

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



China Financial Services Holdings Ltd

China Financial Services Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

	Unaudited six months ended 30 June 2023 HK\$'000	Unaudited six months ended 30 June 2022 HK\$'000	Percentage changes %
Interest and financing consultancy services income	67,694	113,918	(40.6)
Loss for the period attributable to owners of the Company	(117,100)	(40,833)	186.8
	<i>HK\$</i>	<i>HK\$</i>	
Basic loss per share	(0.58)	(0.20)	190.0

FINANCIAL RESULTS

The board of directors (the “Board” or “Directors”) of China Financial Services Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2023 (the “Reporting Period”) together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	Unaudited	
		Six months ended 30 June 2023	2022
		HK\$'000	HK\$'000
Interest and financing consultancy services income	3	67,694	113,918
Interest and handling expenses	3	<u>(48,673)</u>	<u>(78,857)</u>
Net interest income and service income	3	19,021	35,061
Education consultancy service income		–	1,385
Other income and other gains and losses	4	(9,483)	12,044
(Impairment losses)/reversal of impairment losses on loan and other receivables		(79,661)	6,472
Impairment loss on goodwill		(22,155)	–
Reversal of interest payables		31,706	–
General and administrative expenses		(49,152)	(74,772)
Share of results of associates		8,036	777
Loss before taxation	5	(101,688)	(19,033)
Income tax expense	6	<u>(13,657)</u>	<u>(19,808)</u>
Loss for the period		<u>(115,345)</u>	<u>(38,841)</u>
Attributable to:			
Owners of the Company		(117,100)	(40,833)
Non-controlling interests		1,755	1,992
Loss for the period		<u>(115,345)</u>	<u>(38,841)</u>
Loss per share	7	HK\$	HK\$
– Basic		<u>(0.58)</u>	<u>(0.20)</u>

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

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(115,345)	(38,841)
Other comprehensive expense for the period, net of income tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>(19,983)</u>	<u>(47,726)</u>
Total comprehensive expense for the period	<u>(135,328)</u>	<u>(86,567)</u>
Attributable to:		
Owners of the Company	(134,614)	(84,712)
Non-controlling interests	<u>(714)</u>	<u>(1,855)</u>
Total comprehensive expense for the period	<u>(135,328)</u>	<u>(86,567)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		14,147	12,097
Investment properties		1,920	1,088
Goodwill		305,850	337,522
Intangible assets		13,453	13,565
Interests in associates		38,510	30,289
Other financial assets		5,421	17,681
Loan receivables	9	225,360	252,261
Deposits		34,668	35,000
Deferred tax assets		8,665	8,944
		<u>647,994</u>	<u>708,447</u>
Current assets			
Loan receivables	9	1,096,660	1,372,746
Interest receivables	10	10,846	11,710
Account and other receivables, deposits and prepayments		76,006	79,511
Amounts due from associates		55,459	60,398
Cash and cash equivalents		443,582	411,595
		<u>1,682,553</u>	<u>1,935,960</u>

		At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Current liabilities			
Borrowings and loan payables	<i>11</i>	1,149,744	1,240,200
Other payables, accruals and deposit received		90,177	100,377
Liabilities arising from loan guarantee contracts	<i>11(f)</i>	83,847	89,340
Amount due to an associate		2,777	2,866
Unsecured bonds		53,113	27,741
Lease liabilities		5,448	4,166
Tax payables		154,681	160,153
		<u>1,539,787</u>	<u>1,624,843</u>
Net current assets		<u>142,766</u>	<u>311,117</u>
Total assets less current liabilities		<u>790,760</u>	<u>1,019,564</u>
Non-current liabilities			
Borrowings and loan payables	<i>11</i>	–	60,932
Unsecured bonds		15,563	46,292
Lease liabilities		4,347	2,768
Deferred tax liabilities		38,510	38,510
		<u>58,420</u>	<u>148,502</u>
NET ASSETS		<u><u>732,340</u></u>	<u><u>871,062</u></u>
EQUITY			
Share capital		2,080,113	2,080,113
Reserves		<u>(1,425,002)</u>	<u>(1,290,388)</u>
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		655,111	789,725
Non-controlling interests		<u>77,229</u>	<u>81,337</u>
TOTAL EQUITY		<u><u>732,340</u></u>	<u><u>871,062</u></u>

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2023 has been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2022. The policies of the Group on financial risk management were set out in the financial statements included in the Company’s 2022 annual report and there have been no significant changes in these policies for the six months ended 30 June 2023.

