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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of Capital Finance Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL RESULTS

The board (the "Board") of Directors of the Company is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 together with comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** **HK$'000**	2016 *HK$'000*
Continuing operation			
Revenue	*3*	**74,833**	111,927
Other income, and other gains and losses, net	*3*	**5,888**	7,715
Administrative and other expenses		**(36,305)**	(52,845)
Fair value gain on contingent consideration — consideration shares		**—**	1,141
Loss on early redemption of promissory notes		**—**	(249)
Impairment loss on goodwill	*12*	**—**	(151,657)
Impairment loss on intangible assets	*11*	**—**	(149,000)
(Provision for)/Reversal of impairment loss on loans to customers	*13*	**(1,534)**	1,810
Finance costs	*5*	**(44,336)**	(43,644)
Loss before income tax from continuing operation	*5*	**(1,454)**	(274,802)
Income tax (expense)/credit	*6*	**(10,936)**	21,374
Loss for the year from continuing operation		**(12,390)**	(253,428)
Discontinued operation			
Profit for the year from discontinued operation	*8*	**—**	1,654
Loss for the year		**(12,390)**	(251,774)
Attributable to:			
Owners of the Company		**(14,735)**	(254,406)
Non-controlling interests		**2,345**	2,632
		(12,390)	(251,774)

CONSOLIDATED INCOME STATEMENT (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 HK$'000	2016 HK$'000
Loss per share attributable to owners of the Company	9		
From continuing and discontinued operations			
Basic and diluted (Hong Kong cents)		**(1.13)**	(21.64)
From continuing operation			
Basic and diluted (Hong Kong cents)		**(1.13)**	(21.78)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	HK$'000	*HK$'000*
Loss for the year	**(12,390)**	(251,774)
Other comprehensive income/(expense) for the year		
Item that will be reclassified to profit or loss:		
— Reclassification adjustment of exchange reserve on disposal of interests in foreign operations	—	3,654
— Exchange differences on translation of financial statements of foreign operations	**39,855**	(51,467)
Other comprehensive income/(expense) for the year, net of tax	**39,855**	(47,813)
Total comprehensive income/(expense) for the year	**27,465**	(299,587)
Attributable to:		
Owners of the Company	**23,978**	(301,209)
Non-controlling interests	**3,487**	1,622
	27,465	(299,587)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	*10*	**1,668**	1,763
Available-for-sale financial assets		**8,405**	7,815
Deferred tax assets		**3,446**	2,833
Total non-current assets		**13,519**	12,411
Current assets			
Loans to customers	*13*	**536,590**	376,056
Trade receivables	*14*	**180**	167
Prepayment, deposits and other receivable		**4,616**	6,019
Cash and cash equivalents		**55,893**	154,012
Total current assets		**597,279**	536,254
Current liabilities			
Accrued expenses, other payables and deposits received		**13,180**	15,087
Tax payable		**3,311**	2,085
Dividend payable to non-controlling interests		**2,541**	—
Amount due to a shareholder		**2,749**	—
Interest-bearing borrowings		**—**	11,834
Total current liabilities		**21,781**	29,006
Net current assets		**575,498**	507,248
Total assets less current liabilities		**589,017**	519,659
Non-current liabilities			
Promissory notes		**21,532**	19,779
Convertible bonds — liability component		**527,378**	518,324
Total non-current liabilities		**548,910**	538,103
Net assets/(liabilities)		**40,107**	(18,444)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2017

