EGIC 中國恒嘉融資租賃集團有限公司
CHINA EVER GRAND FINANCIAL LEASING GROUP CO., LTD.

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 379)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors ("Board" or "Directors") of China Ever Grand Financial Leasing Group Co., Ltd. ("Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries ("Group") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2018*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | | |
| Revenue | *3* | **54,920** | 63,216 |
| Cost of services | | **(40,943)** | (47,982) |
| Gross profit | | **13,977** | 15,234 |
| Other income | *5* | **6,166** | 10,167 |
| Other gains and losses | *6* | **(16,984)** | (12,829) |
| Administrative expenses | | **(26,119)** | (32,762) |
| Other operating expenses | | **(411)** | – |
| Share of result of a joint venture | | **29,740** | 21,084 |
| Profit before taxation from continuing operations | | **6,369** | 894 |
| Income tax expense | *7* | **(1,688)** | (1,475) |
| Profit/(loss) for the period from continuing operations | | **4,681** | (581) |
| Discontinued operation | | | |
| Loss for the period from discontinued operation | | **–** | (114) |
| **Profit/(loss) for the period** | *8* | **4,681** | (695) |

| | Notes | Six months ended 30 June<br>**2018**<br>**(Unaudited)**<br>***HK$'000*** | <br>2017<br>(Unaudited)<br>*HK$'000* |
|---|---|---|---|
| **Attributable to:** | | | |
| – Owners of the Company | | **2,197** | (2,165) |
| – Non-controlling interests | | **2,484** | 1,470 |
| | | **4,681** | (695) |
| **Earnings/(loss) per share** *(HK cent)* | *10* | | |
| **From continuing and discontinued operations** | | | |
| – Basic | | **0.02** | (0.02) |
| – Diluted | | **0.02** | (0.02) |
| **From continuing operations** | | | |
| – Basic | | **0.02** | (0.02) |
| – Diluted | | **0.02** | (0.02) |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Profit/(loss) for the period | **4,681** | (695) |
| Other comprehensive (expense)/income | | |
| Items that will not be reclassified to profit or loss: | | |
| Exchange difference arising on translation to presentation currency | **(14,631)** | 29,616 |
| Net fair value loss on equity investments at fair value through other comprehensive income | **(6,561)** | – |
| Items that may be subsequently reclassified to profit or loss: | | |
| Reclassification adjustments relating to foreign operation disposed during the period | **–** | 114 |
| Other comprehensive (expense)/income for the period, net of income tax | **(21,192)** | 29,730 |
| Total comprehensive (expense)/income for the period | **(16,511)** | 29,035 |
| Total comprehensive (expense)/income attributable to: | | |
| – Owners of the Company | **(13,408)** | 22,794 |
| – Non-controlling interests | **(3,103)** | 6,241 |
| | **(16,511)** | 29,035 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | Notes | 30 June 2018 (Unaudited) HK$'000 | 31 December 2017 (Audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **25,371** | 26,157 |
| Goodwill | | **72,373** | 72,373 |
| Interest in a joint venture | | **850,562** | 831,236 |
| Equity investments at fair value through other comprehensive income | | **48,085** | – |
| Available-for-sale investments | | **–** | 77,096 |
| Finance lease receivables | *11* | **599,544** | 602,643 |
| Loan receivables | | **5,926** | 24,014 |
| Restricted bank deposits | | **21,227** | 21,505 |
| Service income receivables and deposits | *12* | **15,569** | 12,693 |
| | | **1,638,657** | 1,667,717 |
| **Current assets** | | | |
| Finance lease receivables | *11* | **422,014** | 478,037 |
| Loan receivables | | **178,666** | 101,022 |
| Service income receivables, other receivables, deposits and prepayments | *12* | **23,355** | 56,851 |
| Investments at fair value through profit or loss | | **60,000** | – |
| Held for trading investments | | **–** | 40,628 |
| Deposits placed with non-bank financial institutions | | **7,603** | 143,288 |
| Restricted bank deposits | | **39,648** | 40,167 |
| Bank and cash balances | | **111,909** | 56,879 |
| | | **843,195** | 916,872 |