The unaudited condensed consolidated interim financial information has been prepared on the historical cost basis, except for certain financial instruments and investment property that are measured at fair values at the end of each reporting period.

The financial information relating to the financial year ended 31 December 2022 that is included in this announcement of interim results as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on the financial statements for the year ended 31 December 2022. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. CHANGES IN ACCOUNTING POLICIES

Other than additional/changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the unaudited condensed consolidated financial information for the six months ended 30 June 2023 are the same as those presented in the annual consolidated financial statements of the Group for the year ended 31 December 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's unaudited condensed consolidated interim financial information:

HKFRS 17	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in this unaudited condensed consolidated interim financial information.

Amends to HKAS 8 “Definition of Accounting Estimates”

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the interim financial information.

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the interim financial information but is expected to affect the disclosures of the Group’s accounting policies in the Group’s annual consolidated financial statements for the year ending 31 December 2023.

3. REVENUE AND SEGMENT REPORTING

a) Revenue

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

	For the six months ended 30 June	
	2023	2022
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Interest and financing consultancy services income from:		
Pawn loans, loan receivables from micro-lending and money-lending	65,442	112,542
Other loan receivables	2,252	1,376
	<u>67,694</u>	<u>113,918</u>
Interest and handling expenses from:		
Borrowings and loan payables	(14,142)	(14,210)
Loan payables from the Incidents	(31,605)	(49,366)
Lease liabilities	(198)	(296)
Unsecured bonds	(1,436)	(10,744)
Other finance costs	(1,292)	(4,241)
	<u>(48,673)</u>	<u>(78,857)</u>
Net interest income and service income	<u>19,021</u>	<u>35,061</u>
Income recognised over time under HKFRS 15:		
Education consultancy service	—	1,385

b) Segmental Information

Operating segment information

The Directors have determined that the Group has only one reportable segment as the Group is principally engaged in providing financing service which is the basis to allocate resources and assess performance of the Group for both periods.

There was no customer (six months ended 30 June 2022: nil) who individually contributed over 10% of the Group's revenue during the Reporting Period.

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
a) Other Income		
Bank interest income	3,608	2,861
Other interest income from debt securities	–	484
Income from government subsidies	–	1,911
Other consultancy service income	–	79
Others	1,495	5,475
	<u>5,103</u>	<u>10,810</u>
b) Other Gains and Losses		
(Loss)/gain from changes in fair value of financial assets at fair value through profit or loss (“FVTPL”), net	(12,388)	869
Loss on changes in fair value of investment properties	(552)	–
Loss on deregistration of subsidiaries	–	(86)
Impairment loss on intangible assets	(111)	–
Exchange (loss)/gain, net	(1,535)	451
	<u>(14,586)</u>	<u>1,234</u>
Total	<u>(9,483)</u>	<u>12,044</u>

5. LOSS BEFORE TAXATION

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

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(a) Staff costs (including directors' emoluments):		
Salaries, allowances and other benefits	22,176	34,325
Contributions to defined contribution retirement plans	2,457	2,998
	<u>24,633</u>	<u>37,323</u>
(b) Other items:		
Depreciation of property, plant and equipment		
– self-owned assets	1,021	1,032
– right-of-use assets	3,006	4,807
	<u>3,006</u>	<u>4,807</u>

6. INCOME TAX EXPENSE

Taxation in the unaudited condensed consolidated statement of profit or loss represents:

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – The People's Republic of China (the "PRC")		
Enterprise Income Tax		
Provision for the Reporting Period	14,198	20,873
Over-provision in respect of prior periods	(541)	(1,065)
	<u>13,657</u>	<u>19,808</u>

7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$117,100,000 (six months ended 30 June 2022: HK\$40,833,000) and the weighted average number of ordinary shares in issue less shares held under the Company's share award scheme during the Reporting Period of 202,323,367 (six months ended 30 June 2022: 202,323,367).

Diluted loss per share is not presented as the Company does not have any dilutive potential ordinary share for both periods.

8. INTERIM DIVIDEND

No dividends were paid, declared or proposed during both periods. The Directors have determined that no dividend will be paid in respect of the interim period.