	2017	2016
	HK$'000	*HK$'000*
Capital and reserves		
Issued capital	**13,012**	11,812
Reserves	**10,870**	(45,435)
Equity attributable to owners of the Company	**23,882**	(33,623)
Non-controlling interests	**16,225**	15,179
Total equity/(Capital deficiency)	**40,107**	(18,444)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company											
	Issued capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Capital reserve *HK$'000*	Exchange reserve (debit) *HK$'000*	Convertible bonds reserve *HK$'000*	Other reserve *HK$'000*	Statutory reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity/ (Capital deficiency) *HK$'000*
As at 1 January 2016	11,547	534,438	131,109	120,794	(40,837)	754,090	9,544	13,936	(1,267,035)	267,586	15,335	282,921
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(254,406)	(254,406)	2,632	(251,774)
Other comprehensive expense												
Item that will be reclassified to profit or loss												
Reclassification adjustment of exchange reserve on disposal of interests in foreign operations	–	–	–	–	3,654	–	–	–	–	3,654	–	3,654
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(50,457)	–	–	–	–	(50,457)	(1,010)	(51,467)
Other comprehensive expense for the year	–	–	–	–	(46,803)	–	–	–	–	(46,803)	(1,010)	(47,813)
Total comprehensive (expense)/income for the year	–	–	–	–	(46,803)	–	–	–	(254,406)	(301,209)	1,622	(299,587)
Transfer to statutory reserve	–	–	–	–	–	–	–	2,848	(2,848)	–	–	–
Transactions with owners												
Issuance of new shares upon fulfilment of guaranteed profit	265	9,279	–	–	–	–	(9,544)	–	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(1,778)	(1,778)
Transactions with owners	265	9,279	–	–	–	–	(9,544)	–	–	–	(1,778)	(1,778)
As at 31 December 2016	11,812	543,717	131,109	120,794	(87,640)	754,090	–	16,784	(1,524,289)	(33,623)	15,179	(18,444)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Issued capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Capital reserve *HK$'000*	Exchange reserve (debit) *HK$'000*	Convertible bonds reserve *HK$'000*	Other reserve *HK$'000*	Statutory reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	(Capital deficiency)/ Total equity *HK$'000*
As at 1 January 2017	11,812	543,717	131,109	120,794	(87,640)	754,090	–	16,784	(1,524,289)	(33,623)	15,179	(18,444)
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(14,735)	(14,735)	2,345	(12,390)
Other comprehensive income												
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	38,713	–	–	–	–	38,713	1,142	39,855
Other comprehensive income for the year	–	–	–	–	38,713	–	–	–	–	38,713	1,142	39,855
Total comprehensive income for the year	–	–	–	–	38,713	–	–	–	(14,735)	23,978	3,487	27,465
Transfer to statutory reserve	–	–	–	–	–	–	–	4,258	(4,258)	–	–	–
Transactions with owners												
Issue of shares on conversion of convertible bonds	1,200	73,111	–	–	–	(40,784)	–	–	–	33,527	–	33,527
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	–	–	(2,441)	(2,441)
Transactions with owners	1,200	73,111	–	–	–	(40,784)	–	–	–	33,527	(2,441)	31,086
As at 31 December 2017	13,012	616,828	131,109	120,794	(48,927)	713,306	–	21,042	(1,543,282)	23,882	16,225	40,107

Notes:

1. ORGANISATION AND OPERATIONS

Capital Finance Holdings Limited (the "Company") was previously incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and continues as an exempted company with limited liability in accordance with the Bermuda Companies Act 1981 upon the change of domicile of the Company from the Cayman Islands to Bermuda becoming effective on 30 November 2009, and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Exchange"). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business has been changed from Suites 3509-10, 35/F., Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong to Unit 2613A, 26th Floor, Miramar Tower, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong with effect from 13 February 2017.

During the year ended 31 December 2017, the Company is principally engaged in investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the provision of short-term financing services in the People's Republic of China (the "PRC") and Hong Kong ("Short-term Financing Services"). The Group was also engaged in business of development and sales of enterprises software and provision of software maintenance and support services for financial sectors in the PRC ("Development and Sales of Software"), which was discontinued during the year ended 31 December 2016. Further details of which are set out in Note 8.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements also comply with the applicable disclosure requirements by the Rules Governing the Listing of Securities on the GEM of the Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is same as the functional currency of the Company, and all values are rounded to the nearest thousands unless otherwise stated.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied for the first time the following amendments to HKFRSs issued by the HKICPA, which are relevant and mandatorily effective for the Group's consolidated financial statements for the accounting period beginning on 1 January 2017:

(i) Amendments to HKAS 7 Disclosure Initiative

The amendments to HKAS 7 require an entity to make disclosures that aim to enable users of financial statements to evaluate changes in liabilities arising from financing activities. Reconciliations of various types of the Group's financing liabilities are disclosed in the consolidated financial statements. Other than such additional disclosures, the application of the amendments has not had any material effect on the consolidated financial statements.

(ii) Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised losses

The amendments to HKAS 12 clarify when unrealised losses on a debt instrument measured at fair value would give rise to a deductible temporary difference and how to evaluate whether sufficient future taxable profits are available to utilise a deductible temporary difference. The application of the amendments has not had any material effect on the consolidated financial statements.

