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Capital Finance Holdings Limited
首都金融控股有限公司

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8239)

**SUPPLEMENTAL ANNOUNCEMENT REGARDING
DISCLOSEABLE TRANSACTION IN RELATION TO
THE ACQUISITION OF 50% EQUITY INTEREST IN
THE TARGET COMPANY**

Reference is made to the announcements of the Company dated 6 December 2019 (the “**Acquisition Announcement**”) and 11 December 2019 in relation to the Acquisition (collectively, the “**Announcements**”). Unless the context requires otherwise, capitalised terms used herein shall bear the same meaning as defined in the Acquisition Announcement. The Company would like to provide further information in relation to the Acquisition as set out below.

INFORMATION OF THE VENDORS

Vendor A, namely Mr. Feng Min (馮敏), is a PRC citizen and an Independent Third Party.

Vendor B, namely Ms. Liu Xiurong (劉秀榮), is a PRC citizen and an Independent Third Party.

Both Mr. Feng Min and Ms. Liu Xiurong had not participated in the daily operations of the Target Company.

INFORMATION OF THE TARGET COMPANY

The Target Company was established under the laws of the PRC in August 2015, and did not have any material operation until the Target Company began its distressed assets management business after acquiring a portfolio of distressed debt assets in the first half of 2019.

Prior to Completion, (i) the Target Company was owned as to 33.33% by Vendor A, 16.67% by Vendor B, 25.00% by Mr. Chen Deheng (陳德衡) (“**Mr. Chen**”) and 25.00% by Mr. Jin Mao (金矛) (“**Mr. Jin**”), respectively; and (ii) the daily operations of the Target Company were primary responsible by Mr. Chen, being the sole executive director, authorized representative and general manager, and Mr. Jin, being the supervisor, of the Target Company.

Mr. Chen is currently the executive director and the general manager of 北京華電盛泰電力工程有限公司 (Beijing Huadian Shengtai Power Engineering Company Limited*) since 2015, and possesses over 15 years of experience in corporate management, strategic planning and investment management.

Mr. Jin had worked for the Industrial and Commercial Bank of China in the accounting and human resources divisions for over 14 years, and possesses over 10 years of experience in corporate management and project investment.

Following Completion, it is the intention of the Company to replace Mr. Chen and appoint Ms. Zhang Shanshan (張珊珊) (“**Ms. Zhang**”) as the sole executive director, authorized representative and the general manager of the Target Company.

Ms. Zhang had worked in Agricultural Bank of China Limited and Baoshang Bank Co., Ltd. during 2001 to 2014, and was responsible for credit risk management business. Ms. Zhang joined the Group since May 2014 as the chief risk management officer of one of the Group’s operating subsidiaries, and is primary responsible for risk management for the Group’s short-term financing services, including but not limited to dealing with non-performing debts of the Group.

In addition, Ms. Liu Chunxia (劉春霞) (“**Ms. Liu**”) will be appointed as the supervisor of the Target Company. Ms. Liu has been appointed as the executive director of one of the Group’s operating subsidiaries and is also the supervisor for several subsidiaries of the Group since September 2012. Ms. Liu possesses over 7 years of experience in financing services, including but not limited to managing non-performing debts, in the PRC.

* *English name is for identification purpose only*

As at 30 November 2019, the Target Company had a portfolio of 14 distressed debt assets (the “**Distressed Debt Assets**”) comprising non-performing debts secured by the pledge of the Collaterals. A summary of the Distressed Debt Assets are set out below:

- (i) the total outstanding principal amount of the Distressed Debt Assets as at 30 November 2019 amounted to approximately RMB100.7 million (equivalent to approximately HK\$111.9 million);
- (ii) the total accrued interests of the Distressed Debt Assets as at 30 November 2019 amounted to approximately RMB52.5 million (equivalent to approximately HK\$58.3 million);
- (iii) the aggregate of the total outstanding principal amount and accrued interests of the Distressed Debt Assets as at 30 November 2019 amounted to approximately RMB153.2 million (equivalent to approximately HK\$170.2 million) (the “**Aggregate Amount**”);
- (iv) the tenure of the Distressed Debt Assets ranges from 1 month to 24 months, and are all over due and/or in default; and
- (v) the total fair value of the Collaterals as at 30 November 2019 amounted to approximately RMB184.7 million (equivalent to approximately HK\$205.2 million), which is based on valuations prepared by an independent valuer using the market approach. As advised by the Company’s PRC legal adviser, there should be no material legal impediment for the Target Company to realize the Collaterals into cash by going through related legal processes, such as the compulsory execution of auction or sale by the court for the Collaterals.

