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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 2018

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 2018 (the “**Period**”) together with the comparative figures for the corresponding period in 2017. 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 2018

		Six months ended 30 September	
	<i>Notes</i>	2018	2017
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Revenue	3	39,534	52,537
Cost of brokerage and other services		(5,967)	(6,957)
Other income	5	4,184	2,820
(Impairment)/reversal of impairment loss on loan and trade receivables		(1,448)	10,050
Change in fair value of investments held for trading		(9,050)	–
Staff costs		(48,035)	(25,551)
Other operating expenses		(27,005)	(19,992)
Finance costs	6	(27,197)	(21,733)
Share of profits of associates		5,202	228
Share of profits of joint ventures		448	37
Loss before tax	7	(69,334)	(8,561)
Income tax expense	8	(423)	–
Loss for the Period		(69,757)	(8,561)

		Six months ended	
		30 September	
		2018	2017
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive (expense)/income:			
Items that may be subsequently reclassified to profit or loss:			
Share of other comprehensive (expense)/income of associates		(9,051)	3,388
Share of other comprehensive (expense)/income of joint ventures		(568)	44
Exchange differences arising on translation of foreign operations		<u>(1,392)</u>	<u>1,345</u>
		<u>(11,011)</u>	<u>4,777</u>
Total comprehensive expense for the Period		<u>(80,768)</u>	<u>(3,784)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
– Basic	<i>10</i>	<u>(0.98)</u>	<u>(0.13)</u>
– Diluted		<u>(0.98)</u>	<u>(0.13)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

		At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property and equipment	11	15,719	13,890
Goodwill		3,994	3,994
Loan receivables	14b)	3,966	5,206
Other non-current assets		8,350	8,350
Interests in associates	12	96,065	99,914
Interests in joint ventures	13	37,979	1,158
		<u>166,073</u>	<u>132,512</u>
Current assets			
Investments held for trading		65,232	112,856
Held-to-maturity investment		–	60,302
Loan and trade receivables	14	285,065	339,674
Other receivables, deposits and prepayments		118,083	17,410
Bank balances and cash – trust	15	177,995	210,353
Bank balances and cash – general	15	503,070	480,823
		<u>1,149,445</u>	<u>1,221,418</u>
Current liabilities			
Trade payables, other payables and accruals	16	200,899	227,894
Loan payables	17	360,272	359,295
Corporate bonds	19	11,385	10,184
Tax payable		2,676	2,933
		<u>575,232</u>	<u>600,306</u>
Net current assets		<u>574,213</u>	<u>621,112</u>
Total assets less current liabilities		<u><u>740,286</u></u>	<u><u>753,624</u></u>

		At 30 September 2018 <i>Notes</i> HK\$'000 (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Non-current liabilities			
Convertible bonds	20	283,703	223,481
Corporate bonds	19	146,840	154,377
		<u>430,543</u>	<u>377,858</u>
Net assets		<u>309,743</u>	<u>375,766</u>
Capital and reserves			
Share capital	18	70,861	70,861
Reserves		<u>238,882</u>	<u>304,905</u>
Total equity		<u><u>309,743</u></u>	<u><u>375,766</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**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 investment held for trading, 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 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2018.

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 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle
HK (IFRIC)-Interpretation 22	Foreign Currency Transactions and Advance Consideration

Other than HKFRS 9 “Financial Instrument” (“**HKFRS 9**”) and HKFRS 15 “Revenue from Contracts with Customers” (“**HKFRS 15**”), the application of the above new and amended HKFRSs has had no material effect impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 9

In the current period, the Group has applied HKFRS 9. HKFRS 9 replaces HKAS 39 “Financial Instruments: Recognition and Measurement”. It introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) model for the impairment of financial assets and (3) general hedge accounting.

When adopting HKFRS 9, the Group has applied transitional relief and opted not to restate prior period. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in accumulated losses.

For the impact of the classification and measurement of the Group’s financial assets, management holds most financial assets to collect the associated cash flows. The investments previously classified as held-to-maturity investments continue to be accounted for at amortised cost. However, a number of investments previously classified as investments held for trading is now measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.

For the impairment of financial assets applying ECL, as at 1 April 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. There is no significant expected credit loss should be recognised in the opening credit loss allowance account.

Financial liabilities continue to be measured at amortised cost.

2.1.1 Significant accounting policies of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39. Such measurement basis depends on the Group’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the line item of the condensed consolidated statement of profit or loss.

Impairment of financial assets under expected credit loss (“ECL”) model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including advances to customers in margin financing, loans receivables, trade receivables, deposits and other receivables, cash and cash equivalents and contract assets (if any)). The amount of ECL is reassessed at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group applies a simplified model of recognising ECL for trade receivables without significant financing component (excluded margin financing) and the ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group applies the general approach to measure ECL for all financial assets which are subject to impairment under HKFRS 9. On this basis, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due (except for advances to customers in margin financing where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 180 days past due (except for advances to customers in margin financing where a shorter period of “past due” has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2.2 Impacts and changes in accounting policies of application on HKFRS 15

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources:

- Commission income on securities dealing and broking
- Commission income on underwriting and placing
- Consultancy, financial advisory fee and financing arrangement fee income and
- Interest income from financial assets (under HKFRS 9 as detailed previously)

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition guidance of HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed as at 1 April 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations. The application of HKFRS 15 on 1 April 2018 has no material impact on the Group's financial performance for the current period and prior years, and accordingly, there is no adjustment on the opening accumulated losses.