(iii) Annual Improvements to HKFRSs 2014-2016 Cycle Amendments to a number of HKFRSs

Annual improvements to HKFRSs (2014-2016 cycle) include an amendment to HKFRS 12 that clarifies that, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 Non-current Assets held for Sale and Discontinued operations, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 Disclosure of Interests in Other Entities. The application of the amendments has not had any material effect on the consolidated financial statements.

The Group has not early applied any of the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements:

HKFRS 9	Financial Instruments[1]
HKFRS 15 and amendments to HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or joint Venture[3]
Amendments to HKAS 40	Transfer of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle[4]
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods on or after 1 January 2018

2 Effective for annual periods on or after 1 January 2019

3 Effective date not yet determined

4 For those amendments that will become effective for annual periods on or after 1 January 2018

5 Effective for annual periods on or after 1 January 2021

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for (a) classification and measurement of financial assets, (b) impairment of financial assets and (c) general hedge accounting.

With regards to the classification and measurement of financial assets, financial assets that are within the scope of HKFRS 9 are subsequently measured at either amortised cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. All other financial assets are measured at fair value at the end of each of the subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt instrument financial assets and equity investments are measured at their fair value at the end of subsequent accounting periods with changes in fair value recognised in profit or loss, except that the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is neither held for trading nor being contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and the cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

With regards to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. This differs from the accounting treatment under HKAS 39, whereby the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is recognised in profit or loss.

With regards to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to the incurred credit loss model required under HKAS 39. In general, the adoption of the expected credit loss model will require the Group to assess at each reporting date whether there is a significant increase in credit risk of its financial assets since initial recognition and to recognise loss allowance equal to the lifetime or 12-month expected credit losses depending on whether or not there is a significant increase in credit risk.

With regards to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. HKFRS 9 will provide greater flexibility as to the types of transactions eligible for hedge accounting, specifically by broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

HKFRS 9 contains specific transitional provisions for (a) classification and measurement of financial assets; (b) impairment of financial assets; and (c) hedge accounting, which will be adopted by the Group when it applies HKFRS 9 in the year ending 31 December 2018.

The amendments to HKFRS 9 Prepayment Features with Negative Compensation mainly clarify and provide additional guidance as to when a debt instrument financial asset with a prepayment option would satisfy the "solely payment of principal and interest' test.

HKFRS 9 requires the Group to recognise and measure a 12-month expected loss or lifetime expected credit loss, depending on the facts and circumstances at the end of the reporting period. The Group expected that the application of the expected credit loss model will result in earlier recognition of credit losses. The Group will perform a more detailed analysis which considers all reasonable and supportable information including forward-looking elements, for estimation of expected credit losses on its loans to customers and trade receivables upon the adoption of HKFRS 9.

Regarding the application of classification and measurement requirements of HKFRS 9, the Group considers that its investments in equity instruments currently classified as available-for-sale financial assets will be remeasured at fair value under HKFRS 9. The Group will perform a more detailed analysis upon the application of HKFRS 9.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

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 entity satisfies a performance obligation

Under HKFRS 15, the Group will recognise revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

HKFRS 15 contains a number of transitional provisions as well as practical expedients to help preparers so through the transition. Please refer to HKFRS 15 for details.

The majority of the Group's revenue as set out in Note 3 are interest income from loans to customers. Since there will not be material change in recognition requirement of interest income, the Directors do not expect that the application of HKFRS 15 will have a material impact. Regarding other types of income which are not material for the year, the Directors will perform a more detailed assessment.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regards to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regards to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Group anticipates that under HKFRS 16, it may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-to-use asset will be recognised in the profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

— In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

— Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

— A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The Directors anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

3. REVENUE, OTHER INCOME, AND OTHER GAINS AND LOSSES, NET

The Group's revenue represents the short-term financing services income, net of direct financing costs. An analysis of the Group's revenue, other income, and other gains and losses, net for the continuing operation is as follows:

	Note	2017 *HK$'000*	2016 *HK$'000*
Continuing operation			
Revenue			
Interest income from loans to customers		**72,137**	83,055
Financial consultancy income		**2,771**	29,697
Interest expense on funds for loans to customers	*5*	**(75)**	(825)
Short-term financing services income, net		**74,833**	111,927
Other income, and other gains and losses, net			
Bank interest income		**825**	1,255
Waive of interest expenses on promissory note		**—**	1,600
Loss on disposal of property, plant and equipment		**(15)**	(15)
Sundry income		**5,078**	4,208
Government grants		**—**	667
		5,888	7,715

4. SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment of the Group's various lines of business and geographical locations.

