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China Fortune Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 290)

Website: <http://www.290.com.hk>

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The board (the “**Board**”) of directors (the “**Directors**”) of China Fortune Financial Group Limited (the “**Company**”) announces the condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 September 2016 (the “**Period**”) together with the comparative figures for the corresponding period in 2015. The Group’s interim results for the Period are unaudited, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		Six months ended 30 September	
		2016	2015
	<i>Notes</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
		(Unaudited)	(Unaudited)
Revenue	3	20,284	29,141
Cost of securities brokerage and margin financing		(5,199)	(9,592)
Other income	5	2,135	5,129
Depreciation		(685)	(933)
Salaries and allowances		(25,615)	(18,130)
Change in fair value of derivative component of convertible loan notes		31,564	(901)
Reversal of impairment loss recognised in respect of trade receivables		5,883	15,451
Impairment loss recognised in respect of trade receivables		(6,310)	(4,177)
Other operating and administrative expenses		(18,430)	(20,765)
Gain on disposal of a joint venture		73,000	—
Loss on disposal of an associate		(1,361)	—
Share of profits of associates		4,816	3,437
Share of (losses) profits of joint ventures		(31)	17
Finance costs	6	(12,991)	(10,484)
Profit (loss) before tax	7	67,060	(11,807)
Income tax expense	8	—	—
Profit (loss) for the Period		67,060	(11,807)

		Six months ended 30 September	
		2016	2015
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive expense:			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive expense of associates		(1,911)	(2,192)
Share of other comprehensive expense of joint ventures		(33)	(141)
Exchange differences arising on translation of foreign operations		(192)	(105)
Other comprehensive expense for the Period		(2,136)	(2,438)
Total comprehensive income (expense) for the Period		64,924	(14,245)
Profit (loss) for the Period attributable to:			
Owners of the Company		67,130	(11,551)
Non-controlling interests		(70)	(256)
		67,060	(11,807)
Total comprehensive income (expense) for the Period attributable to:			
Owners of the Company		64,960	(14,013)
Non-controlling interests		(36)	(232)
		64,924	(14,245)
		<i>HK cents</i>	<i>HK cent</i>
Earnings (loss) per share			
— Basic	10	1.96	(0.34)
— Diluted		1.13	(0.34)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

		At 30 September 2016	At 31 March 2016
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Plant and equipment	11	3,662	2,637
Club membership debentures		6,565	6,610
Other non-current assets		275	275
Goodwill		3,994	3,994
Interests in associates	12	89,213	88,887
Interests in joint ventures	13	1,071	1,135
Loan receivables	15	14,771	5,502
		<u>119,551</u>	<u>109,040</u>
Current assets			
Investments held for trading		31,879	19,723
Trade receivables	14	138,196	100,019
Loan receivables	15	11,352	38,643
Factoring receivables	16	—	2,210
Other receivables, deposits and prepayments		13,146	6,403
Derivative component of convertible loan notes		77,745	—
Amount due from a non-controlling shareholder of a subsidiary		125	125
Bank balances and cash — trust	17	115,739	135,215
Bank balances and cash — general	17	93,451	46,757
		<u>481,633</u>	<u>349,095</u>

		At 30 September 2016	At 31 March 2016
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Current liabilities			
Trade payables, other payables and accruals	18	134,425	221,414
Convertible loan notes		42,106	—
Corporate bonds	20	11,317	10,772
Tax payable		720	720
		<u>188,568</u>	<u>232,906</u>
Net current assets		<u>293,065</u>	<u>116,189</u>
Total assets less current liabilities		<u>412,616</u>	<u>225,229</u>
Capital and reserves			
Share capital	19	341,839	341,839
Reserves		(116,287)	(233,174)
Equity attributable to owners of the Company		<u>225,552</u>	<u>108,665</u>
Non-controlling interests		<u>(1,161)</u>	<u>(1,125)</u>
Total equity		<u>224,391</u>	<u>107,540</u>
Non-current liabilities			
Convertible loan notes		28,142	—
Corporate bonds	20	160,083	117,689
		<u>188,225</u>	<u>117,689</u>
		<u>412,616</u>	<u>225,229</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as 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”) (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

The Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the HKICPA that are effective for the Group’s financial year beginning on 1 April 2016.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Revenue represents the net amounts received and receivable for services provided in the normal course of business.

An analysis of the Group's revenue for the Period is as follows:

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividend income	74	83
Income from securities brokerage business	5,079	5,607
Income from factoring business	3	97
Interest income from money lending business	3,588	2,350
Income from insurance brokerage business	2,218	7,675
Margin interest income from securities brokerage business	6,108	4,896
Net (loss) gain on trading of listed securities	(830)	5,894
Service income from corporate finance	4,044	2,348
Others	—	191
	<u>20,284</u>	<u>29,141</u>

4. SEGMENT INFORMATION

Information reported to the Board, being the designated decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the types of services provided. No operating segment identified by the designated decision maker has been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

- (1) The brokerage and margin financing segment engages in securities brokerage and margin financing in Hong Kong;
- (2) The proprietary trading segment engages in proprietary trading of securities;
- (3) The corporate finance segment engages in the provision of corporate finance services in Hong Kong;
- (4) The money lending and factoring segment engages in the provision of money lending and factoring services in Hong Kong; and
- (5) The consultancy and insurance brokerage segment engages in the provision of consultancy service and insurance brokerage in Hong Kong.

Information regarding the above segments is reported below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended 30 September 2016

	Brokerage and margin financing HK\$'000	Proprietary trading HK\$'000	Corporate finance HK\$'000	Money lending and factoring HK\$'000	Consultancy and insurance brokerage HK\$'000	Intersegment elimination HK\$'000	Consolidated HK\$'000
Revenue							
External revenue	11,187	(756)	4,044	3,591	2,218	—	20,284
Inter-segment revenue (<i>Note</i>)	—	—	250	—	141	(391)	—
	<u>11,187</u>	<u>(756)</u>	<u>4,294</u>	<u>3,591</u>	<u>2,359</u>	<u>(391)</u>	<u>20,284</u>
Segment profit (loss)	3,581	(887)	(7,362)	2,702	(1,319)	—	(3,285)
Unallocated operating income							48
Unallocated operating expense							(24,825)
Change in fair value of derivative component of convertible loan notes							31,564
Gain on disposal of a joint venture							73,000
Loss on disposal of an associate							(1,361)
Gain on disposal of plant and equipment							125
Share of profits of associates							4,816
Share of losses of joint ventures							(31)
Finance costs							(12,991)
Profit before tax							<u>67,060</u>

