turnover for the year ended 31 December 2014 was approximately HK$560,496,000, including interest income of approximately HK$30,020,000, financing consultancy service income of approximately HK$527,279,000 and loan guarantee service income of approximately HK$3,197,000, representing an increase of 27.2% as compared to HK$440,724,000 for the year ended 31 December 2013. The increase was mainly due to an increase in demand for funding from SMEs and individuals, the deployment of our second lien loan product and the expansion of our geographic coverage.

Other revenue

The total amount of our other revenue for the year ended 31 December 2014 was approximately HK$28,610,000 as compared to HK$32,569,000 in 2013, representing a decrease of 12.2%.

Other net income/(loss)

During the year ended 31 December 2014, other income and loss recorded a net income of approximately HK$6,886,000. We recorded other net loss for year ended 31 December 2013 of approximately HK$28,691,000, mainly comprising loss from change in fair value on our convertible note.

General and administrative expenses

Our general and administrative expenses for the year ended 31 December 2014 were approximately HK$143,176,000, representing an increase of 58.8% as compared to HK$90,180,000 for the year ended 31 December 2013. The increase was mainly due to the expenses incurred in granting share options to eligible grantees and an increase in consultancy fee paid to our sales agents during the period.

Share of loss of an associate

The share of loss of an associate for the year ended 31 December 2014 was approximately HK$4,000, representing a decrease of 90.0% as compared to HK$40,000 for the year ended 31 December 2013. The decrease was mainly due to decrease in share of administrative expenses of an associate.

Finance costs

Our finance costs for year ended 31 December 2014 was approximately HK$41,399,000, representing an increase of 72% as compared to HK$24,074,000 for the year ended 31 December 2013. The increase was attributable to the cost of funds obtained on asset securitizations.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 31 December 2014, current assets of the Group comprised cash and cash equivalents of approximately HK$153,014,000 short-term loans receivables of approximately HK$2,162,264,000, accounts and interests receivable of approximately HK$35,074,000, other receivables, deposits and prepayments of approximately HK$7,892,000, and pledged bank and security deposits paid of approximately HK$146,383,000. Non-current assets mainly comprised property, plant and equipment of about HK$5,148,000, goodwill of about HK$654,528,000, and available-for-sale investments of approximately HK$31,832,000.

Current liabilities mainly comprised liabilities arising from loan guarantee contracts of approximately HK$639,000, other payables, deposits received and accrual of approximately HK$15,388,000, short-term borrowings of approximately HK$430,735,000, bank loans of approximately HK$68,452,000, income received in advance of approximately HK$7,461,000, convertible note of approximately HK$26,728,000 and tax payable of approximately HK$69,808,000.

Use of Proceeds

On 26 March 2013, the Group issued a total amount of US$12 million convertible note to CCB International (Holdings) Limited. As of 31 December 2014, the net proceeds were utilized in accordance with the purposes disclosed in the announcement dated as set out below:

	Proposed use of proceeds	Actual use of proceeds
Working capital and other general corporate purposes	US$12,000,000	US$9,000,000
Redeemed		US$3,000,000

On 10 April 2014, a placing agreement was signed between the controlling shareholder and the placing agent and a subscription agreement was signed between the Company and the controlling shareholder. The Top-Up Placing was completed on 23 April 2014 and 300 million new shares were issued to the controlling shareholder at a price of HK$0.55. The net proceeds obtained from the new issue were about HK$162.7 million. As of 31 December 2014, the net proceeds were utilized in accordance with the purposes disclosed in the announcement dated as set out below:

	Proposed use of proceeds	Actual use of proceeds
Working capital and other general corporate purposes	HK$162,700,000	HK$86,700,000
Use on lending business in Hong Kong		HK$76,000,000

Liquidity and Gearing Ratio

The Group maintains a healthy liquidity position. As at 31 December 2014, the current ratio of the Group was 4.0 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings (including current and non-current borrowings and security deposits received) less cash and cash equivalents and pledged bank and security deposits paid divided by total equity. As at 31 December 2014, the gearing ratio was about 8.81%.

Fair Value Estimation

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

Employee and Remuneration Policies

As at 31 December 2014, the Group had approximately 155 employees in Beijing, Hong Kong and Shanghai. 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 employees. For the year under review, total staff costs were about HK$36,998,000.

Bank Loans

The Group's bank borrowings were about HK$68,452,000. The debt maturity profile of the Group as at 31 December 2014 is analyzed below:

	2014	2013
	HK$'000	*HK$'000*
Within 1 year or on demand	**68,452**	22,894
After 1 year but within 2 years	**–**	17,806
	68,452	40,700

Contingent Liabilities

The Group provides loan guarantee service to small-to medium-sized enterprises in China. As at 31 December 2014, the Group had contingent liabilities in relation to the loan guarantee business of approximately HK$28,395,000 in which approximately HK$355,000 and HK$284,000 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. On 14 May 2014, an aggregate principal sum of approximately HK$23,270,000 of the Convertible Note was redeemed by the Company. 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$26,728,000. On 26 March 2015, the remaining principal sum of approximately HK$23,270,000 of the Convertible Note was also redeemed by the Company.

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 ("CG Code").

During the financial year ended 31 December 2014, the Company has complied with the code provisions set out in the CG Code, save and except for the deviation to code provisions A.1.1, A.2.1 and A.6.1.

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. The Board held 2 regular board meetings during the year ended 31 December 2014 for approving the final results for the year ended 31 December 2013 and interim results for the period ended 30 June 2014 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 chairman's responsibilities are to manage the Board whereas the chief executive officer's responsibilities are to manage the Company's businesses. 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 an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the issuer's operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.

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.

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 regarding directors' dealings in the Company's securities (the "Company Code"), which laid down 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 of the Listing Rules. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and the Company Code throughout the year ended 31 December 2014.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company, which comprises all independent non-executive directors, and external auditors have 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 HK2.2 cents per ordinary share of the Company for the financial year ended 31 December 2014 (2013: HK1.0 cent per ordinary share), to the shareholders of the Company whose names are on the register of members on Friday, 5 June 2015, subject to the approval by the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 28 May 2015 ("AGM") and compliance with the Companies Ordinance and other relevant rules and regulations. The payment of final dividend will be made on or about 19 June 2015.

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 Tuesday, 26 May 2015 to Thursday, 28 May 2015, 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 Friday, 22 May 2015.

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 Wednesday, 3 June 2015 to Friday, 5 June 2015, 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 Tuesday, 2 June 2015.

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 2014 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 2014 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, 30 March 2015

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