| | Notes | 30 June 2018 (Unaudited) HK$'000 | 31 December 2017 (Audited) HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Service cost payables, other payables and accruals | *13* | **40,162** | 64,186 |
| Deposits received from customers | | **35,448** | 35,094 |
| Taxation payable | | **16,506** | 17,055 |
| Borrowings | | **416,558** | 472,795 |
| | | **508,674** | 589,130 |
| Net current assets | | **334,521** | 327,742 |
| Total assets less current liabilities | | **1,973,178** | 1,995,459 |
| **Capital and reserves** | | | |
| Share capital | *14* | **119,192** | 119,192 |
| Reserves | | **1,071,847** | 1,085,255 |
| Equity attributable to owners of the Company | | **1,191,039** | 1,204,447 |
| Non-controlling interests | | **141,993** | 149,961 |
| **Total equity** | | **1,333,032** | 1,354,408 |
| **Non-current liabilities** | | | |
| Deposits received from customers | | **25,897** | 25,912 |
| Borrowings | | **596,886** | 597,466 |
| Deferred tax liabilities | | **17,363** | 17,673 |
| | | **640,146** | 641,051 |
| | | **1,973,178** | 1,995,459 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31 December 2017 except as stated below.

### *(a) Financial assets*

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

– Financial assets at amortised cost;

– Equity investments at fair value through other comprehensive income; and

– Investments at fair value through profit or loss.

(i) *Financial assets at amortised cost*

Financial assets (including loan receivables, finance lease receivables, service income receivables and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) *Equity investments at fair value through other comprehensive income*

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iii) *Investments at fair value through profit or loss*

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

***(b) Loss allowances for expected credit losses***

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and finance lease receivables. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for loan receivables, service income receivables and finance lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than loan receivables, service income receivables and finance lease receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

***(c) Revenue from contracts with customers***

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS"), and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

### *(a) HKFRS 9 (2014) "Financial Instruments"*

Available-for-sale investments are now classified as equity investments at fair value through other comprehensive income. Held for trading investments are now classified as investments at fair value through profit or loss.

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to expected credit losses under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | **1 January 2018** *HK$'000* |
|---|---|
| Decrease in available-for-sale investments | (77,096) |
| Increase in equity investments at fair value through other comprehensive income | 77,096 |
| Decrease in held for trading investments | (40,628) |
| Increase in investments at fair value through profit or loss | 40,628 |

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 3. REVENUE

Revenue from continuing operations represents finance lease interest income generated from financial leasing and service fee income provided to outsiders during the period.

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Continuing operations | | |
| Service fee income | **25,390** | 47,929 |
| Finance lease interest income | **29,530** | 15,287 |
| | **54,920** | 63,216 |

## 4. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and performance assessment focuses on the nature of the operations of the Group.

The Group's operating and reportable segments are as follows:

| | | |
|---|---|---|
| Financial leasing | – | provision of finance lease consulting services and financing services |
| Terminal and logistics services | – | loading and discharging services, storage services, and leasing of terminal facilities and equipment through investment in a joint venture |
| Investment | – | investments in security trading investments and loan receivables from the money lending business |
| Others | – | research and development, manufacturing and sales of food additives, new food ingredients and nutritional enhancers in the PRC ("Food Additives Business") |

During the year ended 31 December 2017, the Group expanded its business to the Food Additives Business, which has been regarded as an operating segment of the Group since then. There was no aggregation of operating segments to derive the reportable segments of the Group.

During the six months ended 30 June 2017, the Group completed the disposal of polishing materials and equipment segment (the "Polishing Segment") on 5 January 2017. The result of the Polishing Segment for the six months ended 30 June 2017 was classified as discontinued operation.

The analysis of the revenue and segment results of the Group by reportable and operating segments is as follows:

| | Continuing operations | | | |
|---|---|---|---|---|
| | Revenue | | Segment results | |
| | Six months ended 30 June | | | |
| | **2018** | 2017 | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segments** | | | | |
| Financial leasing | **54,920** | 63,216 | **6,800** | 4,469 |
| Terminal and logistics services | **–** | – | **29,687** | 21,084 |
| Investment | **–** | – | **(12,317)** | (10,004) |
| Others | **–** | – | **(1,390)** | – |
| | **54,920** | 63,216 | **22,780** | 15,549 |
| Unallocated corporate expenses | | | **(16,427)** | (14,774) |
| Unallocated other income, gains and losses | | | **16** | 119 |
| Profit before taxation | | | **6,369** | 894 |

Segment result represents the profit earned or loss incurred by each segment without allocation of certain other income, certain other gains and losses and corporate expenses.