The application of HKFRS 15 does not result in a significant impact on the Group's financial statements during the six months period.

2.2.1 Significant accounting policies of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customer.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

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	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Dividend income	–	1,213
Bond interest income	1,298	–
Income from securities brokerage business	4,744	14,890
Interest income from money lending business	4,703	3,504
Income from insurance brokerage business	1,183	876
Margin interest income from securities brokerage business	9,130	5,854
Net gain on trading of listed securities	–	11,150
Service income from corporate finance	18,476	15,050
	39,534	52,537

4. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focus is on the type of services provided. No operating segment identified by the chief operating 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 business 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.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss)/profit represents the (loss)/profit from each segment without allocation of central administrative expenses, directors' remunerations and certain other operating income (interest income and gains on investments held for trading). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Inter-segment revenue are charged at prevailing market prices.

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 2018

	Brokerage and margin financing <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Money lending and factoring <i>HK\$'000</i>	Consultancy and insurance brokerage <i>HK\$'000</i>	Inter-segment elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue							
External revenue	15,172	-	18,949	4,703	710	-	39,534
Inter-segment revenue	-	-	-	-	40	(40)	-
	<u>15,172</u>	<u>-</u>	<u>18,949</u>	<u>4,703</u>	<u>750</u>	<u>(40)</u>	<u>39,534</u>
Segment profit (loss)	(444)	(680)	(4,281)	2,561	(4,964)	(40)	(7,848)
Unallocated operating income							1,544
Unallocated operating expense							(41,662)
Unallocated other income, gains							142
Share of profits of associates							5,202
Share of profits of joint ventures							448
Finance costs							<u>(27,160)</u>
Loss before tax							<u>(69,334)</u>

For the six months ended 30 September 2017

	Brokerage and margin financing <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Money lending and factoring <i>HK\$'000</i>	Consultancy and insurance brokerage <i>HK\$'000</i>	Inter-segment elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue							
External revenue	20,744	12,363	15,050	3,504	876	–	52,537
Inter-segment revenue	–	–	–	–	148	(148)	–
	<u>20,744</u>	<u>12,363</u>	<u>15,050</u>	<u>3,504</u>	<u>1,024</u>	<u>(148)</u>	<u>52,537</u>
Segment profit (loss)	17,688	12,146	344	11,460	(274)	–	41,364
Unallocated operating income							464
Unallocated operating expense							(29,296)
Unallocated other income, gains							360
Share of profits of associates							228
Share of profits of joint ventures							37
Finance costs							<u>(21,718)</u>
Loss before tax							<u>(8,561)</u>

Segment assets and liabilities

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

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Segment assets		
Brokerage and margin financing	482,217	501,034
Proprietary trading	121,222	123,014
Corporate finance	15,676	21,350
Money lending and factoring	64,242	158,449
Consultancy and insurance brokerage	25,772	10,735
Total segment assets	709,129	814,582
Unallocated	606,389	539,348
Consolidated assets	1,315,518	1,353,930
Segment liabilities		
Brokerage and margin financing	195,018	217,477
Proprietary trading	72	146
Corporate finance	1,263	2,567
Money lending and factoring	793	373
Consultancy and insurance brokerage	706	3,266
Total segment liabilities	197,852	223,829
Unallocated	807,923	754,335
Consolidated liabilities	1,005,775	978,164

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

- all assets are allocated to operating segments other than certain property and equipment for general operations, other non-current assets (excluded available-for-sale financial assets), interests in associates and joint ventures, certain other receivables, deposits and prepayments 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 bonds, corporate bonds and tax payable.

5. OTHER INCOME

	Six months ended	
	30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Handling fee income	1,050	1,347
Interest income from financial institutions	1,568	366
Gain on disposal of property and equipment	335	360
Exchange gain, net	362	–
Sundry income	869	747
	<u>4,184</u>	<u>2,820</u>

6. FINANCE COSTS

	Six months ended	
	30 September	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	4,629	1,344
Effective interest on corporate bonds	7,601	8,005
Effective interest on convertible bonds (<i>note 20</i>)	14,967	12,384
	<u>27,197</u>	<u>21,733</u>

7. LOSS BEFORE TAX

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging:		
Total staff costs:		
– directors' remuneration (<i>note 21</i>)	8,865	6,343
– salaries and allowance	38,252	18,644
– retirement benefit scheme contributions (excluding directors)	918	564
	<u>48,035</u>	<u>25,551</u>
Auditor's remunerations	190	–
Impairment loss on loan and trade receivables	1,501	177
Operating lease in respect of rented premises and equipment	<u>9,652</u>	<u>7,546</u>

8. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit during the six months ended 30 September 2018 (six months ended 30 September 2017: 16.5%).

	Six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Provision for Hong Kong profits tax		
– Current tax	<u>423</u>	<u>–</u>
Total income tax expense	<u>423</u>	<u>–</u>

No Hong Kong Profits Tax has been provided as the Group's assessable profit for the six months ended 30 September 2017 has been fully absorbed by the tax losses brought forward from prior periods.

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 2018 and 2017.

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 2017: nil).