For the six months ended 30 September 2015

	Brokerage and margin financing HK\$'000	Proprietary trading HK\$'000	Corporate finance HK\$'000	Money lending and factoring HK\$'000	Consultancy and insurance brokerage HK\$'000	Intersegment elimination HK\$'000	Consolidated HK\$'000
Revenue							
External revenue	10,503	5,977	2,348	2,447	7,866	—	29,141
Inter-segment revenue (Note)	—	—	50	—	1,705	(1,755)	—
	<u>10,503</u>	<u>5,977</u>	<u>2,398</u>	<u>2,447</u>	<u>9,571</u>	<u>(1,755)</u>	<u>29,141</u>
Segment profit (loss)	15,576	5,398	(2,435)	802	(3,796)	—	15,545
Unallocated operating income							2,349
Unallocated operating expense							(21,930)
Change in fair value of derivative component of convertible loan notes							(901)
Gain on disposal of plant and equipment							160
Share of profits of associates							3,437
Share of profits of joint ventures							17
Finance costs							<u>(10,484)</u>
Loss before tax							<u>(11,807)</u>

Note: Inter-segment revenue are charged at prevailing market prices.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) from each segment without allocation of central administrative expenses, directors' remunerations, change in fair value of derivative component of convertible loan notes, loss on disposal of an associate, gain on disposal of a joint venture, share of profits (losses) of associates and joint ventures, finance costs, certain interest income from financial institutions, gain on disposal of plant and equipment and certain other operating income. This is the measure reported to the designated decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Segment assets		
Brokerage and margin financing	304,067	248,053
Proprietary trading	34,711	24,282
Corporate finance	8,331	9,926
Money lending and factoring	51,985	53,622
Consultancy and insurance brokerage	1,549	2,334
Total segment assets	400,643	338,217
Unallocated	200,541	119,918
Consolidated assets	601,184	458,135
Segment liabilities		
Brokerage and margin financing	133,577	139,386
Proprietary trading	82	149
Corporate finance	51	1,635
Money lending and factoring	6	1,136
Consultancy and insurance brokerage	423	925
Total segment liabilities	134,139	143,231
Unallocated	242,654	207,364
Consolidated liabilities	376,793	350,595

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain plant and equipment for general operations, club membership debentures, goodwill, interests in associates and joint ventures, certain other receivables, deposits and prepayments, amount due from a non-controlling shareholder of a subsidiary, derivative component of convertible loan notes and bank balances and cash — general; and
- all liabilities are allocated to operating segments other than certain other payables and accruals, liability component of convertible loan notes, corporate bonds and tax payable.

5. OTHER INCOME

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Handling fee income	1,320	1,400
Interest income from financial institutions	17	60
Management fee income	190	744
Gain on disposal of plant and equipment	125	160
Dividend income	—	1,340
Exchange gain, net	35	—
Sundry income	448	1,425
	<u>2,135</u>	<u>5,129</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	16	1,007
Effective interest on corporate bonds (note 20)	7,529	5,925
Effective interest on convertible loan notes	5,446	3,552
	<u>12,991</u>	<u>10,484</u>

7. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) before tax has been arrived at after charging:		
Total staff costs:		
— directors' remunerations (note 21)	1,932	3,202
— salaries and allowance	23,167	14,402
— retirement benefit scheme contributions (excluding directors)	516	526
	<u>25,615</u>	<u>18,130</u>
Impairment loss recognised in respect of trade receivables	6,310	4,177
Operating lease in respect of rented premises and equipment	<u>6,577</u>	<u>8,627</u>

8. INCOME TAX EXPENSE

No Hong Kong Profits Tax has been provided as the Group's assessable profit for the Period has been fully absorbed by the tax losses brought forward from prior periods (six months ended 30 September 2015: nil).

Under the Law of the People's Republic of China (the "PRC") or ("China") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No provision for the PRC EIT has been made for subsidiaries established in the PRC as these subsidiaries did not have any assessable profits subject to the PRC EIT Law during the six months ended 30 September 2016 and 2015.

9. DIVIDEND

No dividend was paid or proposed during the Period, nor has any dividend been proposed since the end of the Period (six months ended 30 September 2015: nil).

10. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share

Basic earnings (six months ended 30 September 2015: loss) per share is calculated by dividing the profit attributable to owners of the Company of approximately HK\$67,130,000 (six months ended 30 September 2015: loss attributable to owners of the Company of approximately HK\$11,551,000) by the weighted average number of 3,418,385,668 ordinary shares (six months ended 30 September 2015: 3,418,385,668 shares) in issue during the Period.

The calculation of diluted loss per share does not assume the exercise of the Company's outstanding conversion of outstanding convertible loan notes which had anti-dilutive effect and would result in a reduction in loss per share for the period ended 30 September 2015. Therefore, the diluted loss per share is the same as the basic loss per share for the period ended 30 September 2015

Diluted earnings per share for the Period was calculated on the profit attributable to owners of the Company for the Period of approximately HK\$67,130,000 (excluding fair value gain of derivative component of convertible loan notes of approximately HK\$31,564,000 and effective interest on convertible loan notes of approximately HK\$5,446,000 and the weighted average number of 3,418,385,668 ordinary shares in issue during the Period and adjusting for the potential dilutive ordinary shares of 224,835,858 arising from the convertible loan notes.

11. PLANT AND EQUIPMENT

During the Period, the Group spent approximately HK\$1,710,000 (six months ended 30 September 2015: HK\$779,000) for the purchase of plant and equipment.

Two motor vehicles with a zero net carrying value each were disposed of by the Group for total cash proceeds of HK\$125,000, resulting in a net gain on disposal of HK\$125,000 which was recognised in profit or loss during the six months ended 30 September 2016.

A motor vehicle with a zero net carrying value was disposed of by the Group for cash proceeds of HK\$160,000, resulting in a net gain on disposal of HK\$160,000 which was recognised in profit or loss during six months ended 30 September 2015.

12. INTERESTS IN ASSOCIATES

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Cost of investments in unlisted associates	70,104	72,604
Share of post-acquisition profits and other comprehensive income	19,109	16,283
	<u>89,213</u>	<u>88,887</u>

On 3 June 2016, Giant Talent Group Ltd. entered into a sale and purchase agreement for the disposal of 25% of the entire issued share capital of Prior Capital Limited (“**Prior Capital**”) to an independent third party to the Group, at the total consideration in the amount of approximately HK\$1,218,000 for the disposal and settlement of the profit guarantee. The disposal was completed on 29 June 2016. Details of which were published in the Company’s announcement dated 3 June 2016 and 29 June 2016.