9. LOAN RECEIVABLES

	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Pawn loan receivables	220,869	222,472
Loan receivables arising from:		
– Micro-lending	724,677	934,231
– Money-lending	248,051	258,828
Loan receivables from the Incidents	953,001	983,630
Other loan receivables	246,624	261,016
	<u>2,393,222</u>	<u>2,660,177</u>
<i>Less: Impairment</i>	<u>(1,071,202)</u>	<u>(1,035,170)</u>
	<u><u>1,322,020</u></u>	<u><u>1,625,007</u></u>
Amounts due within one year	1,096,660	1,372,746
Amounts due after one year	225,360	252,261
	<u><u>1,322,020</u></u>	<u><u>1,625,007</u></u>

The loan receivables in the PRC carry interest plus service charge at a range of monthly effective rates of 0.70% to 4.29% (31 December 2022: 0.70% to 4.29%), and the loan receivables in Hong Kong carry interest at a range of monthly effective rates of 0.35% to 4.91% (31 December 2022: 0.35% to 4.99%).

A typical loan generally has a term of 30 days to 30 years (31 December 2022: 60 days to 30 years).

As at 30 June 2023, included in the Group's loan receivables balance are debtors with aggregate carrying amount of HK\$736,044,000 (31 December 2022: HK\$923,042,000) which are past due. Out of the past due balances, HK\$705,458,000 (31 December 2022: HK\$870,076,000) has been past due 90 days or more. The Directors consider credit risks have increased significantly for those past due more than 30 days and those past due more than 90 days are considered as credit-impaired.

Loan receivables of RMB162,280,000 (equivalent to approximately HK\$176,013,000) (31 December 2022: RMB162,280,000 (equivalent to approximately HK\$181,670,000)) are due from Zhongjin Jiasheng Investment Fund Management (Beijing) Co. Ltd.* (中金佳晟投資基金管理(北京)有限公司) (“Zhongjin Jiasheng”) as at 30 June 2023, who also acts as an agent to assist the Group to negotiate for one-off settlement arrangements directly with the investors/lenders related to the Incidents (please refer to 2022 annual report for the details of the Incidents). No outstanding payable balance with Zhongjin Jiasheng is noted as at 30 June 2023 (31 December 2022: nil).

* The English translation of the company’s name is for reference only.

a) Maturity profile

As at the end of the reporting period, the maturity profile of loan receivables, based on maturity date, is as follows:

As at 30 June 2023 (Unaudited)

	Pawn loan receivables <i>HK\$'000</i>	Loan receivables arising from micro- lending <i>HK\$'000</i>	Loan receivables arising from money- lending <i>HK\$'000</i>	Loan receivables from the Incidents <i>HK\$'000</i>	Other loan receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Due within 1 month or on demand	164,437	442,592	27,214	953,001	246,624	1,833,868
Due after 1 month but within 3 months	5,965	56,029	18,532	–	–	80,526
Due after 3 months but within 6 months	25,521	44,345	17,167	–	–	87,033
Due after 6 months but within 12 months	24,946	114,641	25,414	–	–	165,001
Due after 12 months	–	67,070	159,724	–	–	226,794
Impairment	(11,484)	(82,453)	(3,792)	(953,001)	(20,472)	(1,071,202)
	<u>209,385</u>	<u>642,224</u>	<u>244,259</u>	<u>–</u>	<u>226,152</u>	<u>1,322,020</u>

As at 31 December 2022 (Audited)

	Pawn loan receivables <i>HK\$'000</i>	Loan receivables arising from micro- lending <i>HK\$'000</i>	Loan receivables arising from money- lending <i>HK\$'000</i>	Loan receivables from the Incidents <i>HK\$'000</i>	Other loan receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
Due within 1 month or on demand	219,150	531,415	10,624	983,630	259,392	2,004,211
Due after 1 month but within 3 months	2,799	78,747	7,481	–	–	89,027
Due after 3 months but within 6 months	–	171,900	11,165	–	–	183,065
Due after 6 months but within 12 months	–	66,065	63,490	–	–	129,555
Due after 12 months	523	86,104	166,068	–	1,624	254,319
Impairment	(1,964)	(37,558)	(3,641)	(983,630)	(8,377)	(1,035,170)
	<u>220,508</u>	<u>896,673</u>	<u>255,187</u>	<u>–</u>	<u>252,639</u>	<u>1,625,007</u>

10. INTEREST RECEIVABLES

	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Interest receivables	<u>10,846</u>	<u>11,710</u>

All of the interest receivables are expected to be recovered within one year.