10. LOSS PER SHARE

Basic and diluted loss per share

Basic loss (six months ended 30 September 2017: loss) per share is calculated by dividing the loss attributable to owners of the Company of approximately HK\$69,757,000 (six months ended 30 September 2017: loss attributable to owners of the Company of approximately HK\$8,561,000) by the weighted average number of 7,086,078,859 ordinary shares (six months ended 30 September 2017: 6,652,837,875 shares) in issue during the Period.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion/exercise of all dilutive potential ordinary shares. The convertible bonds were assumed to have been converted into ordinary shares, and the net loss has been adjusted to eliminate the interest expense and fair value change less the tax effect.

The calculation of diluted loss per share for the Period and the six months ended 30 September 2018 and 2017 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. Therefore, the diluted loss per share is the same as the basic loss per share.

11. PROPERTY AND EQUIPMENT

During the Period, the Group spent approximately HK\$3,508,000 (six months ended 30 September 2017: HK\$131,000) for the purchase of property and equipment.

Two motor vehicles with a total net carrying value of approximately HK\$225,000 were disposed of by the Group for cash proceeds of approximately HK\$560,000, resulting in a net gain on disposal of approximately HK\$335,000 which was recognised in profit or loss during six months ended 30 September 2018.

Five motor vehicles with net carrying value of approximately HK\$1,685,000 were disposed of by the Group for cash proceeds of approximately HK\$2,045,000, resulting in a net gain on disposal of approximately HK\$360,000 which was recognised in profit or loss during six months ended 30 September 2017.

12. INTERESTS IN ASSOCIATES

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Cost of investments in unlisted associates	64,131	64,131
Share of post-acquisition profits and other comprehensive income	31,934	35,783
	96,065	99,914

Set out below are the particulars of the principal associates as at 30 September 2018 and 31 March 2018 in the opinion of the Directors of the Company, to give details of other associates would result in particulars of excessive length:

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 2018	31 March 2018	30 September 2018	31 March 2018	
Starlight Financial Holdings Limited ("Starlight")	Limited liability company	Hong Kong	234,000,000 ordinary shares	25%	25%	33% (note 1)	33% (note 1)	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
China Runking Financing Group Limited	Limited liability company	Hong Kong	1 ordinary share	25%	25%	33%	33%	Provision of loan financing services

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

China Runking Financing Group 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.

As at 30 September 2018, included in the cost of investments in associates was goodwill of approximately HK\$4,052,000 (as at 31 March 2018: HK\$4,052,000) arising on the acquisition of associates.

13. INTERESTS IN JOINT VENTURES

	At 30 September 2018 HK\$’000 (Unaudited)	At 31 March 2018 HK\$’000 (Audited)
Cost of investments in unlisted joint ventures	38,356	1,415
Share of post-acquisition losses and other comprehensive expense	(377)	(257)
	37,979	1,158

Details of the joint ventures as at 30 September 2018 and 31 March 2018 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 2018	31 March 2018	30 September 2018	31 March 2018	
Shenzhen Qianhai Fortune Financial Service Company Limited* (“ Qianhai Fortune Financial ”)	Limited liability company	the PRC	Registered 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 capital of RMB2,989,000	30%	30%	40%	40%	Inactive
Greater Bay Investment Fund L.P. (“ Greater Bay Fund ”)	Limited liability partnership	Cayman Islands	Registered capital of USD2	50%	–	50%	–	Investing
CEL Fortune Convertible Opportunities Feeder Fund (“ CEL Fund ”)	Limited liability company	Cayman Islands	Registered capital of USD20,000,000	50%	–	50%	–	Investing

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

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.

The Group holds 50% of equity interests of Greater Bay Fund and controls 50% of the voting power in the board meeting. Under a co-management agreement, the major financing and operational decisions of CEL Fund should be unanimously approved by the Group and other venturers. Therefore, Greater Bay Fund is regarded as a joint venture of the Group.

The Group holds 50% of equity interests of CEL Fund and controls 50% of the voting power in the board meeting. Under a co-management agreement, the major financing and operational decisions of CEL Fund should be unanimously approved by the Group and other venturers. Therefore, CEL Fund is regarded as a joint venture of the Group.

14. LOAN AND TRADE RECEIVABLES

Loan and trade receivables comprise i) trade receivables arising from security brokerage business and other businesses and ii) loan receivables arising from money lending business.

		At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Trade receivables	<i>a)</i>	231,029	190,603
Loan receivables – current	<i>b)</i>	54,036	149,071
		285,065	339,674
Loan receivables – non-current	<i>b)</i>	3,966	5,206
		289,031	344,880

a) Trade receivables

The followings are the balances of trade receivables, net of impairment losses:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Trade receivables from security brokerage business		
– cash clients	967	333
– Hong Kong Securities Clearing Company Limited (“HKSCC”)	20,808	2,860
– margin clients	205,458	172,943
Trade receivables from other businesses	<u>5,478</u>	<u>14,701</u>
	232,711	190,837
Less: Impairment loss	<u>(1,682)</u>	<u>(234)</u>
	<u>231,029</u>	<u>190,603</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 2018: 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, and only fall due on conditions or on demand by the Group. 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 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Less than 30 days	25,216	17,722
31 to 60 days	53	100
61 to 90 days	–	10
Over 90 days	<u>1,984</u>	<u>62</u>
	<u>27,253</u>	<u>17,894</u>

Trade receivables from cash and margin clients are secured by the clients' pledged securities at quoted market value of approximately HK\$1,405,744,000 (as at 31 March 2018: HK\$1,416,859,000) which could be realised 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 2018 and 2017.