Up to 31 December 2019, an amount of approximately RMB31.2 million (equivalent to approximately HK\$34.7 million) out of the total outstanding principal amount of the Distressed Debt Assets had been duly recovered by the Target Company. As a result, the Group recorded (i) a revenue of approximately RMB1.4 million (equivalent to approximately HK\$1.6 million); (ii) an increase of cash and cash equivalents of approximately RMB31.2 million (equivalent to approximately HK\$34.7 million); and (iii) a decrease in loans to customers of approximately RMB29.8 million (equivalent to approximately HK\$33.1 million).

CONSIDERATION

Besides the bases as disclosed in the Announcements, the Board has also taken into account, among others, the following factors in determining the Consideration of RMB30.5 million (equivalent to approximately HK\$33.9 million), payable by the Purchaser under the Agreement:

- (i) the total outstanding principal amount and related accrued interests of the Distressed Debt Assets as at 30 November 2019 amounted to approximately RMB100.7 million and RMB52.5 million, respectively;
- (ii) the Aggregate Amount of approximately RMB153.2 million represents a premium of approximately RMB93.2 million or 155% over the net assets of the Target Company of approximately RMB60.0 million as at 30 November 2019;
- (iii) the Aggregate Amount of approximately RMB153.2 million represents a premium of approximately RMB92.2 million or 151% over the implied consideration of acquiring 100% equity interest in the Target Company (i.e. RMB30.5 million x 2 = RMB61.0 million) (the “**Implied Consideration**”);
- (iv) the total fair value of the Collaterals of approximately RMB184.7 million as at 30 November 2019 represents a premium of approximately RMB123.7 million or 203% over the Implied Consideration of RMB61.0 million; and
- (v) the reasons and benefits for the Acquisition as further elaborated below.

REASONS AND BENEFITS FOR THE ACQUISITION

Along with the uncertainties arising from trade tensions and global slowdown, the PRC’s economy conditions have been challenging, resulting in a slowing growth. Consequently, non-performing debts and default rate have been increasing and showing a general upward trend in the PRC. These circumstances have brought attractive opportunities and a promising prospect to the distressed assets management business in the PRC.

In addition, the Directors are of the view that the expansion by the Group into the distressed assets management business in the PRC will facilitate synergies with the Group’s existing short-term financing services business, given that:

- (i) the Group will be able to seek business opportunities for the distressed assets management business from its existing customer base of the short-term financing services business;
- (ii) the Group will be able to leverage on the vast experience in credit risk management of its existing short-term financing services team to conduct assessment on, including but without limitation to, the investment terms, values and treatments of any potential non-performing debts; and

(iii) the Group will be able to leverage on its expertise in dealing with legal process relating to the recovery of the Collaterals (such as the compulsory execution of auction or sale by the court), if any.

In view of the above, the Directors consider that (i) the Acquisition would enhance the Group's competitiveness in the financial services market, increase its profitability and expand its market share; and (ii) the terms of the Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

By order of the Board
Capital Finance Holdings Limited
Zhang Wei
Chairman and Executive Director

Hong Kong, 7 February 2020

In this announcement, translation of RMB into HK\$ is based on the exchange rate of RMB1:HK\$1.111. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the above exchange rate or any other rates.

As at the date of this announcement, the executive Directors are Mr. Zhang Wei and Ms. Li Wei, the non-executive Director is Mr. Zang Wei and the independent non-executive Directors are Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen, Albert.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website on the "Latest Listed Company Information" page for at least seven days from the date of its posting and on the website of the Company at <http://www.capitalfinance.hk>.

In the case of inconsistency, the English text of this announcement shall prevail over the Chinese text.