Details of the principal associates as at 30 September 2016 and 31 March 2016 are as follows:

Name of entity	Form of entity	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of nominal value of issued capital held by the Group		Proportion of voting right held by the Group at board level		Principal activities
				30 September 2016	31 March 2016	30 September 2016	31 March 2016	
Starlight Financial Holdings Limited (“Starlight”)	Limited liability company	Hong Kong	234,000,000 ordinary shares	25% (Note 1)	25%	33% (Note 1)	33%	Investment holding
City Eagle Holdings Limited	Limited liability company	Hong Kong	100 ordinary shares	25%	25%	33%	33%	Investment holding
Chongqing Liangjiang New Area Runtong Small Loans Business Limited* (“Runtong”)	Limited liability company	The PRC	Registered capital of US\$30,000,000	25%	25%	33%	33%	Provision of secured financing services and microfinance services in Chongqing of the PRC
Wine Financier Limited	Limited liability company	Hong Kong	10,000 ordinary shares	25%	25%	33%	33%	Provision of loan financing services
Beijing Sapiential & Golden Resources Public Relations Consultant Co., Ltd* (“Beijing Sapiential & Golden Resources”)	Limited liability company	The PRC	Registered capital of RMB 10,000,000	48% (Note 2)	48%	25% (Note 2)	25%	Provision of business consultancy services
Prior Capital	Limited liability company	Hong Kong	100 ordinary shares	nil	25%	nil	25%	Provision of consultancy services

* The English transliteration of the Chinese name in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English name of such Chinese name.

Wine Financier Limited, City Eagle Holdings Limited and Runtong are wholly-owned subsidiaries of Starlight.

Notes:

1. The Group is able to exercise significant influence over Starlight and its subsidiaries (“Starlight Group”) because it has the power to appoint two out of the six directors of that company under the provisions stated in the shareholders’ agreement.
2. The Group is able to exercise significant influence over Beijing Sapiential & Golden Resources because it has the power to appoint one out of the four directors of that company under the provisions stated in the Articles of Association of that company.

As at 30 September 2016, included in the cost of investment in associates was goodwill of approximately HK\$6,223,000 (as at 31 March 2016: HK\$6,223,000) arising on the acquisition of associates.

13. INTERESTS IN JOINT VENTURES

	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Cost of investments in unlisted joint ventures	1,415	9,492
Share of post-acquisition losses and other comprehensive expense	(344)	(1,313)
	1,071	8,179
Less: Impairment loss recognised	—	(7,044)
	1,071	1,135

Details of the joint ventures as at 30 September 2016 and 31 March 2016 are as follows:

Name of entity	Form of entity	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of nominal value of issued capital held by the Group		Proportion of voting right held by the Group at board level		Principal activities
				30 September 2016	31 March 2016	30 September 2016	31 March 2016	
Measure Up International Limited (“Measure Up”)	Limited liability company	British Virgin Islands (the “BVI”)	100 Ordinary shares of US\$1 each	nil	35%	nil	33%	Investment holding
Lucky Target Property Agency Limited	Limited liability company	Hong Kong	100 Ordinary shares	nil	35%	nil	33%	Investment holding
Rongtong Finance Lease (Shanghai) Company Limited*	Limited liability company	the PRC	Registered share capital of HK\$206,000,000	nil	35%	nil	33%	Provision of finance lease service
Shenzhen Qianhai Fortune Financial Service Company Limited* (“Qianhai Fortune Financial”)	Limited liability company	the PRC	Registered share capital of RMB754,000	30%	30%	40%	40%	Provision of corporate financial consultancy service
Shenzhen Qianhai Fortune Equity Investment Management Company Limited* (“Qianhai Fortune Equity”)	Limited liability company	the PRC	Registered share capital of RMB2,989,000	30%	30%	40%	40%	Inactive

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Both Lucky Target Property Agency Limited and Rongtong Finance Lease (Shanghai) Company Limited are the wholly-owned subsidiaries of Measure Up.

On 31 March 2016, Promiseasy Limited (“**Promiseasy**”), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal of 35% of the entire issued share capital of Measure Up and the loan owed by Measure Up to Promiseasy for a consideration of HK\$73,000,000. The disposal was completed on 30 June 2016. Details of which were published in the Company’s announcement dated 31 March 2016 and 30 June 2016.

As at 31 March 2016, the Group holds 35% of the ordinary shares of Measure Up and controls 33% of the voting power in the board meeting. Under a shareholders' agreement, the major financing and operational decisions of Measure Up should be unanimously approved by the Group and other venturers. Therefore, Measure Up and its subsidiaries ("**Measure Up Group**") are regarded as joint ventures of the Group.

The Group holds 30% of equity interests of Qianhai Fortune Financial and controls 40% of the voting power in the board meeting. Under a shareholders' agreement, the major financing and operational decisions of Qianhai Fortune Financial should be unanimously approved by the Group and other venturers. Therefore, Qianhai Fortune Financial is regarded as a joint venture of the Group.

The Group holds 30% of equity interests of Qianhai Fortune Equity and controls 40% of the voting power in the board meeting. Under a shareholders' agreement, the major financing and operational decisions of Qianhai Fortune Equity should be unanimously approved by the Group and other venturers. Therefore, Qianhai Fortune Equity is regarded as a joint venture of the Group.

14. TRADE RECEIVABLES

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Trade receivables from the business of dealing in securities:		
— Cash clients	2,433	5,278
— Hong Kong Securities Clearing Company Limited (" HKSCC ")	3,328	3,416
— Margin clients	222,443	182,161
Trade receivables from other businesses	<u>1,967</u>	<u>2,354</u>
	230,171	193,209
Less: Impairment loss recognised	<u>(91,975)</u>	<u>(93,190)</u>
	<u>138,196</u>	<u>100,019</u>

The settlement terms of trade receivables, except for secured margin clients, arising from the business of dealing in securities are two days after the trade date. The Group allows an average credit period of 30 days (as at 31 March 2016: 30 days) to its trade customers of other businesses.

No aging analysis is disclosed for the Group's margin clients as these margin clients were carried on an open account basis, the Directors of the Company consider that the aging analysis does not give additional value in the view of the nature of business of margin financing.

The following is an aging analysis of trade receivables (excluded margin clients), net of impairment losses, at the end of the Period/year based on the invoice date which approximated the respective revenue recognition dates is as follows:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Less than 30 days	3,890	7,347
31 to 60 days	12	201
61 to 90 days	65	442
Over 90 days	1,750	1,104
	<u>5,717</u>	<u>9,094</u>

Trade receivables from cash and margin clients are secured by the clients' pledged securities at fair values of approximately HK\$2,009,183,000 (as at 31 March 2016: HK\$1,455,925,000) which can be sold at the Group's discretion to settle any margin call requirements imposed by their respective securities transactions. There is no repledge of the collateral from margin clients for the six months ended 30 September 2016 and 2015.