The Group's geographical market is in PRC only. The major services are provision of finance lease consulting services and financing services and the revenue is recognised at a point of time for the both reporting periods.

The analysis of the assets and liabilities of the Group by reportable and operating segments is as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segments** | | | | |
| Continuing operations | | | | |
| Financial leasing | **1,478,779** | 1,563,881 | **1,105,186** | 1,179,659 |
| Terminal and logistics services | **850,570** | 831,256 | **–** | – |
| Investment | **99,608** | 105,177 | **14,770** | 14,804 |
| Others | **7,541** | 4,090 | **234** | – |
| Unallocated corporate items | **45,354** | 80,185 | **28,630** | 35,718 |
| | **2,481,852** | 2,584,589 | **1,148,820** | 1,230,181 |

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

– all assets are allocated to reportable and operating segments other than an office premise for administrative purpose, certain other receivables and bank and cash balances; and

– all liabilities are allocated to reportable and operating segments other than certain other payables, tax payables and deferred tax liabilities.

## 5. OTHER INCOME

***Continuing operations***

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Government grants | **–** | 4,110 |
| Interest income from loan receivables | **4,610** | 3,747 |
| Interest income from banks and non-bank financial institutions | **74** | 1,805 |
| Dividend income from equity investments at fair value through other comprehensive income | **1,259** | – |
| Rental income | **–** | 154 |
| Sundry income | **223** | 351 |
| | **6,166** | 10,167 |

## 6. OTHER GAINS AND LOSSES

***Continuing operations***

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Change in fair value of investments at fair value through profit or loss | **(11,760)** | – |
| Change in fair value of held for trading investments | **–** | (12,528) |
| Impairment loss on a loan receivable | **(4,000)** | – |
| Foreign exchange losses | **–** | (301) |
| Others | **(1,224)** | – |
| | **(16,984)** | (12,829) |

## 7. TAXATION

***Continuing operations***

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Current tax | | |
| – Hong Kong Profits Tax | **–** | (20) |
| – PRC income tax | **1,980** | 1,495 |
| Deferred tax | **(292)** | – |
| | **1,688** | 1,475 |

## 8. PROFIT/(LOSS) FOR THE PERIOD

The Group's profit/(loss) for the period arrived after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Directors' remuneration | **5,424** | 5,487 |
| Interest expenses (included in cost of services) | **28,450** | 12,452 |
| Depreciation | **1,044** | 704 |
| Minimum lease payment in respect of rental premises | **2,298** | 1,659 |
| Staff costs (including directors' and chief executive's emoluments) | **16,341** | 23,257 |

## 9. DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## 10. EARNINGS/(LOSS) PER SHARE

***For continuing operations***

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Earnings/(loss)** | | |
| Profit/(loss) for the period attributable to owners of the Company | **2,197** | (2,165) |
| *Add:* Loss for the period from discontinued operation | **–** | 114 |
| Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share from continuing operations | **2,197** | (2,051) |

| | Number of shares | |
|---|---|---|
| | **30 June** | 30 June |
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings/(loss) per share | **11,919,198** | 11,919,198 |
| Number of ordinary shares for the purpose of diluted earnings/(loss) per share | **11,919,198** | 11,919,198 |

The computation of diluted earnings/(loss) per share for the six months ended 30 June 2018 and 2017 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

***For continuing and discontinued operations***

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Profit/(loss)** | | |
| Profit/(loss) for the period attributable to owners of the Company | **2,197** | (2,165) |

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

***For discontinued operation***

There is no profit or loss from the discontinued operation for the six months ended 30 June 2018 and therefore nil earnings/(loss) per share from the discontinued operation during the period.

For the six months ended 30 June 2017, basic and diluted loss per share for the discontinued operation is HK0.001 cent per share based on the loss for the period from the discontinued operation of HK$114,000 and the denominators detailed above.