The Group's operating segments are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments.

Summary details of the operating segments are as follows:

(a) The short-term financing services segment comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business in the PRC and Hong Kong; and

(b) Development and sales of software segment comprised development and sales of enterprise software and provision of software maintenance and support services for financial sectors in the PRC.

The Group completed the disposal of development and sales of software business on 31 March 2016. Accordingly, the development and sales of software segment was classified as a discontinued operation, details of which are set out in Note 8. As such, the Group has determined that it only has one operating segment which is the provision of short-term financing services. As this is the only operating segment of the Group no further analysis for segment information is presented.

In determining the Group's geographical segments and revenues are based on the location in which the customers are located; assets and capital expenditure are attributed to the segments based on the locations of the assets.

Geographical segments

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets"):

	Revenue from external customers Year ended 31 December		**Specified non-current assets As at 31 December**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operation				
Hong Kong	**—**	—	**573**	484
PRC	**74,833**	111,927	**1,095**	1,279
	74,833	111,927	**1,668**	1,763

Information about major customers

Revenue from external customers who individually contributed to 10% or more of the Group's revenue is as follows:

The customer base in short-term financing services segment is diversified and none of the (2016: two) customer individually contributed to 10% or more of the Group's revenue for the year ended 31 December 2017. (2016: approximately HK$13,061,000 and HK$11,892,000 respectively).

5. LOSS BEFORE INCOME TAX

The Group's loss before income tax for both continuing and discontinued operations is arrived at after charging/(crediting) the following:

	Note	**2017** ***HK$'000***	2016 *HK$'000*
Finance costs			
Continuing operation			
Effective interest expenses on			
— convertible bonds		**42,581**	41,874
— promissory notes		**1,753**	1,770
— others		**2**	—
Interest expense on funds for loans to customers		**75**	825
		44,411	44,469
Less: interest expense included in revenue	*3*	**(75)**	(825)
		44,336	43,644
Other items			
Continuing operation			
Staff costs (excluding directors' emoluments)			
Salaries, allowance and other benefits		**14,025**	16,128
Pension scheme contributions		**1,948**	6,063
		15,973	22,191
Auditor's remuneration			
— Audit services		**883**	841
— Non-audit services		**250**	120
Depreciation of property, plant and equipment	*10*	**925**	1,152
Minimum lease payments under operating leases for land and buildings		**5,731**	8,549
Exchange difference, net		**647**	(435)
Discontinued operation			
Staff costs (excluding directors' emoluments)			
Salaries and wages		—	1,201
Pension scheme contributions		—	975
		—	2,176
Amortisation of intangible assets	*11*	—	370
Depreciation of property, plant and equipment	*10*	—	123
Minimum lease payments under operating leases for land and buildings		—	184

6. INCOME TAX EXPENSE/(CREDIT)

The amount of income tax expense/(credit) in the consolidated income statement represents:

	2017	2016
	HK$'000	*HK$'000*
Continuing operation		
Current tax		
PRC		
Current tax charge for the year	**11,430**	15,251
(Over)/Under-provision in respect of prior years	**(111)**	172
Deferred tax credit	**(383)**	(36,797)
Income tax expense/(credit) for continuing operation	**10,936**	(21,374)
Discontinued operation		
Current tax		
Hong Kong		
Deferred tax credit	**—**	(71)
PRC		
Deferred tax expense	**—**	65
Income tax credit for discontinued operation	**—**	(6)
Total income tax expense/(credit) for continuing and discontinued operations	**10,936**	(21,380)

(a) The Company is exempted from payment of the Bermuda income tax.

(b) The subsidiaries of the Group established in the PRC save for below are subject to enterprise income tax ("EIT") of the PRC at 25% (2016: 25%).

Pursuant to the relevant laws and implementation rules announced by the People's Government of the Tibet Autonomous Region, Lhasa Jiade Financial Consultant Company Limited ("Lhasa"), a subsidiary of the Group established in Tibet of the PRC is subject to the EIT at 15%. Upon the announcement of preferential tax treatment, the EIT rate of Lhasa has changed to 9% for the year 2015 to 2017, the EIT rate of Lhasa will resume to 15% if no further announcement of preferential tax treatment is made.