Movements in the impairment loss recognised in respect of trade receivables in aggregate during the Period/year are as follows:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Balance at beginning of the Period/year	93,190	104,368
Amounts written off as uncollectible	(1,642)	—
Reversal of impairment loss recognised	(5,883)	(17,682)
Impairment loss recognised	6,310	6,504
	<u>91,975</u>	<u>93,190</u>
Balance at end of the Period/year	<u>91,975</u>	<u>93,190</u>

Included in the impairment loss recognised in respect of trade receivables with an aggregated balance of approximately HK\$91,975,000 (as at 31 March 2016: HK\$93,190,000) was individually impaired trade debtors who were in financial difficulties. Trade receivables of approximately HK\$1,642,000 were directly written off during the Period.

15. LOAN RECEIVABLES

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Non-current portion		
Secured loan receivables	6,815	2,265
Unsecured loan receivable	7,956	3,237
	<u>14,771</u>	<u>5,502</u>
Current portion		
Secured loan receivables	9,130	32,275
Unsecured loan receivables	2,222	6,368
	<u>11,352</u>	<u>38,643</u>
Total	<u><u>26,123</u></u>	<u><u>44,145</u></u>

The secured loan receivables are pledged by property units (as at 31 March 2016: secured by second mortgage over certain property units) which bear interest at a fixed interest rate ranging from 10% to 22.5% (as at 31 March 2016: 10% to 22%) per annum.

The unsecured loan receivables bear an interest rate at 15% (as at 31 March 2016: fixed interest rate at 25%) per annum. All unsecured loan receivables are guaranteed by a substantial shareholder and/or an independent third party as at 30 September 2016 and 31 March 2016.

The following table illustrates the aging analysis, based on the loan drawdown date, of the loan receivables outstanding at the end of the Period/year:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Less than 30 days	1,111	4,516
31 to 60 days	5,908	218
61 to 90 days	3,836	194
Over 90 days	15,268	39,217
	<u><u>26,123</u></u>	<u><u>44,145</u></u>

The loan receivables are due for settlement at the date specified in the respective loan agreements.

No impairment loss in respect of loan receivables (as at 31 March 2016: nil) has been recognised during the Period is based on the estimated irrecoverable amount by reference to the creditability of the customer, past default experience and subsequent settlement.

16. FACTORING RECEIVABLES

The Group's factoring receivables arose from factoring services to companies in Hong Kong. The credit period granted to each customer is generally no later than 210 days (as at 31 March 2016: 210 days) for factoring services. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by management.

An aging analysis of the Group's factoring receivables as at the end of the Period/year, based on the date of the sales invoices is as follows:

	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Less than 30 days	—	—
31 to 60 days	—	357
61 to 90 days	—	1,583
Over 90 days	—	270
	<u>—</u>	<u>2,210</u>

The aging analysis of the Group's factoring receivables that are not considered to be impaired is as follows:

	At 30 September 2016 HK\$'000 (Unaudited)	At 31 March 2016 HK\$'000 (Audited)
Less than 30 days	—	1,583
31 to 60 days	—	—
61 to 90 days	—	270
Over 90 days	—	—
	<u>—</u>	<u>1,853</u>

The Directors of the Company are of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

17. BANK BALANCES AND CASH

Bank balances and cash — trust

The Group maintains segregated trust accounts with a licensed bank to hold clients' monies arising from its securities and futures brokerage and financing business. The Group has classified the clients' monies as bank balances and cash — trust under the current assets of the condensed consolidated statement of financial position and recognised the corresponding trade payables to respective clients on the ground that it is liable for any loss or misappropriation of clients' monies. The Group is restricted to use the clients' monies to settle its own obligations.

Bank balances and cash — general

Bank balances and cash held by the Group which amounted to approximately HK\$93,451,000 (as at 31 March 2016: HK\$46,757,000) were with an original maturity of three months or less. The bank balances and bank deposits carried interest at market rates ranging from 0.001% to 0.01% (as at 31 March 2016: 0.001% to 0.15%) per annum.

As at 30 September 2016, the Group had bank balances of approximately HK\$4,715,000 (as at 31 March 2016: HK\$4,569,000) and HK\$2,613,000 (as at 31 March 2016: HK\$471,000) which were originally denominated in United States dollar (“USD”), and Renminbi (“RMB”) respectively.

18. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Trade payables from the business of dealing in securities:		
— Margin and cash clients	122,439	138,631
— HKSCC	9,790	8,404
Other payables and accruals	2,196	74,379
	<u>134,425</u>	<u>221,414</u>

For trade payables, no aging analysis is disclosed for the Group’s margin and cash clients as these clients were carried on an open account basis, the aging analysis does not give additional value in the view of the nature of business of margin financing.

As at 30 September 2016, the Group had other payables and accruals of approximately HK\$82,000 (as at 31 March 2016: HK\$149,000) and HK\$40,000 (as at 31 March 2016: HK\$37,000) which were denominated in USD and RMB respectively.

19. SHARE CAPITAL

	Number of shares '000	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.1 each at 1 April 2015 (audited), 31 March 2016 (audited) and 30 September 2016 (unaudited)	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 April 2015 (audited), 31 March 2016 (audited) and 30 September 2016 (unaudited)	<u>3,418,386</u>	<u>341,839</u>

20. CORPORATE BONDS

During the year ended 31 March 2016, the Group has issued 1 to 7 years corporate bonds with aggregate face value of HK\$19,000,000 to 10 independent third parties net of direct expenses of approximately HK\$3,772,000 which are due in January 2017, January 2018, April 2018, May 2018, March 2019, May 2022, June 2022, July 2022 and March 2023. These corporate bonds carry interest at fixed rate of 6% to 7% per annum with interest payable on the date falling on each anniversary of the issue date and maturity date of the corporate bonds (both dates exclusive). The corporate bonds are unsecured. The effective interest rate of the corporate bonds is ranging from 9.12% to 10.78%.

During the six months ended 30 September 2016, the Group has issued 2 to 7.5 years corporate bonds with aggregate face value of HK\$44,500,000 to 14 independent third parties net of direct expenses of approximately HK\$6,394,000, which are due in May 2018, August 2018, July 2019, June 2023, October 2023, December 2023, January 2024, February 2024 and March 2024. These corporate bonds carry interest at fixed rate of 6% to 6.5% per annum with interest payable on the date falling on each anniversary of the issue date and maturity date of the corporate bonds (both dates exclusive). The corporate bonds are unsecured. The effective interest rate of the corporate bonds is ranging from 9.10% to 10.25%.