## 11. FINANCE LEASE RECEIVABLES

| | **30 June 2018 (Unaudited) *HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Current finance lease receivables | **422,014** | 478,037 |
| Non-current finance lease receivables | **599,544** | 602,643 |
| | **1,021,558** | 1,080,680 |

***Leasing arrangements***

Certain of the Group's machinery and equipment are leased out under finance leases. All leases are denominated in Renminbi ("RMB"). As at 30 June 2018, the average term of finance leases entered into is 3.2 years (31 December 2017: 3.5 years).

***Amounts receivable under finance leases***

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **30 June 2018 (Unaudited) *HK$'000*** | 31 December 2017 (Audited) *HK$'000* | **30 June 2018 (Unaudited) *HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
| Not later than one year | **449,551** | 518,710 | **422,014** | 478,037 |
| Later than one year and not later than five years, inclusive | **674,176** | 638,926 | **599,544** | 602,643 |
| | **1,123,727** | 1,157,636 | **1,021,558** | 1,080,680 |
| *Less:* unearned finance income | **(102,169)** | (76,956) | **N/A** | N/A |
| Present value of minimum lease payments receivable | **1,021,558** | 1,080,680 | **1,021,558** | 1,080,680 |

The Group's finance leases receivables are denominated in RMB. The effective interest rates of the finance leases as at 30 June 2018 range from 4.28% to 8.00% (31 December 2017: 4.28% to 6.30%) per annum.

As at 30 June 2018, finance lease receivables amounting to HK$843,779,000 (31 December 2017: HK$866,925,000) were guaranteed by related parties of customers and secured by the leased assets and customers' deposits.

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements that needed to be recorded as at the end of the reporting period.

As at 30 June 2018, the finance lease receivables with carrying amounts of HK$632,107,000 (31 December 2017: HK$656,169,000) were pledged as security for the Group's borrowings.

Deposits of HK$61,345,000 (31 December 2017: HK$61,006,000) have been received by the Group to secure certain finance lease receivables and classified into current or non-current liabilities based on the final lease instalment due date stipulated in the finance lease agreements. In addition, the finance lease receivables are secured over the leased assets, mainly plant and machinery leased, at the end of the reporting periods. The Group is not permitted to sell, or repledge the collateral of the finance lease receivables without consent from the lessee in the absence of default by the lessee.

Estimates of fair value of collateral are made during the credit approval process. These estimates of valuations are made at the inception of finance lease, and generally not updated except when the receivable is individually impaired. When a finance lease receivable is identified as impaired, the corresponding fair value of collateral of that receivable is updated by reference to market value such as recent transaction price of the assets.

At the end of the both reporting periods, with the consent from the relevant lessees, certain of these assets have been repledged to secure borrowings of the Group.

The finance lease receivables at the end of the both reporting periods are neither past due nor impaired.

## 12. SERVICE INCOME RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The normal credit period given on service income is 0 – 5 days. The credit period relating to service income receivables provided to customers can be longer based on a number of factors including the customer's credit profile and relationship with the customers.

The following is an aged analysis of service income receivables of HK$13,571,000 (31 December 2017: HK$45,786,000), net of allowance for bad and doubtful debts, presented based on the date of recognition of revenue for service income relating to service income receivables at the end of the reporting period which approximated the revenue recognition dates:

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Service income receivables: | | |
| Within 30 days | **–** | 33,520 |
| 31 – 60 days | **–** | – |
| 61 – 90 days | **–** | – |
| 91 – 180 days | **–** | – |
| 181 – 365 days | **9,383** | – |
| Over 365 days | **4,188** | 12,266 |
| | **13,571** | 45,786 |
| Other receivables, deposits and prepayments | **25,353** | 23,758 |
| *Less:* Amounts not receivable within one year shown under non-current assets | **(15,569)** | (12,693) |
| | **23,355** | 56,851 |

## 13. SERVICE COST PAYABLES, OTHER PAYABLES AND ACCRUALS

The aged analysis of the service cost payables of HK$23,498,000 (31 December 2017: HK$42,351,000) which are included in the Group's service cost payables, other payables and accruals is as follows:

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Service cost payables: | | |
| Within 30 days | **4,741** | 32,440 |
| 31 – 60 days | **–** | – |
| 61 – 90 days | **–** | – |
| 91 – 180 days | **–** | 450 |
| 181 – 365 days | **12,535** | – |
| Over 365 days | **6,222** | 9,461 |
| | **23,498** | 42,351 |
| Other payables and accruals | **16,664** | 21,835 |
| | **40,162** | 64,186 |

## 14. SHARE CAPITAL

| | **Number of ordinary shares of HK$0.01 each** *'000* | **Nominal value** *HK$'000* |
|---|---|---|
| Authorised: | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018 | 40,000,000 | 400,000 |
| Issued and fully paid: | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018 | 11,919,198 | 119,192 |

## 15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2018 (31 December 2017: Nil).

## 16. CAPITAL COMMITMENTS

| | **30 June 2018 (Unaudited) *HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | **1,028** | 2,016 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The continuing operations of the Group recorded the revenue of HK$54.9 million in the Current Period as compared with HK$63.2 million for the six-months ended 30 June 2017 (the "Corresponding Period"), gross profit of HK$14.0 million in the Current Period against HK$15.2 million in the Corresponding Period and net profit of HK$4.7 million as compared with the net loss of HK$0.6 million in the Corresponding Period. Together with the discontinued operation, the Group recorded the net profit of HK$4.7 million from the continuing and discontinued operations in the Current Period as compared with the net loss of HK$0.7 million in the Corresponding Period.

For the period under review, the Financial leasing business has contributed a segment profit of HK$6.8 million (30 June 2017: HK$4.5 million) (the definition of segment profit or loss and detailed analysis set out in note 4 to the condensed consolidated financial statements). The increase was mainly attributable to (i) decrease in staff cost, partially offset by (ii) the decrease in other income as a result of absence of government grants of HK$4.1 million and (iii) decrease in gross profit amount as a result of decrease in overall revenue.

The Terminal and logistics services business contributed a segment profit of approximately HK$29.7 million in the Current Period as compared with HK$21.1 million in the Corresponding Period. The increase was mainly due to the improvement of the operation efficiency and cost reduction. The Investment division expanded the segment loss from HK$10.0 million in the Corresponding Period to HK$12.3 million in the Current Period. The segment performance was adversely affected by the net loss from change in fair value on securities investments of approximately HK$9.5 million and an impairment loss of a loan receivable of HK$4.0 million. The Food additives business, classified under others in the segment information, only commenced in the second half of last year and the necessary machineries, equipment and manpower for the first production line of 4,000 tonnage sorbitol have been nearly in place. It is expecting to commence trial production in the second half of this year after obtaining the production license. This segment loss of HK$1.4 million represented the start-up cost. The Polishing segment, classified as discontinued operation, was disposed of on 5 January 2017 and ceased to be consolidated thereafter. The net loss of the discontinued operations in the Corresponding Period amounted to HK$0.1 million. After further considering the corporate expenses of HK$16.4 million, up by HK$1.6 million, certain unallocated other income and income tax expense, the Group recorded net profit of HK$4.7 million and net profit attributable to owners of the Company of HK$2.2 million in the Current Period as compared with net loss of HK$0.7 million and net loss attributable to the owner of the Company of HK$2.2 million in the Corresponding Period.

## Continuing Operations

### *Revenue and gross profit*

The Group's revenue and gross profit, entirely derived from the Financial leasing business, represented HK$54.9 million and HK$14.0 million (six months ended 30 June 2017: HK$63.2 million and HK$15.2 million) respectively. The revenue represents (i) service fee income for financing arrangements and consultancy services and (ii) finance lease interest income generated from financial leasing business. The cost of services mainly represents (i) service cost to banks and other non-bank financial institutions on various kinds of factoring and consultancy services and (ii) interest expenses on borrowings from banks and other non-bank financial institutions. The main customer base primarily includes large corporations covering industries of energy resources, chemical, manufacturing, medical and urban infrastructure and public utility construction.

The decrease in revenue by HK$8.3 million or 13% was mainly attributable to decrease in number of finance lease transactions and aggregate finance lease volume as a result of the increasingly stringent regulatory environment in the China's financial market in the Current Period. The decrease in gross profit amount is generally in line with that in revenue, but with higher profitability of the new finance lease projects in the Current Period, the extent of the decrease was narrowed to HK$1.2 million or 8%.