(c) For the year ended 31 December 2017, no provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising in Hong Kong (2016: Nil).

(d) Dividend distribution out of profit of foreign-invested enterprises earned in the PRC subsequent to 1 January 2008 is subject to withholding income tax at a tax rate of 10% (2016: 10%).

The income tax expense/(credit) for the year from continuing operation can be reconciled to the accounting loss before income tax from continuing operation per the consolidated income statement as follows:

	2017	2016
	HK$'000	*HK$'000*
Continuing operation		
Loss before income tax	**(1,454)**	(274,802)
Tax calculated at the rates applicable to the tax jurisdiction concerned	**2,376**	(41,890)
Tax effect on income not taxable for tax purpose	**(757)**	(1,522)
Tax effect on expenses not deductible for tax purpose	**10,382**	24,054
Tax concession received	**(954)**	(2,188)
(Over)/Under-provision in respect of prior years	**(111)**	172
Income tax expense/(credit) for the year	**10,936**	(21,374)

7. DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2017 (2016: Nil). The Directors do not recommend for payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

8. DISCONTINUED OPERATION

Development and Sales of Software Operation

On 24 March 2016, the Group entered into a disposal agreement to dispose of its entire equity interest in Beijing Auto-serve Software Company Limited ("Beijing Auto") and entire issued share capital of Vibrant Youth Limited ("Vibrant Youth") (collectively referred to as the "Auto-serve Group") at an aggregate consideration of HK$26,208,000 to certain connected persons, a director of Beijing Auto and a subsidiary of the Group, and his controlling company. The Auto-serve Group carried out all of the Group's development and sales of software operation. Accordingly, the Group's development and sales of software operation was classified as a discontinued operation. The disposal was completed on 31 March 2016.

The results of the abovementioned discontinued operation has been presented separately in the consolidated income statement.

	2016
	HK$'000
Revenue	4,730
Cost of sales	(1,384)
Gross profit	3,346
Other gains and losses, net	403
Administrative and other expenses	(4,134)
Operating loss	(385)
Gain on disposal of subsidiaries	2,033
Profit before income tax	1,648
Income tax credit	6
Profit for the year	1,654

The cash flow information of the abovementioned discontinued operation was as follows:

	2016
	HK$'000
Net cash used in generated from operating activities	(2,031)
Net cash used in investing activities	(296)
Net decrease in cash and cash equivalents	(2,327)

The earnings per share information of the discontinued operation was as follows:

	2016
	HK$'000
Earnings per share for the discontinued operation attributable to owners of the Company:	
Basic and diluted (Hong Kong cents)	0.14

The basic and diluted earnings per share for the discontinued operation are calculated by dividing the profit for the year from the discontinued operation attributable to owners of the Company by the weighted average number of ordinary shares for basic earnings per share computation and weighted average number of ordinary shares for diluted earnings per share computation respectively. The denominators used are the same as those detailed in Note 9.

9. LOSS PER SHARE

The calculations of basic loss per share for the current year and prior year are based on the loss for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year ended 31 December 2017 are set forth below.

The calculations of diluted loss per share for the year ended 31 December 2017 are based on the loss for the year attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2017 and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

For the year ended 31 December 2017, as the Company's outstanding convertible bonds had an anti-dilutive effect to the basic loss per share calculation, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore the basic and diluted loss per share for the year ended 31 December 2017 are equal.

For the year ended 31 December 2016, as the Company's outstanding convertible bonds had an anti-dilutive effect to the basic (loss)/earnings per share calculation for (i) continuing and discontinued operations, (ii) continuing operation and (iii) discontinued operations, the conversion of the above potential dilutive shares is not assumed in the computation of diluted (loss)/earnings per share. Therefore the basic and diluted (loss)/earnings per share for (i) continuing and discontinued operations, (ii) continuing operation and (iii) discontinued operations for the year ended 31 December 2016 are equal.