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

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Balance at beginning of the Period/year	234	3,542
Amounts written off as uncollectible	–	(1,388)
Reversal of impairment loss	(53)	(1,920)
Impairment loss recognised	<u>1,501</u>	<u>–</u>
Balance at end of the Period/year	<u>1,682</u>	<u>234</u>

Included in the impairment loss recognised in respect of trade receivables with an aggregated balance of approximately HK\$1,682,000 (as at 31 March 2018: HK\$234,000) was individually impaired trade debtors who were in financial difficulties. Impairment loss of approximately HK\$1,501,000 (as at 31 March 2018: nil) were recognised during the Period. Impairment loss of trade receivables of approximately HK\$53,000 (as at 31 March 2018: HK\$1,920,000) were reversed during the Period.

b) Loan receivables

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Non-current portion		
Secured loan receivables	2,181	2,386
Unsecured loan receivables	<u>1,785</u>	<u>2,820</u>
	<u>3,966</u>	<u>5,206</u>
Current portion		
Secured loan receivables	50,927	146,099
Unsecured loan receivables	<u>3,109</u>	<u>2,972</u>
	<u>54,036</u>	<u>149,071</u>
	<u>58,002</u>	<u>154,277</u>

The secured loan receivables are secured by equity shares of listed companies and second mortgage over certain property units and bear interest at a fixed interest rate at 10.8% to 20% (as at 31 March 2018: 9% to 22.5%) per annum.

The unsecured loan receivables carry interest at fixed interest rate at 15% (as at 31 March 2018: 15%) per annum. The unsecured loan receivables are guaranteed by an independent third party as at 30 September 2018 and 31 March 2018.

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 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Less than 30 days	3,603	2,666
31 to 60 days	–	35,000
61 to 90 days	–	–
Over 90 days	<u>54,399</u>	<u>116,611</u>
	<u>58,002</u>	<u>154,277</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 2018: HK\$nil) has been recognised during the Period, which is based on the estimated irrecoverable amount by reference to the creditability of the customer, past default experience and subsequent settlement.

15. 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\$503,070,000 (as at 31 March 2018: HK\$480,823,000) 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 3.03% (as at 31 March 2018: 0.001% to 2.4%) per annum.

As at 30 September 2018, the Group had bank balances of approximately HK\$19,033,000 (as at 31 March 2018: HK\$8,646,000) and HK\$16,298,000 (as at 31 March 2018: HK\$12,650,000) which were originally denominated in United States dollar (“USD”), and Renminbi (“RMB”) respectively.

16. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Trade payables from the business of dealing in securities:		
– Margin and cash clients	177,623	211,804
Property and equipment payables	1,159	1,949
Other payables and accruals	22,117	14,141
	<u>200,899</u>	<u>227,894</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.

17. LOAN PAYABLE

As at 30 September 2018, bank loans amounted to approximately HK\$360,272,000 (as at 31 March 2018: HK\$359,295,000) borne variable interest rate of 4.16% – 4.51% (as at 31 March 2018: 3.24% – 3.70%) per annum. The unsecured bank loans were guaranteed by the wholly owned subsidiaries, Fortune Finance Limited, Fortune Wealth Management Limited and Mr. Xie Zhichun, the chairman of the Company.

18. SHARE CAPITAL

	<i>Note</i>	Number of shares '000	Amount HK\$'000
Authorised:			
At 1 April 2017 (audited), at 31 March 2018 (audited) and at 30 September 2018 (unaudited), ordinary shares of HK\$0.01 each		<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:			
At 1 April 2017 (audited), ordinary shares of HK\$0.01 each		4,036,729	40,367
Issue of shares for convertible bonds exercised	a)	<u>3,049,350</u>	<u>30,494</u>
At 31 March 2018 (audited) and at 30 September 2018 (unaudited)		<u><u>7,086,079</u></u>	<u><u>70,861</u></u>

a) Issue of shares for convertible bonds exercised

On 28 April 2017, the holders of convertible bond series 2017 C exercised the option to convert as ordinary shares at HK\$0.06 for approximately 3,049,350,000 shares.

19. CORPORATE BONDS

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Current	11,385	10,184
Non-current	<u>146,840</u>	<u>154,377</u>
	<u><u>158,225</u></u>	<u><u>164,561</u></u>

Particulars of outstanding corporate bonds at reporting date summarised by original issue year are set out below:

Issue in the year ended	Original terms	Annual coupon rate	Effective interest rate	Principal <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
At 30 September 2018					
31 March 2014	7 – 7.5 years	6% – 7%	8.59% – 9.66%	43,000	43,213
31 March 2015	7 years	6% – 6.5%	8.59% – 9.12%	57,500	55,256
31 March 2016	3 – 7 years	6% – 7%	9.12% – 10.34%	22,810	22,099
31 March 2017	2 – 7.5 years	6% – 6.5%	9.10% – 10.34%	40,600	37,657
					<u>158,225</u>
At 31 March 2018					
31 March 2014	7 – 7.5 years	6% – 7%	8.59% – 9.66%	43,000	41,244
31 March 2015	7 years	6% – 6.5%	8.59% – 9.12%	57,500	54,660
31 March 2016	3 – 7 years	6% – 7%	9.12% – 10.34%	24,810	23,805
31 March 2017	2 – 7.5 years	6% – 6.5%	9.10% – 10.34%	47,000	44,852
					<u>164,561</u>