### *Other income*

Other income of the Group mainly comprised of interest income from loan receivables, banks and non-bank financial institutions. During the Current Period, the other income amounted to HK$6.2 million, down by HK$4.0 million. The decrease was primarily attributable to absence of government grants of HK$4.1 million recorded in the Corresponding Period.

### *Other gains and losses*

In the Current Period, other gains and losses of the Group amounted to loss of HK$17.0 million predominantly representing losses from change in fair value of investments at fair value through profit or loss of HK$11.8 million and an impairment loss on a loan receivable of HK$4.0 million.

### *Administrative expenses and other operating expenses*

The Group's administrative expenses and other operating expenses in the Current Period amounted to HK$26.5 million, down by HK$6.3 million, mainly including staff costs (including directors' and chief executive's emoluments) of HK$16.3 million (six months ended 30 June 2017: HK$23.3 million), office rental expenses, legal and professional fees and various other administrative expenses. The decrease is primarily due to the decrease in staff cost in the Financial leasing business.

### *Share of result of a joint venture*

The share of result of a joint venture from the Terminal and logistics services business in the Current Period amounted to HK$29.7 million as compared with HK$21.1 million in the Corresponding Period. Detailed analysis refers to the above.

### *Income taxation*

Income tax expenses for the Current Period mainly comprised of current PRC income tax payable of HK$2.0 million and being offset by deferred tax credit of HK$0.3 million on imputed interest on deposits from customers.

### *Discontinued operation*

The Polishing segment result has been deconsolidated since it was disposed of on 5 January 2017 and there was no profit or loss in the Current Period (six months ended 30 June 2017: HK$0.1 million).

### *Profit/(loss) for the period from continuing and discontinued operations*

Net profit for the Current Period of the Group amounted to approximately HK$4.7 million against net loss of approximately HK$0.7 million in the Corresponding Period was mainly owning to the above-mentioned increase in share of result of a joint venture, decrease in staff cost and partially offset by decrease in government grant income, decrease in gross profit amount and an impairment loss on a loan receivable.

The total asset amount of the Group as at 30 June 2018 amounted to HK$2,481.9 million, down by HK$102.7 million as compared with HK$2,584.6 million as at 31 December 2017. The slight decrease was mainly attributable to the decrease by HK$85.1 million in segment assets of Financial leasing business, whose leverage ratio was slightly reduced in the Current Period when the repayment amount of the existing finance lease transactions with recourse basis outweighed the additional amount of the new finance lease transactions in kind. The total liability amount of the Group therefore decreased by the similar extent of HK$81.4 million from HK$1,230.2 million as at 31 December 2017 to HK$1,148.8 million as at 30 June 2018. The gearing ratios (measured as total liabilities over total assets) slightly decreased from 47.6% as at 31 December 2017 to 46.3% as at 30 June 2018 and the current ratios (measured as total current assets over total current liabilities) increased from 1.6 as at 31 December 2017 to 1.7 as at 30 June 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had bank balances, restricted bank deposits, deposits placed with non-bank financial institutions and cash of approximately HK$180.4 million (of which HK$60.9 million was pledged to the banks to secure bank borrowings granted to the Group for Financial leasing business (31 December 2017: HK$61.7 million)) as compared to HK$261.8 million as at 31 December 2017. As at 30 June 2018, the Group had bank and other borrowings amounting to HK$416.6 million (31 December 2017: HK$472.8 million) and HK$596.9 million (31 December 2017: HK$597.5 million) which are due within one year and over one year respectively. For the period under review, the Group has financed its operations with facilities provided by banks and other non-bank financial institutions and internally generated cash flows.

## FOREIGN EXCHANGE EXPOSURE

In the both reporting periods, the continuing operations of the Group had no foreign currency revenue and cost of service.

## CREDIT EXPOSURE

The Group's major credit risk is primarily attributable to finance lease receivables and loan receivables. Any deterioration in collectability of our finance lease receivables and the underlying quality of leased assets and collaterals could adversely affect our business and financial conditions. In order to minimise the credit risk of the finance lease receivables, the management of the Group has delegated a team responsible for evaluation of credit risk stemming from the financial viability of customers and guarantors (if any) and the prospect of the industries in which the customers operate and critical assessment on adequacy of the value of the leased assets, collaterals and any forms of securities provided by customers at the inception of the lease. Throughout the lease term, the Group closely monitored the recoverability and will consider requesting additional collaterals or any form of security from customers in case of any adverse change in credibility.