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

	Continuing operation		**Discontinued operations**		**Total**	
	Year ended 31 December		**Year ended 31 December**		**Year ended 31 December**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(Loss)/Profit						
(Loss)/Profit attributable to the owners of the Company, used in basic (loss)/earnings per share calculation	**(14,735)**	(256,060)	**—**	1,654	**(14,735)**	(254,406)
Adjustment of (loss)/profit attributable to the owners of the Company: Interest saving of the convertible bonds	**—***	—*	**—**	—*	**—***	—*
(Loss)/Profit attributable to the owners of the Company, used in the diluted(loss)/earnings per share calculation	**(14,735)**	(256,060)	**—**	1,654	**(14,735)**	(254,406)

	Continuing operation		**Discontinued operations**		**Total**	
	Year ended 31 December		**Year ended 31 December**		**Year ended 31 December**	
	2017	2016	**2017**	2016	**2017**	2016
	'000	*'000*	***'000***	*'000*	***'000***	*'000*
Share						
Weighted average number of ordinary shares for basic (loss) earnings per share calculation	**1,298,488**	1,175,685	**—**	1,175,685	**1,298,488**	1,175,685
Effect of dilutive potential ordinary shares: Conversion of convertible bonds	**—***	—*	**—**	—*	**—***	—*
Weighted average number of ordinary shares for diluted (loss) earnings per share calculation	**1,298,488**	1,175,685	**—**	1,175,685	**1,298,488**	1,175,685

* No adjustment/effect considered due to anti-dilutive effects

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost				
As at 1 January 2016	1,066	3,244	1,147	5,457
Additions	—	772	—	772
Disposal/Written off	—	(236)	—	(236)
Disposal through disposal of subsidiaries	—	(1,584)	(385)	(1,969)
Exchange realignments	—	(71)	(47)	(118)
As at 31 December 2016 and 1 January 2017	1,066	2,125	715	3,906
Additions	505	137	227	869
Disposal/Written off	(1,065)	(459)	(52)	(1,576)
Exchange realignments	—	96	61	157
As at 31 December 2017	**506**	**1,899**	**951**	**3,356**
Accumulated depreciation				
As at 1 January 2016	563	740	420	1,723
Disposal/Written off	—	(221)	—	(221)
Disposal through disposal of subsidiaries	—	(483)	(113)	(596)
Charge for the year	399	649	227	1,275
Exchange realignments	—	(8)	(30)	(38)
As at 31 December 2016 and 1 January 2017	962	677	504	2,143
Disposal/Written off	(1,028)	(374)	(49)	(1,451)
Charge for the year	230	545	150	925
Exchange realignments	—	29	42	71
As at 31 December 2017	**164**	**877**	**647**	**1,688**
Net carrying amount				
As at 31 December 2017	**342**	**1,022**	**304**	**1,668**
As at 31 December 2016	104	1,448	211	1,763

11. INTANGIBLE ASSETS

	Pawn Licences *HK$'000*	Product Trademarks *HK$'000*	Product Licences *HK$'000*	System Software *HK$'000*	Total *HK$'000*
Cost					
As at 1 January 2016	159,317	15,022	2,840	1,050	178,229
Disposal through disposal of subsidiaries	—	(15,128)	(2,861)	(1,057)	(19,046)
Exchange realignments	(10,317)	106	21	7	(10,183)
As at 31 December 2016 and 1 January 2017	149,000	—	—	—	149,000
Exchange realignments	11,251	—	—	—	11,251
As at 31 December 2017	**160,251**	**—**	**—**	**—**	**160,251**
Accumulated amortisation and impairment losses					
As at 1 January 2016	—	—	910	30	940
Charge for the year	—	—	283	87	370
Impairment losses	149,000	—	—	—	149,000
Disposal through disposal of subsidiaries	—	—	(1,203)	(118)	(1,321)
Exchange realignments	—	—	10	1	11
As at 31 December 2016 and 1 January 2017	149,000	—	—	—	149,000
Exchange realignments	11,251	—	—	—	11,251
As at 31 December 2017	**160,251**	**—**	**—**	**—**	**160,251**
Net carrying amount					
As at 31 December 2017	**—**	**—**	**—**	**—**	**—**
As at 31 December 2016	—	—	—	—	—

Pawn Licences

Pawn Licences represented the operating licences of the Pawn Broker Business (as defined in the Company's circular dated 30 May 2014), arising from the Short-term Financing Business acquired by the Group in prior years. The Directors were of the opinion that the Group would renew the Pawn Licences, at minimal cost, continuously and had the ability to do so. Therefore, the Pawn Licenses were considered by the Directors as having an indefinite useful life.