Ageing analysis

As at the end of the reporting period, the ageing analysis of interest receivables, based on the revenue recognition date, is as follows:

	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Within 1 month	2,796	2,983
1 to 3 months	1,588	2,198
3 to 6 months	716	952
Over 6 months	5,746	5,577
	<u>10,846</u>	<u>11,710</u>

Interest receivables are due on the date of billing (or on maturity date corresponding of loan receivables according to the relevant loan agreements).

As at 30 June 2023, included in the Group's interest receivables balance are debtors with aggregate carrying amount of HK\$9,563,000 (31 December 2022: HK\$10,680,000) which are past due. Out of the past due balances, HK\$6,829,000 (31 December 2022: HK\$6,607,000) has been past due 90 days or more. The directors of the Company consider credit risks have increased significantly for those past due more than 30 days and those past due more than 90 days are considered as credit-impaired.

As at 30 June 2023, allowance for lifetime expected credit loss ("ECL") of HK\$499,000 (31 December 2022: HK\$5,965,000) is recognised for interest receivables with aggregate gross carrying amount of HK\$9,753,000 (31 December 2022: HK\$15,464,000) which are identified as credit-impaired financial assets, and allowance of 12-month ("12m") ECL of HK\$1,000 (31 December 2022: HK\$26,000) is recognised for interest receivables with aggregate gross carrying amount of HK\$1,593,000 (31 December 2022: HK\$2,237,000) because there has been no significant increase in credit risk since initial recognition based on past due information.

11. BORROWINGS AND LOAN PAYABLES

	<i>Notes</i>	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Borrowings from employees and independent third parties	<i>(a)</i>	65,206	68,350
Borrowings from shareholders	<i>(b)</i>	103,509	93,510
Borrowings from related parties	<i>(c)</i>	25,207	30,740
Loan payables arising from the Incidents	<i>(d)</i>	894,890	967,311
Note payables	<i>(e)</i>	60,932	141,221
		<u>1,149,744</u>	<u>1,301,132</u>
Amounts due within one year		1,149,744	1,240,200
Amounts due after one year		—	60,932
		<u>1,149,744</u>	<u>1,301,132</u>

Notes:

- a) The borrowings from the employees and independent third parties of HK\$32,406,000 (31 December 2022: HK\$29,750,000) bore finance costs measured at a range of annualised rates of 7% to 9% (31 December 2022: 7% to 9%), were repayable within one year and not secured by any assets or guarantees of the Group.

The borrowings from independent third parties of HK\$32,800,000 (31 December 2022: HK\$38,600,000) bore finance costs measured at a range of annualised rates of 9% to 9.8% (31 December 2022: 8% to 9.5%), were repayable within one year and secured by loan receivables of the Group of HK\$37,431,000 (31 December 2022: HK\$39,338,000).

- b) The details of the borrowings from shareholders included in borrowings and loan payables are as follows:

Name	<i>Notes</i>	At	At
		30 June	31 December
		2023	2022
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Short-term borrowings			
– Mr. Cheung Siu Lam (“Mr. Cheung”)	<i>(1)</i>	100,000	90,000
– Ms. Cheung Siu Hung (“Ms. Cheung”)	<i>(2)</i>	3,509	3,510
		103,509	93,510
		103,509	93,510

Notes:

- (1) The loan from Mr. Cheung, the controlling shareholder of the Company, is unsecured, bears interest at 9% per annum and is repayable on demand.
- (2) The loan from Ms. Cheung, a shareholder of the Company and sister of Mr. Cheung, is unsecured, bears interest at 7% (31 December 2022: 7%) per annum and is repayable on demand.
- c) The borrowings from Geston Limited, a company that is controlled by Madam Lo Wan (“Madam Lo”), a substantial shareholder of the Company, bore finance costs measured at an annualised rate of 9% (31 December 2022: 9%), and were repayable within one year and not secured by any assets or guarantees of the Group.

The borrowings from Mr. Zhang Min, an executive director and chief executive officer of the Company, bore finance costs measured at an annualised rate of 7.6% (31 December 2022: 7.6%), were repayable within one year and not secured by any assets or guarantees of the Group.