Before investing in the loan receivables, the Group also assesses the credit quality of the loan borrowers and defines the terms of the loans. The Group closely monitored recoverability to ensure prompt follow-up action is taken to recover any overdue debt. As at 30 June 2018, a loan receivable with carrying value of HK$26.7 million was past due. The Group entered into a revised repayment schedule with the legal representative of the borrower and the guarantor in which the outstanding sum is settled in six monthly installments of approximately HK$5.0 million to HK$6.0 million each beginning in May 2018. Since then, the borrower only repaid an amount of approximately HK$1.2 million. Given the default history of the borrower, an impairment loss of HK$4.0 million on the loan receivable was recognised in accordance with HKFRS 9. Management will closely monitor their credibility and take appropriate follow-up actions in due course.

## CHARGE OF ASSETS

As at 30 June 2018, the restricted bank deposits of HK$60.9 million (31 December 2017: HK$61.7 million) and the finance lease receivables of HK$632.1 million (31 December 2017: HK$656.2 million) were pledged to the banks and other non-bank financial institutions for facilities granted to the Group.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2018 and 31 December 2017.

## CAPITAL COMMITMENTS

The Group had capital commitments of HK$1,028,000 for the acquisition of property, plant and equipment as at 30 June 2018 (31 December 2017: HK$2,016,000).

## PROSPECT

The global economy maintained a moderate pace of growth, triggering central banks in key developed economies to continue raising interest rates and tighten monetary policies at a modest pace.

In China, GDP growth averaged 6.8% in the Current Period, same as the average level in 2017, but ongoing economic deleveraging fueled a further slowdown in investment growth. The Chinese stock market has been adversely affected since the tension on the US-China trade relationship escalated. Despite certain conflicts and problems in the economy of China, with the potential and resilience in its nature and the recent sign of loosening monetary policy by the China's central bank, the Chinese government is determined to safeguard the economy against internal and external risks.

Opportunities and challenges coexisted in the China's leasing industry. On the one hand, the favorable policies such as the trend of consumption and technology upgrading will bolster the industrial development. On the other hand, the uncertainties in the economic and financial environments, the increasing industrial competition and the expected intensifying regulation and stringent oversight on the industry since the supervisory authority of the financial leasing companies was handed over from Ministry of Commerce to China Banking and Insurance Regulatory Commission on 20 April 2018 have also imposed greater requirements on leasing companies in terms of business model, compliance operation, risk prevention and control and other aspects.

As always, local management team will put more efforts on the development of financing varieties. Together with proceed from the disposal of equity interest in terminal and logistics services business, the Group could alleviate its reliance of source of funds from banks to finance the finance lease projects. By adherence to the effective and proven risk management and control policies and leveraging on highly experienced local management team, we will cautiously enhance business model to create innovative business and profit growth driver such as studying the possibility of self-funded finance lease projects to medium-sized enterprise and exploitation of high technology and e-commerce sectors.

The terminal and logistics services business has been faded out of the Group step by step since the Disposal Agreement and the Call Option Undertaking (as defined in the circular of the Company dated 25 June 2018) and the transactions contemplated thereunder were duly approved by the Company's shareholders in the extraordinary general meeting on 17 July 2018. Application of the transfer of the first 25% equity interest is in progress and will become an associate of the Company upon completion of the disposal. The remaining 25% equity interest will be disposed of at the Purchaser's discretion of exercising the Call Option Understanding in the first half of 2020. Reference is made to the announcements of the Company dated 15 May 2018 and 17 July 2018 and the circular dated 25 June 2018 in relation to the termination of the old disposal arrangement and the introduction of the new disposal arrangement.

The Hong Kong and China's stock markets experienced a downward adjustment during the period. The general market perspective tends to be cautious about the future performance in amid of uncertainties over the US-China trade conflict and the pace of the interest rate hike. The Group will continue to adopt a proven and effective investment strategy towards the investment portfolio.