These corporate bonds are repayable in the following schedule:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Within one year	11,385	10,184
More than one year but not exceeding two years	–	9,940
More than two years but not exceeding five years	122,382	116,650
More than five years	24,458	27,787
	<u>158,225</u>	<u>164,561</u>

20. CONVERTIBLE BONDS

The Group employs convertible bonds as one of its sources of financing. In the both year/period presented, the Company issued below series of convertible bonds with maturity terms for 3 years, unsecured, coupon rate at 2%, with or without issuer redemption rights by the Company.

Convertible bonds are carried at amortised cost, and corresponding equity components, namely convertible bond reserves, were recognised at issue date. At reporting date, carrying amounts of the convertible bonds and these reserves were:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Non-current		
Convertible bonds	<u><u>283,703</u></u>	<u><u>233,481</u></u>
Convertible bonds equity reserves	<u><u>81,566</u></u>	<u><u>66,821</u></u>

Particulars of new issued convertible bonds during the year are set out as below:

	Issue date	Maturity date	Coupon rate	Effective interest rate	Principal <i>HK\$'000</i>	Conversion price per share <i>HK\$</i>	Issuer redemption right
At 30 September 2018							
2018 B	5 July 2018	4 July 2021	2%	11.74%	60,000	0.060	No
At 31 March 2018							
2018 A	28 June 2017	27 June 2020	2%	11.17%	60,000	0.060	No
At 31 March 2017							
2017 C	30 March 2017	29 March 2020	2%	12.47%	390,000	0.060	No

Movements of carrying amounts of the liability components and equity components are summarised below.

	Convertible Bond Series			Total <i>HK\$'000</i>
	2017 C <i>HK\$'000</i>	2018 A <i>HK\$'000</i>	2018 B <i>HK\$'000</i>	
Liability components				
At 1 April 2017 (audited)	290,696	–	–	290,696
Issue of convertible bonds	–	46,002	–	46,002
Interests at effective interest rates	20,658	3,898	–	24,556
Conversion at exercise	(137,773)	–	–	(137,773)
At 31 March 2018 (audited)	173,581	49,900	–	223,481
Issue of convertible bonds	–	–	45,255	45,255
Interests at effective interest rates	10,854	2,833	1,280	14,967
At 30 September 2018 (unaudited)	<u>184,435</u>	<u>52,733</u>	<u>46,535</u>	<u>283,703</u>

	Convertible Bond Series			Total <i>HK\$'000</i>
	2017 C <i>HK\$'000</i>	2018 A <i>HK\$'000</i>	2018 B <i>HK\$'000</i>	
Equity components				
At 1 April 2017 (audited)	99,503	–	–	99,503
Issue of convertible bonds	–	13,998	–	13,998
Issue of shares for convertible bonds exercised	(46,680)	–	–	(46,680)
At 31 March 2018 (audited)	52,823	13,998	–	66,821
Issue of convertible bonds	–	–	14,745	14,745
At 30 September 2018 (unaudited)	<u>52,823</u>	<u>13,998</u>	<u>14,745</u>	<u>81,566</u>

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 2018 and 2017. The remuneration of executive Directors during the Period was as follows:

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	8,827	6,307
Post-employment benefits	38	36
	<u>8,865</u>	<u>6,343</u>

22. COMMITMENTS

(i) Operating lease commitments

The Group as lessee

The Group leases certain of its office premises under operating lease arrangements. Lease for properties are negotiated for a term ranging from two years to three years (as at 31 March 2018: one year to five 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 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Within one year	19,850	16,780
In the second to fifth years, inclusive	<u>24,648</u>	<u>23,869</u>
	<u>44,498</u>	<u>40,649</u>

(ii) **Capital commitment**

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

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Contracted but not provided for:		
Investment in joint ventures	37,362	6,136

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Financial instruments and non-financial assets measured at fair value in the condensed consolidated statement of financial position are categorised into the three level fair value hierarchies as defined in HKFRS 13, "Fair Value Measurement".

The following table gives information about how fair values of these financial assets are determined (in particular, the valuation technique(s) and input(s) used).

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)		
Financial assets				
Investments held for trading	65,232	112,856	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. EVENT AFTER THE REPORTING PERIOD

On 9 November 2017, the subscription agreement dated 23 January 2017 entered into by the Group in relation to the establishment of a joint venture was terminated due to a change in the shareholding structure of the joint venture company. On 9 November 2017, the Group therefore entered into a new subscription agreement with independent third parties in relation to the establishment of the joint venture at total investment amount of RMB1,000 million (equivalent to approximately HK\$1,174 million) and the Group shall contribute an aggregate amount of RMB300 million (equivalent to approximately HK\$352 million) and hold 30% shareholding in the joint venture. The establishment of the joint venture is subject to approval by the China Securities Regulatory Commission. As at the date of this announcement, the approvals had yet to be obtained in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the Period, revenue of the Group amounted to approximately HK\$39,534,000, representing a decrease of approximately 24.75% from approximately HK\$52,537,000 for the six months ended 30 September 2017. The decrease in turnover was mainly attributable to net loss recorded in proprietary trading.