- d) The amount related to unauthorised loans and unauthorised guarantee entered by two former executive directors of the Company. Please refer to 2020 annual report of the Company for the detailed arrangements.

During the six months ended 30 June 2023, the Group, with the assistance of Zhongjin Jiasheng, had successfully settled with certain investors/lenders in respect of the unauthorised loans. Consequently, certain interest payables of HK\$31,706,000 (six months ended 30 June 2022: nil) was reversed to profit or loss for the period.

As at 30 June 2023, out of the total loan payables arising from the Incidents, HK\$763,956,000 (31 December 2022: HK\$788,509,000) and HK\$130,934,000 (31 December 2022: HK\$178,802,000) relates to unsettled unauthorised loans and related interest payables respectively. Interest of HK\$31,605,000 in relation to those unsettled unauthorised loans has been recognised in the profit or loss during the period (six months ended 30 June 2022: HK\$49,366,000).

- e) In February 2018, the Company issued note with principal amount of HK\$270,000,000. Pursuant to the subscription agreement dated 15 February 2018 and deed of amendment dated 3 November 2022, the note bears interest of 8% per annum and is secured by equity interest of Brilliant Star Capital (Cayman) Limited and KP Financial Holdings Limited, wholly-owned subsidiaries of the Company, personal guarantee given by Mr. Cheung and Madam Lo. Mr. Cheung and Madam Lo deposited 930,000,000 shares of the Company into a specific account with the safe keeping agent. The note is repayable in nine instalments commencing from May 2022 and the last instalment is due in May 2024.

Mr. Cheung and Madam Lo are substantial shareholders of the Company.

- f) As at 30 June 2023, the aggregate amount of outstanding financial guarantees of the Company under certain financial products issued by third parties arising from the Incidents amounts to RMB77,305,000 (equivalent to approximately HK\$83,847,000) (31 December 2022: RMB79,805,000 (equivalent to approximately HK\$89,340,000)) if the guarantees were called upon in entirety. Please refer to 2020 annual report of the Company for the detailed arrangements.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Despite the loosening restrictions of anti-pandemic policies by the Chinese government at the end of 2022, China's economy is confronted by many challenges in general after the 3-year pandemic. These challenges were mainly due to the decline in domestic demand, the complex and challenging foreign environment, the difficulties in business operations, and more risks in key areas (including the property market). A number of targeted measures, including monetary policy, fiscal policy, business environment policy, consumer stimulus policy, and property market control policy, have also been promulgated by relevant departments to expand domestic demand and stabilize and revitalize economic development.

In terms of China's central bank policy, the People's Bank of China ("PBOC") lowered the deposit reserve ratio for financial institutions and the National Interbank Funding Centre, under the authorisation of the PBOC, cut the over-five-year loan prime rate in the first half of the year, which was for the first adjustment since August 2022, and this was coupled with a number of reverse repurchases to regulate market liquidity. Under the combined effect of the various measures, banks were able to quickly expand their lending business as bank liquidity rose and interest rates fell, leading to a decline in overall market interest rates. In addition to the macro-economic impact, the downward shift of the banking business undoubtedly heightened the competition in the entire lending industry, especially in property mortgages, and the overall profit level of the industry continued to decline, especially in residential asset mortgage with a stronger liquidity and a higher quality.

Overall, the performance of the property market in Mainland China in the first half of the year fell short of expectations. Given the weakening property investment, development, sales activities, and property valuations in some regions, challenges are expected to be posed to the Group's property mortgage business to certain extent.

BUSINESS REVIEW

Against the backdrop of the flagging property market and ample liquidity in banks, the mortgage lending industry in which the Group operates has become more competitive, and therefore the Group faced issue of profitability and the need to strengthen risk management capability. In the first half of 2023, as the scale of the Group's mortgage business in the Mainland had declined, the Company's management took active measures, including regional product policy adjustments and optimization of the Group's operating efficiency, to respond. Financing business in Hong Kong remained relatively stable in the first half of the year, with the balance of loan book maintained at the end of Reporting Period at a similar level as the end of previous year. Meanwhile, amidst the complex macro environment, industry environment and market conditions, the Group's management was determined to strengthen risk management with strict internal control and competent management of overdue loan assets, to ensure the overall business risks fluctuated within a reasonable range, and refrained from trading risk control in exchange for high returns in the prevailing situation of higher market risks.