The Food additives business has been run as scheduled so far and the trial run of the first production line of Sorbitol, a nutritive sweetener commonly used in sugar-free chewing gum and diet foods, is expected to take place in the second half of 2018. Its expected capacity could reach 4,000 ton per annum and aims to sell to the food manufacturers and traders in the PRC. Management will closely monitor the segment performance and will diligently allocate more resources to expand the product varieties and production capability in due course. The segment is expected as an impetus to our future revenue and profit growth of the Group. Lastly, the Group will look for new potential growth opportunities in a very diligent manner in order to diversify the source of income and attain growth in the long term.

## SIGNIFICANT INVESTMENTS/MATERIAL DISPOSALS

At 30 June 2018, the Group held loan receivables of HK$184.6 million (31 December 2017: HK$125.0 million), equity investments at fair value through other comprehensive income of HK$48.1 million (31 December 2017: available-for-sale investments of HK$77.1 million) and investments at fair value through profit or loss of approximately HK$60.0 million (31 December 2017: held for trading investments of HK$40.6 million). During the period, the Group invested in loan receivables through short-term wealth management products/trust products of HK$80.3 million issued by financial institutions in the PRC. The Group recorded loan interest income from loan receivables amounting to HK$4.6 million (30 June 2017: HK$3.7 million). The equity investments at fair value through other comprehensive income as at 30 June 2018 comprised of (i) an unlisted equity securities issued by private entities established in the PRC with carrying value of HK$23.7 million and (ii) wealth management products acquired from the private equity firms in the PRC in an aggregate carrying value of HK$24.4 million. The investments at fair value through profit or loss as at 30 June 2018 mainly comprised of wealth management products acquired from the private and public equity firms for trading with a aggregate carrying value of HK$16.8 million and listed shares of HK$43.2 million. The Group recorded a fair value loss on equity investments at fair value through other comprehensive income of HK$6.6 million in other comprehensive income while an overall loss from change in fair value on investments at fair value through profit or loss of HK$11.8 million in profit or loss in the Current Period.

At 30 June 2018, the Group made deposits for acquisition of plant and equipment of HK$3.7 million (2017: HK$0.7 million) for the Food additives business which will be reclassified to plant and equipment when the relevant machineries and equipment are ready to use.

On 15 May 2018, the Company entered into an agreement with the joint venture partner of Rizhao Lanshan (the "Purchaser"), pursuant to which the Company has agreed to dispose of 25% equity interest in Rizhao Lanshan to the Purchaser at a consideration of RMB294 million (the "Disposal"). The Company simultaneously entered into an undertaking to grant a call option to the Purchaser, pursuant to which the Purchaser or its associate is entitled to acquire the remaining 25% equity interest in Rizhao Lanshan at a consideration of RMB294 million at any time during the period from 1 January 2020 to 30 June 2020. At the date of this report, the Disposal has not been completed.

## EMPLOYEE AND REMUNERATION

As at 30 June 2018, the Group had 59 (31 December 2017: 39) employees (excluding employees of the Company's joint ventures) in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2018, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations as below:–

**Code Provision B.1.2**

The terms of reference of the Remuneration Committee exclude review of and making recommendations to the Board in relation to senior management remuneration as in the Board's opinion, it was more appropriate for the executive directors to perform these duties.

**Code Provision E.1.2**

Under Code Provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting. Mr. Wong Lik Ping, Chairman of the Board was unable to attend the annual general meeting of the Company held on 5 June 2018 due to his other important commitment.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

## AUDIT COMMITTEE REVIEW

The Audit Committee together with management has reviewed and provided supervision over the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018.

The Audit Committee comprises three independent non-executive directors, namely Mr. Ho Hin Yip, Mr. Goh Choo Hwee and Mr. U Keng Tin.

By order of the Board of
**China Ever Grand Financial Leasing Group Co., Ltd.**
**Lai Ka Fai**
*Executive Director*

Hong Kong, 16 August 2018

*As at the date of this announcement, the Board comprises (1) Mr. Wong Lik Ping, Mr. Lai Ka Fai, Mr. Qiao Weibing and Mr. Tao Ke as executive directors; and (2) Mr. Goh Choo Hwee, Mr. Ho Hin Yip and Mr. U Keng Tin as independent non-executive directors.*