The Group recorded a loss for the Period of approximately HK\$69,757,000 as compared with the loss of approximately HK\$8,561,000 for the corresponding period in 2017. Net loss attributable to owners of the Company for the Period amounted to approximately HK\$69,757,000, while the Group recorded the loss of approximately HK\$8,561,000 for the corresponding period in 2017. The increase in loss for the Period was principally attributable to (i) net loss recorded in proprietary trading; (ii) impairment loss recorded in respect of loan and trade receivables as compared with the reversal of impairment loss recorded for the corresponding period in 2017; (iii) increase in staff costs; and (vi) increase in finance costs for the bank loans and issue of convertible bonds by the Company.

The basic and diluted loss per share for the Period were approximately HK0.98 cents as compared with the basic and diluted loss per share of approximately HK0.13 cents for the corresponding period in 2017.

BUSINESS REVIEW

Brokerage and margin financing

During the Period, the business of brokerage and margin financing recorded a revenue of approximately HK\$15,172,000, representing a decrease of approximately 26.86% as compared to the revenue of approximately HK\$20,744,000 for the corresponding period in 2017.

The Group's strategy is to focus and strengthen existing securities operation and work in close collaboration with our corporate finance business as well as wealth management business, in order to provide a one-stop integrated financial services to better serve our institutional and high networth individual clients.

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\$9,050,000 (2017: trading gain of approximately HK\$12,363,000) and incurred a segment loss of approximately HK\$680,000 (2017: segment profit of approximately HK\$12,146,000). 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 25.91% from approximately HK\$15,050,000 to approximately HK\$18,949,000 while the segment loss for the Period amounted to approximately HK\$4,281,000 as compared to a segment profit amounted to approximately HK\$344,000 for the corresponding period in 2017.

Money lending and factoring

During the Period, the Group recorded an interest income from money lending and income from factoring of approximately HK\$4,703,000 (2017: approximately HK\$3,504,000), representing an increase of approximately 34.22% as compared with the corresponding period in 2017. The segment profit for the Period amounted to approximately HK\$2,561,000 (2017: approximately HK\$11,460,000). The decrease in the segment profit was mainly due to the reversal of impairment loss recognised in respect of loan receivables of approximately HK\$8,362,000 for the corresponding period in 2017.

Consultancy and insurance brokerage

During the Period, the Group recorded a segment revenue from consultancy and insurance brokerage services of approximately HK\$750,000 (2017: approximately HK\$1,024,000), representing a decrease of approximately 26.76% as compared with the corresponding period in 2017.

OUTLOOK

The Group intends to implement its development strategy with the focus on the mainland and Hong Kong financial markets with a view to seizing the development opportunity of mainland-Hong Kong stock connect trading and the historic window of opportunity in the Hong Kong market to maximize its profitability and provide customers with long-term, high-quality one-stop financial services. In particular, the Group intends to, inter alia:

- (1) continue to expand financing channels to support its business development. The Group will optimize its asset-liability structure and expand capital base based on actual business needs to provide securities margin, stock and bond proprietary trading, structured financing, secured-asset financing and other businesses with sufficient funds;
- (2) further strength and expand its investment banking business. The Group is expected to explore PRC corporate customers in “One Belt and One Road” countries or jurisdictions, and provide these customers with comprehensive investment banking services by expanding corporate finance, capital market and sales teams. The Group will continue to pursue rapid growth in sponsor, financial advisory, debt and equity underwriting businesses;
- (3) develop assets management business. Due to the increasing demand from mainland enterprises and residents for overseas asset allocation, the Group aims to expand its scale of funds management while creating sound returns for its customers by conducting thorough research on the market and customer demands as well as developing financial products that align with customer needs in an attempt to pursue sustainable development in assets management business; and
- (4) realize continuous, rapid and stable development of an enterprise through direct investment and merger and acquisition. The financial industry in which the Group has a presence is undergoing rapid changes. The wide-spread use of technology in the financial industry has posed increasingly significant challenges towards traditional financial service enterprises. As at the date of this announcement, the Group did not have any concrete plan regarding direct investment and merger and acquisition of enterprises and has no specific plans for such activities currently. Going forward, the Group is committed to maximizing its profitability and competitive edge through direct investment in and merger and acquisition of top-notch and emerging unlisted enterprises, especially in the fintech sector, with development potential in Greater China region, Europe and the United States.

CAPITAL STRUCTURE

As at 30 September 2018, the nominal value of the total issued share capital of the Company was approximately HK\$70,861,000 comprising 7,086,078,859 shares of the Company of HK\$0.01 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 bonds, corporate bonds, loans, 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 2018.

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 Hong Kong 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 2018.

LIQUIDITY AND FINANCIAL RESOURCES AND GEARING RATIO

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

As at 30 September 2018, the Group's current assets and current liabilities were approximately HK\$1,149,445,000 (as at 31 March 2018: approximately HK\$1,221,418,000) and approximately HK\$575,232,000 (as at 31 March 2018: approximately HK\$600,306,000) respectively, while the current ratio was about 2.00 times (as at 31 March 2018: about 2.03 times).