In the first half of the year, the Group realized interest and financing consultancy services income of HK\$67,694,000, representing a decrease of 40.6% when compared to the corresponding period of last year, and loss attributable to owners of the Company was about HK\$117,100,000.

The percentages of revenue contribution from different operating regions of the Group for both periods are shown below:

	Six months ended 30 June	
	2023	2022
Beijing	38.6%	39.9%
Chengdu & Chongqing	25.8%	30.1%
Shenzhen	8.1%	10.3%
Hong Kong	27.5%	19.7%

FUTURE PROSPECTS

The Group's management is of the view that the property sector may stabilize in the second half of the year due to the strengthening of regulations, especially property policy. A stabilized property market performance will be optimal for the operation and expansion of the Group's mortgage business. However, the Group's business will continue to face stronger competition, if the banking policy is still relatively lenient in the second half of the year. The management will maintain close communication with the frontline staff, and make timely adjustments to the product policy and business deployment through a continuously optimized operational structure, so as to accommodate the ever-changing market conditions and the competitive environment.

FINANCIAL REVIEW

Interest and financing consultancy services income

During the financial period ended 30 June 2023 (the "Reporting Period"), the Group's revenue principally derived from the interest and services income from financing services.

Interest and services income for the Reporting Period was approximately HK\$67,694,000, representing a decrease of 40.6% when compared to the same period last year. The decrease was mainly due to the mortgage lending business in PRC in which the Group operated becoming more competitive. As a result, the scale of the Group's mortgage business in the PRC declined.

Interest and handling expenses

Interest and handling expenses represent finance costs incurred for the Reporting Period. The amount decreased from approximately HK\$78,857,000 for the corresponding period in 2022, to approximately HK\$48,673,000 for the Reporting Period, representing a decrease of 38.3%. Interest expenses arising from loan payables from the Incidents was approximately HK\$31,605,000, representing a reduction of 36.0% when compared to the same period last year. The decrease in finance costs was due to reduction in interest expenses in unsecured bonds and loan payables from the Incidents during the Reporting Period.

Other Gains and Losses

A loss of approximately HK\$12,388,000 was recognized in the Reporting Period from changes in fair value of financial assets at fair value.

During the Reporting Period, the Group recognised a one-off income from reversal of interest payables in an amount of approximately HK\$31,706,000. The reversal of interest payables related to over-provision of interest expenses related to the Incident in previous years.

General and administrative expenses

General and administrative expenses for the Reporting Period decreased by 34.3% to approximately HK\$49,152,000, primarily comprised of staff costs and related expenses, legal and professional fee, consultancy fee and general office expenses. The management adopts rigorous cost control measures to maintain general and administrative expenses at a reasonable level.

Loss for the period

Loss for the Reporting Period attributable to owners of the Company was approximately HK\$117,100,000, representing an increase of 186.8% as compared to loss of approximately HK\$40,833,000 for the first half of 2022. The loss was mainly attributable to (i) the decline in the revenue generated by the financing business in the PRC; (ii) an increase in impairment losses on loan and other receivables and (iii) an increase in impairment loss on goodwill.

Liquidity and Financial Resources

The Group adopts a prudent cash and financial management policy. Funds are maintained at a sound and healthy financial resource level. The Group's net current assets and equity attributable to owners of the Company as at end of the Reporting Period were approximately HK\$142,766,000 and approximately HK\$655,111,000 respectively. For the Reporting Period, the gearing ratio of the Group is 1.06⁽ⁱ⁾. The

⁽ⁱ⁾ Gearing ratio was calculated by dividing interest bearing net debts (borrowings and loan payables plus unsecured bonds less cash and cash equivalents) by total equity as at the end of the Reporting Period.

Group's outstanding borrowings and loan payables and unsecured bonds as at end of this Reporting Period amounted to HK\$1,218,420,000, a decrease of approximately 11.4% when compared to the same figure last year, out of which HK\$1,202,857,000 are due within one year and HK\$15,563,000 are due after one year. There is no funding requirements for capital expenditure commitments for the Reporting Period.

Capital Management

The Group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. All the borrowings and loan payables are at fixed interest rates. 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.

Based on the Group's current and anticipated level of operation, the Group's future operations and capital requirements will be mainly financed through borrowings and share capital. There were no significant commitments for capital expenditure as at 30 June 2023.