Carrying amounts repayable:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Within one year	11,317	10,772
More than one year but not exceeding two years	12,001	3,803
More than two years but not exceeding five years	87,749	41,924
More than five years	60,333	71,962
Total	171,400	128,461
Less: Amounts shown under current liabilities	(11,317)	(10,772)
Amounts shown under non-current liabilities	160,083	117,689

21. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

All executive Directors were considered to be the key management personnel of the Group for the six months ended 30 September 2016 and 2015. The remuneration of executive Directors during the Period was as follows:

	Six months ended 30 September 2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Short-term benefits	1,915	3,166
Post-employment benefits	17	36
	1,932	3,202

22. COMMITMENTS

(i) Operating lease commitments

The Group as lessee

The Group leases certain of its office premises and equipment under operating lease arrangements. Lease for properties and equipment are negotiated for a term ranging from half year to five years (as at 31 March 2016: half year to three years) and rentals are fixed at the inception of lease. No provision for contingent rent and terms of renewal were established in the lease.

At the end of the Period/year, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Within one year	7,917	13,797
In the second to fifth years, inclusive	19	523
	<u>7,936</u>	<u>14,320</u>

(ii) Capital commitment

The Group had the following capital commitment at the end of the Period/year:

	At 30 September 2016 <i>HK\$'000</i> (Unaudited)	At 31 March 2016 <i>HK\$'000</i> (Audited)
Contracted but not provided for:		
Investment in joint ventures	<u>5,706</u>	<u>5,853</u>

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

When measuring fair value, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)		
Financial assets				
Derivative component of convertible loan notes	77,745	—	Level 2	Black-Scholes option pricing model based on the stock price, expected volatility, expected option period and risk free rate
Investments held for trading	31,879	19,723	Level 1	Quoted bid prices in active market

There were no transfers between levels of fair value hierarchy in the Period/year.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

24. NON-CASH TRANSACTION

On 6 April 2016 and 6 July 2016, the Group completed the issuance of a 12% and 5% coupon convertible loan note which was used to repay the amount due to Ever Step Holdings Limited and One Express Group Limited by the Company of HK\$40,384,615 and HK\$32,000,000 respectively. The note was convertible into 310,650,884 and 307,692,307 new ordinary shares respectively.

25. EVENT AFTER THE REPORTING PERIOD

On 27 June 2016, the Company entered into a subscription agreement (“**One Express Subscription Agreement**”) with One Express Group Limited in respect of the subscription of the 5% coupon convertible bonds (“**Convertible Bonds to One Express**”) in the principal amount of HK\$32,000,000 due 24 calendar months from the date of issue of the Convertible Bonds to One Express at an initial conversion price of HK\$0.104 per conversion share (subject to the terms and conditions stipulated in the One Express Subscription Agreement). The certificate of the Convertible Bonds to One Express was issued on 6 July 2016.

On 9 November 2016, the Company received a conversion notice from One Express Group Limited and requesting the conversion of the HK\$32,000,000 Convertible Bonds to One Express into 307,692,307 conversion shares. 307,692,307 shares were issued to One Express Group Limited on 11 November 2016.

On 18 March 2016, the Company entered into a subscription agreement (“**Ever Step Subscription Agreement**”) with Ever Step Holdings Limited in respect of the subscription of the 12% coupon convertible bonds (“**Convertible Bonds to Ever Step**”) in the principal amount of HK\$40,384,615 due 12 calendar months from the date of issue of the Convertible Bonds to Ever Step at an initial conversion price of HK\$0.13 per conversion share (subject to the terms and conditions stipulated in the Ever Step Subscription Agreement). The certificate of the Convertible Bonds to Ever Step was issued on 6 April 2016.

On 28 November 2016, the Company received a conversion notice from the holder of Convertible Bonds to Ever Step and requesting the conversion of the HK\$40,384,615 Convertible Bonds to Ever Step into 310,650,884 conversion shares. 310,650,884 shares were issued to the holder of Convertible Bonds to Ever Step on 29 November 2016.

On 21 September 2016, the Company (as the issuer) entered into a subscription agreement (the “**Original Subscription Agreement**”) with Pacific Alliance Limited (“**Pacific Alliance**”), an independent third party, pursuant to which, Pacific Alliance conditionally agreed to subscribe for and the Company conditionally agreed to issue the convertible bonds in the principal amount of HK\$390,000,000 (“**Convertible Bonds to Pacific Alliance**”). However, implementation of the Original Subscription Agreement has been agreed to be delayed, pending an amended proposal relating to the structure thereof.

On 22 November 2016, due to the amended proposal relating to the subscription structure of the Convertible Bonds to Pacific Alliance, certain terms and structure of the subscription of the Convertible Bonds to Pacific Alliance have been amended and it has been agreed among the Company, China Cinda Asset Management Co., Ltd. (“**China Cinda**”), which as at the date of this interim announcement, through Mankind Investment Limited (“**Mankind Investment**”), held approximately 11.43% of the entire issued share capital of the Company, Pacific Alliance, which as at the date of this interim announcement, is currently wholly owned by Best Fortress Limited which in turn is owned as to 90% by Mr. YIP Sum Yin and 10% by Mr. CHUNG Chi Shing, and Riverhead Capital (International) Management Co., Ltd. (“**Riverhead Capital**”) (a company incorporated in the Cayman Islands and is owned as to 80% by Mr. XIE Zhichun and 20% by Ms. XIE Juhan) that the Company entered into:

- (i) the subscription agreement with Mankind Investment (“**Cinda Subscription Agreement**”), in respect of the issue of the convertible bonds in the principal amount of HK\$110,754,000 (“**Cinda Convertible Bonds**”);
- (ii) the supplemental agreement with Pacific Alliance (“**Supplemental Agreement**”) to amend and supplement the terms and structure of the subscription of the Convertible Bonds to Pacific Alliance. Under the amended structure, Pacific Alliance will subscribe for the convertible bonds in the principal amount of HK\$153,585,000 (“**PAL Convertible Bonds**”); and
- (iii) as part of the amendment to the subscription of the Convertible Bonds to Pacific Alliance, the subscription agreement with Riverhead Capital (“**Riverhead Subscription Agreement**”) in respect of the issue of the convertible bonds in the principal amount of HK\$305,661,000 (“**Riverhead Convertible Bonds**”) which will be issued in four tranches in the principal amount of HK\$125,661,000, HK\$60,000,000, HK\$60,000,000 and HK\$60,000,000 respectively subject to certain terms and conditions of the Riverhead Subscription Agreement.