As at 30 September 2018, the Group's aggregate cash and cash equivalents amounted to approximately HK\$503,070,000 (as at 31 March 2018: approximately HK\$480,823,000), of which approximately 92.98% was denominated in Hong Kong dollars (as at 31 March 2018: approximately 95.57%), approximately 3.78% was denominated in USD (as at 31 March 2018: approximately 1.80%), and approximately 3.24% was denominated in RMB (as at 31 March 2018: approximately 2.63%), representing approximately 43.77% (as at 31 March 2018: approximately 39.37%) of total current assets. As at 30 September 2018, the Group had bank loans with accrued interest in approximately HK\$360,272,000 (as at 31 March 2018: the Group had bank loans with accrued interest in approximately HK\$359,295,000).

During the Period, no financial instruments were used for hedging purposes. As at 30 September 2018, the gearing ratio, measured on the basis of total borrowings as a percentage of equity attributable to owners of the Company, was approximately 258.99% (as at 31 March 2018: approximately 198.88%). The increase was mainly due to issue of convertible bonds. As at 30 September 2018, the debt ratio, defined as total debts over total assets, was approximately 76.45% (as at 31 March 2018: approximately 72.25%).

No corporate bond was issued during the Period and the year ended 31 March 2018.

ISSUE OF CONVERTIBLE BONDS

On 22 November 2016, the Company (as the issuer) entered into each of the Cinda Subscription Agreement, the PAL Subscription Agreement and the Riverhead Capital Subscription Agreement (each as defined below) in relation to the issue of convertible bonds in an aggregate principal amount of HK\$570,000,000.

- (i) The Company entered into a subscription agreement (the “**Cinda Subscription Agreement**”) with Mankind Investment Limited (“**Mankind**”), pursuant to which, Mankind agreed to subscribe for convertible bonds in the principal amount of HK\$110,754,000 (the “**Convertible Bonds to Mankind**”).
- (ii) On 21 September 2016, the Company entered into a subscription agreement with Pacific Alliance Limited (“**PAL**”), and subsequently a supplemental agreement on 22 November 2016 (the “**PAL Subscription Agreement**”), pursuant to which, PAL agreed to subscribe for convertible bonds in the principal amount of HK\$153,585,000 (the “**Convertible Bonds to PAL**”). On 8 January 2018, PAL sold the Convertible Bonds to PAL to Value Convergence Holdings Limited.
- (iii) The Company entered into a subscription agreement (the “**Riverhead Capital Subscription Agreement**”) with Riverhead Capital (International) Management Co., Ltd. (“**Riverhead Capital**”), pursuant to which, Riverhead Capital agreed to subscribe for convertible bonds in the aggregate principal amount of HK\$305,661,000 (the “**Convertible Bonds to Riverhead Capital**”) in 4 tranches.

Completion of subscriptions (i), (ii) and tranche 1 of subscription (iii) above (altogether, the “**Tranche 1 Convertible Bonds**”) took place on 30 March 2017. The convertible bonds to Mankind, PAL and Riverhead Capital all bear an interest rate of 2% and mature on the third (3rd) anniversary of the date of issue of the convertible bonds with both dates inclusive at the conversion price of HK\$0.06 per conversion share. Upon full conversion of the Tranche 1 Convertible Bonds by all subscribers at the conversion price of HK\$0.06, a total number of 6,500,000,000 conversion shares will be issued, subject to adjustments to the conversion price of HK\$0.06.

The net proceeds raised through the issue of the Tranche 1 Convertible Bonds are approximately HK\$385,000,000, in which i) approximately HK\$180,000,000 will be used for the injection of capital to a wholly-owned subsidiary of the Company and expanding its margin financing and underwriting business; ii) approximately HK\$150,000,000 for expanding its money lending business; iii) approximately HK\$12,000,000 for engaging in private equity investments; iv) approximately HK\$9,000,000 for strengthening the capital base of its subsidiaries and v) the remaining balance of approximately HK\$34,000,000 for the general working capital of the Group.

The Convertible Bonds to Mankind was exercised in approximately 51.74% of original principal amount, which was equivalent to the amount of HK\$57,300,000 at the conversion price of HK\$0.06 on 27 April 2017. After completion of conversion, 955,000,000 shares were issued on 28 April 2017. Furthermore, tranche 1 of the Convertible Bonds to Riverhead Capital was also exercised in full in the principal amount of HK\$125,661,000 at the conversion price of HK\$0.06 on 27 April 2017. After the completion of conversion, 2,094,350,000 shares were issued on 28 April 2017.

Following the exercise of tranche 1 of the Convertible Bonds to Riverhead Capital, completion of subscription of tranche 2 took place on 28 June 2017. The net proceeds raised through the issue of tranche 2 of the Convertible Bonds to Riverhead Capital were HK\$60,000,000, in which approximately HK\$50,000,000 had been used for further expanding its margin financing business and approximately HK\$10,000,000 for its underwriting business.

Following the completion of tranche 2 of the Convertible Bonds to Riverhead Capital, completion of subscription of tranche 3 took place on 5 July 2018. The net proceeds raised through the issue of tranche 3 of the Convertible Bonds to Riverhead Capital are HK\$60,000,000, in which approximately HK\$36,000,000 had been used for further strengthening the proprietary trading business, approximately HK\$12,000,000 had been used for engagement in private equity investments such as pre-IPO investment, and approximately HK\$12,000,000 had been used for the asset management business as seed money to the existing funds and/or new funds.