Employee and Remuneration Policies

As of 30 June 2023, the Group had approximately 132 employees in the PRC and Hong Kong, in which 68 are female employees. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience, and performance. The Group also set up a share option scheme for the purpose of providing incentives to eligible grantees. Total staff costs for the Reporting Period were approximately HK\$24,633,000, a decrease of approximately 34.0% as compared to the corresponding figure of previous year. In order to recognize and reward the contribution of certain eligible participants to the growth and development of the Group, the Company adopted a share award plan (the "Share Award Plan") on 14 January 2019. As of the date of this announcement, no awards have been granted or agreed to be granted under the Share Award Plan.

Charge on assets

As of 30 June 2023, the Group pledged the entire equity interest of Brilliant Star Capital (Cayman) Limited and KP Financial Holdings Limited, wholly owned subsidiaries of the Company, to secure the issue of the note payable with principal amount of HK\$270,000,000. The outstanding principal amount as of 30 June 2023 was approximately HK\$60,932,000. Certain properties mortgaged to a subsidiary of the Company by its respective customers were pledged to secure loan facilities granted to the Group with a carrying value of approximately HK\$53,300,000. As of 30 June 2023, the Group had pledged its mortgage loan receivables with net book value of approximately HK\$37,431,000 to secure loan facilities granted to the Group.

Fair Value Estimation

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

Contingent Liabilities

The directors consider that the Group had no material contingent liabilities.

Foreign Exchange Exposure

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB") and Hong Kong Dollars ("HKD"). The Group, with HKD as its presentation currency, is exposed to foreign currency risk arising from the exposure of HKD against RMB. The Group has a net exchange exposure to RMB as the Group's assets are principally located in the PRC. The Group manages and monitors foreign exchange exposures to ensure appropriate measures are implemented on a timely and effective manner. As at end of the Reporting Period, loan payables arising from the Incidents amounted to approximately HK\$894,890,000 are denominated in RMB and cash and cash equivalents amounted to approximately HK\$419,454,000 are denominated in RMB. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure to fluctuations in exchange rates as of 30 June 2023.

Significant Investments Held, Material Acquisitions and Disposals

The Group did not have any significant investments held, material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 30 August 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of its securities during the six months ended 30 June 2023.

SHARE AWARD SCHEME

During the Reporting Period, there were 6,962,700 shares held in trust by the trustee under the Share Award Scheme and no awards have been granted or agreed to be granted under Share Award Scheme.

Up to the date of approving the Group's unaudited condensed consolidated interim financial statements, no award shares were granted to selected Grantees.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Reporting Period (six months ended 30 June 2022: Nil).

EVENTS AFTER THE REPORTING PERIOD

There have been no significant events occurring after the end of the Reporting Period and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the Reporting Period, except for code provisions C.2.1:

Code Provision C.2.1

Code provision C.2.1 of CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Zhang Min, the Chief Executive Officer, has temporarily assumed the duties of Chairman of the Board during the Reporting Period until a new Chairman has been selected. The Board is taking active steps to select a suitable Chairman to fulfill the CG Code.

The Board considers that the Chairman's responsibilities are to manage the Board whereas the Chief Executive Officer's responsibilities are to manage the Company's businesses. The responsibilities of the Chairman and the Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Company Code throughout the Reporting Period.

The Company has also established written guidelines (the "Employees Written Guidelines") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS

The audit committee of the Company (the "Audit Committee"), which comprises four independent non-executive directors, has reviewed the interim results for six months ended 30 June 2023. The Audit Committee considered that the unaudited condensed consolidated interim financial information for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on the Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. In addition, the independent auditor of the Company, Baker Tilly Hong Kong Limited, has reviewed the unaudited interim financial information for the Reporting Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information by the auditor will be included in the 2023 interim report to shareholders.

The primary duties of the Audit Committee include providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management system.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.cfsh.com.hk.

The 2023 Interim Report will be despatched to shareholders and published on both websites in due course.

On behalf of the Board

Zhang Min

Executive Director & Chief Executive Officer

Hong Kong, 30 August 2023

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

Executive Director:

Mr. Zhang Min (*Chief Executive Officer*)

Non-executive Director:

Mr. Tao Chun

Independent Non-executive Directors:

Mr. John Paul Ribeiro

Mr. Zhang Kun

Mr. Chan Chun Keung

Mr. Lee Ka Wai

Madam Zhan Lili