Each of the Cinda Convertible Bonds, PAL Convertible Bonds and Riverhead Convertible Bonds (collectively, the “**New Convertible Bonds**”) bear an interest rate of 2% per annum and mature in thirty-six calendar months from the date of issue of the New Convertible Bonds at a conversion price of HK\$0.06 per conversion share. Upon full conversion of the New Convertible Bonds at the conversion price of HK\$0.06, a total of 1,845,900,000, 2,559,750,000 and 5,094,350,000 conversion shares, respectively, will be issued.

The circular in relation to, among others, the issuance of New Convertible Bonds and the proposed capital reorganisation of the Company is expected to be despatched to the shareholders of the Company in mid-December 2016, and an extraordinary general meeting (the “**EGM**”) will be convened for the shareholders to consider and, if thought fit, to approve (1) the Cinda Subscription Agreement, the Original Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Riverhead Subscription Agreement and the transactions respectively contemplated thereunder; (2) the grant of the mandate to be sought from the shareholders at the EGM to allot and issue the conversion shares upon exercise of the conversion rights attached to the Cinda Convertible Bonds, PAL Convertible Bonds and the Riverhead Convertible Bonds (the “**Specific Mandate**”); and (3) the proposed capital reorganisation of the Company (the “**Capital Reorganisation**”) comprising (i) the reduction of the paid-up capital of each of the issued shares by cancelling the paid-up capital to the extent of HK\$0.09 per issued share,

thereby reducing the nominal value of each issued share from HK\$0.10 to HK\$0.01 and the reduction of the nominal value of each authorised but unissued share from HK\$0.10 to HK\$0.01 (the “**Capital Reduction**”); and (ii) the proposed increase in the authorised share capital of the Company to HK\$200,000,000 divided into 20,000,000,000 ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company immediately after the Capital Reduction becoming effective (“**New Shares**”) by the creation of additional 15,000,000,000 New Shares (“**Increase in Authorised Share Capital**”).

For details of the Original Subscription Agreement, Cinda Subscription Agreement, Supplemental Agreement, Riverhead Subscription Agreement and the relevant transaction, please refer to the announcements of the Company dated 21 September 2016, 27 October, 31 October and 22 November 2016, and refer to the circular of the Company dated 7 October 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the Period, revenue of the Group amounted to approximately HK\$20,284,000, representing a decrease of approximately 30.39% from approximately HK\$29,141,000 for the six months ended 30 September 2015. The decrease in turnover was mainly attributable to net loss recorded in proprietary trading and decrease in turnover contributed from the business of consultancy and insurance brokerage services.

The Group recorded a profit for the Period of approximately HK\$67,060,000 as compared with the loss of approximately HK\$11,807,000 for the corresponding period in 2015. Net profit attributable to owners of the Company for the Period amounted to approximately HK\$67,130,000, while the Group recorded the loss of approximately HK\$11,551,000 for the corresponding period in 2015. The turnaround from loss to profit was principally attributable to (i) a gain arising from the disposal of shares and benefits related to shareholders loan of Measure Up of approximately HKD73,000,000 during the Period; and (ii) an unrealised gain in fair value of the derivative component of convertible loan notes issued by the Company.

The basic and diluted earnings per share for the Period were approximately HK1.96 cents and HK1.13 cents respectively, as compared with the basic and diluted loss per share of approximately HK0.34 cent for the corresponding period in 2015.

BUSINESS REVIEW

Brokerage and margin financing

During the Period, the Group's revenue from brokerage and margin financing business showed an increase to approximately HK\$11,187,000, representing an increase of approximately 6.51% as compared to the revenue of approximately HK\$10,503,000 for the corresponding period in 2015.

The Group's strategy is to focus and strengthen existing securities operation and work in close collaboration with our wealth management business targeting at high-end customers in order to differentiate between our one-stop integrated financial services business and other securities house.

Proprietary trading

During the Period, all securities traded were shares listed on the Stock Exchange. The segment of proprietary trading business recorded a trading loss of approximately HK\$756,000 (2015: trading gain of approximately HK\$5,977,000) and incurred a segment loss of approximately HK\$887,000 (2015: segment gain of approximately HK\$5,398,000). The respective segment loss was due to an overall decline in stock prices on securities held by the Group.

Corporate finance

The corporate finance market was under a keen competition during the Period. Segment revenue from our corporate finance business increased by approximately 79.07% from approximately HK\$2,398,000 to approximately HK\$4,294,000 while the segment loss for the Period amounted to approximately HK\$7,362,000 as compared to a segment loss amounted to approximately HK\$2,435,000 for the corresponding period in 2015.

Money lending and factoring

During the Period, the Group recorded an interest income from money lending and income from factoring of approximately HK\$3,591,000 (2015: approximately HK\$2,447,000), representing an increase of approximately 46.75% as compared with the corresponding period in 2015.

Consultancy and insurance brokerage

During the Period, the Group recorded a segment revenue from consultancy and insurance brokerage services of approximately HK\$2,359,000 (2015: approximately HK\$9,571,000), representing a decrease of approximately 75.35% as compared with the corresponding period in 2015.

Others

On 30 September 2016, the Company announced that it was in discussion in relation to the formation of a joint venture securities company in China (the “**Potential Transaction**”). For details of the Potential Transaction, please refer to the announcement of the Company dated 30 September 2016.

PROSPECT

Uncertainties conquer in the global economic environment and global market sentiment is likely to remain conservative and cautious in the near future. The United States is in the cycle of an interest rate hike and there is debate in the market on the timing of the next interest rate hike. The capital market in the United States is in a good shape while the European and the Japanese central banks are still discussing about the implementation of further quantitative easing measures to stimulate their economies. The Brexit event has further shaken the world capital markets. It brought up economic and political uncertainty that negatively influencing consumer, business and investment confidence. Fortunately, China and Hong Kong appears to be less exposed to the downside risk of Brexit. On the other hand, the market anticipates that the central government of China will launch more measures for stable growth in order to maintain its economic growth. The Group is convinced that investors regain confidence in the prospect of China will bring a gradual improvement in the financial market. Meanwhile, Hong Kong’s status as an international financial centre is irreplaceable and its economy will remain resilient as Hong Kong continues its outstanding role as a key fundraising centre for mainland enterprises and as a gateway for accessibility to international markets.

With the green light of the Shenzhen-Hong Kong Stock Connect Scheme (“**SZHK Connect**”), the Hong Kong market is reacting positively and it is anticipated that the SZHK Connect will make a turnaround of the negative market sentiment in near term. Management of the Company expects that all lines of business of the Group will be benefited from the SZHK Connect. Looking forward, the Group and its management will keep putting extra effort in developing the business and would strive to gain further exposure in the capital markets of China so as to bring better returns to our stakeholders.