For details of the Cinda Subscription Agreement, PAL Subscription Agreement and Riverhead Capital Subscription Agreement and the relevant transactions, please refer to the circular dated 13 December 2016 and announcements dated 21 September 2016, 22 November 2016, 5 January 2017, 30 March 2017, 28 April 2017 and 5 July 2018.

With reference made to the mentioned circular and announcements, Tranche 1 Convertible Bonds, tranche 2 of the Convertible Bonds to Riverhead Capital and tranche 3 of the Convertible Bonds to Riverhead Capital were issued pursuant to the resolutions passed at the extraordinary general meeting held on 5 January 2017. The total funds raised from and the details of the use of proceeds of the said tranches are as follows:

Tranche 1 Convertible Bonds

	Intended use of the proceeds as previously disclosed	Approximate amount to apply on the proceeds as previously disclosed	Utilized proceeds on the intended use during the six months ended 30 September 2018	Unutilized proceeds as at 30 September 2018	Expected timeline for the use of unutilized Proceeds and reasons for delay
a.	Expanding the margin financing and underwriting businesses	HK\$60,000,000	HK\$60,000,000	HK\$0	Not applicable
b.	Establishment of a joint venture company to be formed in the PRC (the “JV Company”) under the Closer Economic Partnership Arrangement	HK\$120,000,000	HK\$0	HK\$120,000,000	The proceeds is planned to be applied in accordance with the intended use as disclosed in the circular dated 13 December 2016. Documents to supplement the application made to China Securities Regulatory Commission for establishment of the JV Company was last made on 27 July 2018 while the timeframe is subject to the said regulator’s approval
c.	Expanding its money lending business	HK\$150,000,000	HK\$150,000,000	HK\$0	Not applicable
d.	Engaging in private equity investments	HK\$12,000,000	HK\$12,000,000	HK\$0	Not applicable
e.	Proprietary trading	HK\$5,000,000	HK\$5,000,000	HK\$0	Not applicable
f.	Strengthening the capital base of wealth management business	HK\$2,000,000	HK\$2,000,000	HK\$0	Not applicable
g.	Strengthening the capital base of corporate financing business	HK\$2,000,000	HK\$2,000,000	HK\$0	Not applicable
h.	General working capital	HK\$34,000,000	HK\$34,000,000	HK\$0	Not applicable

Tranche 2 of the Convertible Bonds to Riverhead Capital

		Utilized proceeds		
	Intended use of the proceeds as previously disclosed	Approximate amount to apply on the proceeds as previously disclosed	on the intended use during the six months ended 30 September 2018	Unutilized proceeds as at 30 September 2018
				Expected timeline for the use of unutilized proceeds
a.	Further expanding the margin financing business	HK\$50,000,000	HK\$50,000,000	HK\$0
b.	Further strengthening the underwriting businesses	HK\$10,000,000	HK\$10,000,000	HK\$0

Tranche 3 of the Convertible Bonds to Riverhead Capital

		Utilized proceeds		
	Intended use of the proceeds as previously disclosed	Approximate amount to apply on the proceeds as previously disclosed	on the intended use during the six months ended 30 September 2018	Unutilized proceeds as at 30 September 2018
				Expected timeline for the use of unutilized proceeds
a.	Further strengthening the proprietary trading business	HK\$36,000,000	HK\$36,000,000	HK\$0
b.	Further engagement in private equity investments	HK\$12,000,000	HK\$12,000,000	HK\$0
c.	For the asset management business to be used as seed money to the existing funds and/or new funds	HK\$12,000,000	HK\$12,000,000	HK\$0

SIGNIFICANT INVESTMENT

As at 30 September 2018, the Group held financial assets at fair value through profit or loss of approximately HK\$65,232,000 (as at 31 March 2018: approximately HK\$112,856,000).

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition or disposal of the Group during the Period.

CONTINGENT LIABILITIES

As at 30 September 2018, the Group had no material contingent liabilities (as at 31 March 2018: nil).

CHARGE ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 30 September 2018 (as at 31 March 2018: 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 2018, the Group had 80 employees in total (as at 31 March 2018: 86 employees). The related employees' costs for the Period (excluding directors' remunerations) amounted to approximately HK\$39,170,000 (as at 31 March 2018: approximately HK\$45,908,000). 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.

EVENT AFTER THE REPORTING PERIOD

Details of significant event occurring after the Period are set out in note 24 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.

During the Period, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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 2018.

REVIEW OF FINANCIAL INFORMATION BY AUDIT COMMITTEE

The Audit Committee comprises four independent non-executive Directors, namely, Mr. NG Kay Kwok (chairman of the Audit Committee), Mr. CHAN Kin Sang, Mr. CHIU Kung Chik and Mr. LI Gaofeng.

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 2018.

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 of
China Fortune Financial Group Limited
HUA Yang
*Chief Executive Officer
and Executive Director*

Hong Kong, 28 November 2018

As at the date of this announcement, the Board consists of three executive Directors, namely Mr. XIE Zhichun (Chairman), Mr. HUA Yang and Mr. ZHU Yi; three non-executive Directors, namely Mr. HAN Hanting, Mr. CHEN Zhiwei and Mr. WU Ling; and four independent non-executive Directors, namely Mr. CHAN Kin Sang, Mr. NG Kay Kwok, Mr. CHIU Kung Chik and Mr. LI Gaofeng.