CAPITAL STRUCTURE

As at 30 September 2016, the nominal value of the total issued share capital of the Company was approximately HK\$341,839,000 comprising 3,418,385,668 shares of the Company of HK\$0.10 each (the “Shares”) .

The Group actively and regularly reviews and manages its capital structure and makes adjustments to the capital structure in light of changes in economic conditions. For the licensed subsidiaries of the Group, the Group ensures each of them maintains a liquid capital level that is adequate to support the level of activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the Period, all the licensed subsidiaries of the Group complied with the liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of debt, which includes convertible loan notes, corporate bonds, cash and cash equivalents and equity attributable to owners of the Company, which comprises issued share capital and reserves.

The Directors review the capital structure regularly. As part of the review, the Directors consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group’s capital structure. The overall strategy of the Group remains unchanged during the Period and the year ended 31 March 2016.

For certain subsidiaries of the Group, they are regulated by the Securities and Futures Commission (“SFC”) of Hong Kong and are required to comply with certain minimum capital requirements according to the rules of SFC. Our management monitors, on a daily basis, the subsidiaries’ liquid capital level to ensure it meets the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules. The range of liquid capital is from HK\$100,000 to HK\$3,000,000 or 5% of their total adjusted liabilities, whichever is higher.

One of the subsidiaries of the Group is a member of the Professional Insurance Brokers Association Limited and is required to maintain a minimum net asset value of HK\$100,000 at all times.

There is no non-compliance of the capital requirements of the Group members imposed by the respective regulators during the Period and the year ended 31 March 2016.

LIQUIDITY AND FINANCIAL RESOURCES AND GEARING RATIO

During the Period, the Group mainly financed its operations by cash generated from operating activities and issuance of the corporate bonds.

As at 30 September 2016, the Group’s current assets and current liabilities were approximately HK\$481,633,000 (as at 31 March 2016: approximately HK\$349,095,000) and approximately HK\$188,568,000 (as at 31 March 2016: approximately HK\$232,906,000) respectively, while the current ratio was about 2.55 times (as at 31 March 2016: about 1.5 times).

As at 30 September 2016, the Group's aggregate cash and cash equivalents amounted to approximately HK\$93,451,000 (as at 31 March 2016: approximately HK\$46,757,000), of which approximately 92.16% was denominated in Hong Kong dollars (as at 31 March 2016: approximately 89.22%), approximately 5.04% was denominated in USD (as at 31 March 2016: approximately 9.77%), and approximately 2.80% was denominated in RMB (as at 31 March 2016: approximately 1.01%), representing approximately 19.40% (as at 31 March 2016: approximately 13.39%) of total current assets. As at 30 September 2016, the Group had no bank and other borrowings (as at 31 March 2016: nil).

During the Period, no financial instruments were used for hedging purposes. As at 30 September 2016, the gearing ratio, measured on the basis of total borrowings as a percentage of equity attributable to owners of the Company, was approximately 72.67% (as at 31 March 2016: approximately 118.22%). The decrease was mainly due to change of derivative component of convertible loan notes.

As at 30 September 2016, the debt ratio, defined as total debts over total assets, was approximately 62.68% (as at 31 March 2016: approximately 76.53%).

During the Period and for the year ended 31 March 2016, the Group has issued corporate bonds ranging from 2 to 7.5 and 1 to 7 years with aggregate face value of HK\$44,500,000 and HK\$19,000,000 to 14 and 10 independent third parties respectively, net of direct expenses of approximately HK\$6,394,000 and HK\$3,772,000 respectively, their maturity dates are from January 2017 to March 2024 and carry interest at fixed rate of 6% to 7% per annum with interest payable on the date falling on each anniversary of the issue date and maturity date of the corporate bonds (both dates exclusive). The corporate bonds are unsecured.

ISSUE OF CONVERTIBLE BONDS

On 27 June 2016, the Company (as the issuer) entered into One Express Subscription Agreement with One Express Group Limited ("**One Express**"), an independent third party, pursuant to which, One Express has agreed to subscribe for the Convertible Bonds to One Express.

One Express is a company incorporated in the British Virgin Islands and is principally engaged in investment holdings. It is a wholly-owned subsidiary of China Ever Grand Financial Leasing Group Co., Ltd., the shares of which are listed on the main board of the Stock Exchange.

Completion of the subscription under the One Express Subscription Agreement took place on 6 July 2016. The Convertible Bonds to One Express bear an interest rate of 5% per annum and mature in twenty-four calendar months from the date of issue of the Convertible Bonds to One Express at a conversion price of HK\$0.104 per conversion share. Upon full conversion of the Convertible Bonds to One Express at the conversion price of HK\$0.104, a total of 307,692,307 conversion shares will be issued, subject to adjustments to the conversion price of HK\$0.104.

The net amount raised through the issue of the Convertible Bonds to One Express is approximately HK\$32,000,000, which will be used for settlement of previous debt owed to One Express.

For details of the One Express Subscription Agreement and relevant transaction, please refer to the announcements of the Company dated 27 June 2016 and 6 July 2016.

On 21 September 2016, the Company (as the issuer) entered into the Original Subscription Agreement with Pacific Alliance, an independent third party, pursuant to which, Pacific Alliance conditionally agreed to subscribe for and the Company conditionally agreed to issue the Convertible bonds to Pacific Alliance. However, implementation of the Original Subscription Agreement has been agreed to be delayed, pending an amended proposal relating to the structure thereof.

On 22 November 2016, due to the amended proposal relating to the subscription structure of the Convertible Bonds to Pacific Alliance, certain terms and structure of the subscription of the Convertible Bonds to Pacific Alliance have been amended and it has been agreed among the Company, China Cinda, which as at the date of this interim announcement, through Mankind Investment, held approximately 11.43% of the entire issued share capital of the Company, Pacific Alliance, which as at the date of this interim announcement, is currently wholly owned by Best Fortress Limited which in turn is owned as to 90% by Mr. YIP Sum Yin and 10% by Mr. CHUNG Chi Shing, and Riverhead Capital (a company incorporated in the Cayman Islands and is owned as to 80% by Mr. XIE Zhichun and 20% by Ms. XIE Juhan) that the Company entered into:

- (i) the Cinda Subscription Agreement, in respect of the issue of the Cinda Convertible Bonds;
- (ii) the Supplemental Agreement to amend and supplement the terms and structure of the subscription of the Convertible Bonds to Pacific Alliance. Under the amended structure, Pacific Alliance will subscribe for the PAL Convertible Bonds; and
- (iii) as part of the amendment to the subscription of the Convertible Bonds to Pacific Alliance, the Riverhead Subscription Agreement in respect of the issue of the Riverhead Convertible Bonds which will be issued in four tranches in the principal amount of HK\$125,661,000, HK\$60,000,000, HK\$60,000,000 and HK\$60,000,000 respectively subject to certain terms and conditions of the Riverhead Subscription Agreement.

The New Convertible Bonds bear an interest rate of 2% per annum and mature in thirty-six calendar months from the date of issue of the New Convertible Bonds at a conversion price of HK\$0.06 per conversion share. Upon full conversion of the New Convertible Bonds at the conversion price of HK\$0.06, a total of 1,845,900,000, 2,559,750,000 and 5,094,350,000 conversion shares, respectively, will be issued.

The circular in relation to, among others, the issuance of New Convertible Bonds and the proposed capital reorganisation of the Company is expected to be despatched to the shareholders of the Company in mid-December 2016, and an EGM will be convened for the shareholders to consider and, if thought fit, to approve (1) the Cinda Subscription Agreement, the Original Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Riverhead Subscription Agreement and the transactions respectively contemplated thereunder; (2) the grant of the Specific Mandate; and (3) the Capital Reorganisation comprising (i) the Capital Reduction; and (ii) the Increase in Authorised Share Capital.

For details of the Original Subscription Agreement, Cinda Subscription Agreement, Supplemental Agreement, Riverhead Subscription Agreement and the relevant transaction, please refer to the announcements of the Company dated 21 September 2016, 27 October, 31 October and 22 November 2016, and refer to the circular of the Company dated 7 October 2016.

SIGNIFICANT INVESTMENT

As at 30 September 2016, the Group held financial asset at fair value through profit or loss of approximately HK\$31,879,000 (as at 31 March 2016: approximately HK\$19,723,000).

MATERIAL ACQUISITION AND DISPOSAL

On 3 June 2016, Giant Talent Group Ltd. (“**Giant Talent**”), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Ms. KWONG Mei Ling Merlin (the “**Purchaser**”), an independent third party, pursuant to which Giant Talent conditionally agreed to sell and the Purchaser conditionally agreed to purchase 25% of the entire issued capital of Prior Capital for a consideration of HK\$1,217,965.

The transaction constitutes a discloseable transaction of the Company. The disposal was completed at 29 June 2016. Details of which were published in the announcement of the Company dated 3 June 2016 and 29 June 2016.

Save as disclosed above, there was no material acquisition or disposal of the Group during the Period.

CONTINGENT LIABILITIES

As at 30 September 2016, the Group had no material contingent liabilities (as at 31 March 2016: nil).

CHARGE ON THE GROUP’S ASSET

No asset of the Group was subject to any charge as at 30 September 2016 (as at 31 March 2016: nil).

RISK MANAGEMENT

The Group has properly put in place credit management policies which cover the examination of the approval of client’s trading and credit limits, regular review of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

FOREIGN CURRENCY FLUCTUATION

During the Period, the Group mainly use Hong Kong dollars to carry out its business transactions. The Board considers that the Group’s foreign currency exposure is insignificant.

HUMAN RESOURCES

As at 30 September 2016, the Group had 78 employees in total (as at 31 March 2016: 75 employees). The related employees’ costs for the Period (excluding directors’ remunerations) amounted to approximately HK\$23,683,000 (as at 31 March 2016: approximately HK\$34,235,000). The Group remunerated employees based on the industry practice and individual’s performance. Staff benefits include contributions to retirement benefit scheme, medical allowance and other fringe benefits. In addition, the Group maintains the share option scheme for the purpose of providing incentives and rewards to eligible participants based on their contributions.

LITIGATION

In April 2014, a writ of summons was issued by a third party in liquidation (the “**Plaintiff**”) against Fortune (HK) Securities Limited (“**F(HK)SL**”), a wholly-owned subsidiary of the Company, in relation to HK\$4,000,000 (“**Sum**”) paid to F(HK)SL pursuant to a cheque issued by the Plaintiff in September 2009 which was transferred to a client’s account maintained with F(HK)SL. The Plaintiff claimed that the Sum was money belonging to him and demanded for a refund of the Sum. As

advised by the legal adviser to the case, pursuant to the terms and conditions of the client's agreement entered into between the client and F(HK)SL, F(HK)SL is entitled to set off or withhold any securities and monies held in the account against any liabilities owed by the client. Having considered the legal advice, the Board believes that the said legal action does not have any material adverse impact on the Group's operation and financial position. As at the date of this announcement, the said legal action is still pending.

EVENT AFTER THE REPORTING PERIOD

Details of significant event occurring after the Period are set out in note 25 to the condensed consolidated financial statements.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to ensuring high standard of corporate governance as the Directors believe that it would improve the effectiveness and efficiencies in the overall business performance of the Group such that the Group could become more competitive in the markets and could enhance shareholders' value in consequence. None of the Directors is aware of any matter that would reasonably indicate that the Company being not in compliance with the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules during the period under review.

CHANGE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in Directors' information of the Company since the date of the annual report of the Company for the year ended 31 March 2016 were as follows:

Mr. CHAN Kin Sang, an independent non-executive Director,

- 1) was appointed as a director of Guanghe Landscape Culture Communication Co., Ltd., Shanxi, a company listed on the Shanghai Stock Exchange with effect from 28 June 2016;
- 2) has resigned as an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., a company listed on the Stock Exchange with effect from 3 October 2016; and
- 3) was appointed as a non-executive director of China Healthcare Enterprise Group Limited, a company listed on the Stock Exchange with effect from 18 October 2016.

Save as disclosed above, there is no other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the annual report of the Company for the year ended 31 March 2016 and up to the date of this announcement.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transaction. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Period.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2016.

REVIEW OF FINANCIAL INFORMATION BY AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. NG Kay Kwok (chairman of the Audit Committee), Mr. CHAN Kin Sang and Mr. TAM B Ray Billy.

The Audit Committee has reviewed, together with the management, the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.290.com.hk. The interim report for the Period will be dispatched to the shareholders of the Company and published on the above websites in due course.

By Order of the Board
China Fortune Financial Group Limited
HON Chun Yu
Executive Director

Hong Kong, 29 November 2016

As at the date of this announcement, the Board consists of three executive Directors, namely Mr. WONG Kam Choi MH (Chairman), Mr. HON Chun Yu and Ms. FU Wan Sheung; two non-executive Directors, namely Mr. TANG Baoqi and Mr. WU Ling; and three independent non-executive Directors, namely Mr. CHAN Kin Sang, Mr. NG Kay Kwok and Mr. TAM B Ray Billy.