The impairment assessment of the Pawn Licences was included in the impairment assessment of the Short-term Financing CGU that includes goodwill (as defined in Note 12). As at 31 December 2016, the recoverable amount of the Short-term Financing CGU fell below its carrying amount, resulting in an impairment loss on the Pawn Licences of approximately HK$149,000,000 and goodwill of approximately HK$151,657,000 (see Note 12). The impairment losses had been charged to profit or loss during the year ended 31 December 2016, and the corresponding decrease in deferred tax liabilities was approximately HK$37,250,000.

Trademarks

Trademarks were acquired as a result of the acquisition of Auto-serve Group (as defined in Note 8) in prior year and had a legal life of 10 years which are renewable at minimal cost. The Directors are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. As a result, the trademarks were considered by the management of the Group as having an indefinite useful life.

Product Licences

Product Licences was arising from the acquisition of Auto-serve Group in prior year and are amortised over 3 years under the straight-line method.

System Software

System Software was arising from the acquisition of Auto-serve Group in prior year which represented the expenditure incurred for the development of the system software and were amortised over 3 years under the straight-line method.

Auto-serve Group was disposed on 31 March 2016 (Note 8).

12. GOODWILL

	Short-term Financing CGU	Software CGU	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
As at 1 January 2016	671,848	60,900	732,748
Disposal through disposal of subsidiaries	—	(61,329)	(61,329)
Exchange realignments	(43,507)	429	(43,078)
As at 31 December 2016 and 1 January 2017	628,341	—	628,341
Exchange realignments	47,446	—	47,446
As at 31 December 2017	**675,787**	**—**	**675,787**
Accumulated impairment losses			
As at 1 January 2016	509,691	41,089	550,780
Disposal through disposal of subsidiaries	—	(41,140)	(41,140)
Impairment losses	151,657	—	151,657
Exchange realignments	(33,007)	51	(32,956)
As at 31 December 2016 and 1 January 2017	628,341	—	628,341
Exchange realignments	47,446	—	47,446
As at 31 December 2017	**675,787**	**—**	**675,787**
Net carrying amount			
As at 31 December 2017	**—**	**—**	**—**
As at 31 December 2016	—	—	—

Goodwill arising in prior years related to the acquisitions of equity interest in (i) Prima Finance Holdings Limited and its subsidiaries (collectively referred to as the "Prima Finance Group") and was allocated to the short-term financing CGU ("Short-term Financing CGU"); and (ii) the Auto-serve Group and was allocated to the software CGU ("Software CGU").

Goodwill acquired through business combinations in prior years has been allocated to the respective CGUs as follows for impairment test:

Short-Term Financing CGU

The Directors have engaged Greater China Appraisal Limited ("GCA"), an independent firm of professional valuers, to assist them in assessing the recoverable amount of the Short-term Financing CGU. The recoverable amount of the Short-term Financing CGU has been determined based on the higher of value in use and fair value less costs of disposal. The fair value of the Short-term Financing CGU was determined by using the income approach. GCA has assessed the fair value of the Short-term Financing CGU by considering the historical operation and financial performance of the Short-term Financing CGU and determined the methodologies and the key valuation parameters and reviewed business assumptions adopted by the management.

As at 31 December 2016, in light of unfavourable operating environment and keen competition of the short-term financing industry, including the relatively lower interest rate environment in the PRC and increasing number of competitors, that are expected to have a negative impact on the future cash flows that can be generated by the Short-term Financing CGU, the Directors have re-estimated the cash flows that can be generated from the Short-term Financing CGU. Based on the fair value less costs of disposal estimated using the revised cash flow projections and using the income approach, the Directors concluded that goodwill and Pawn Licenses allocated to the Short-term Financing CGU should be fully impaired by approximately HK$151,657,000 and HK$149,000,000 respectively.

The fair value less costs of disposal of the Short-term Financing CGU was based on the income approach, which had been determined from the calculations of fair value less costs of disposal based on cash flows projections derived from the financial budgets approved by the management covering a 3-year period, and were extrapolated for subsequent forth to tenth years to cash flows beyond such projected periods with the key assumptions stated below.

A 3-year financial budget was adopted for the Short-term Financing CGU with the following assumptions.

	2016
Interest rates	16.9% – 20.5%
Perpetual growth rate	3.0%
Post-tax discount rate	13.3% – 15.3%

Software CGU

The Directors engaged GCA, to assist them in assessing the recoverable amount of the Software CGU. The recoverable amount of the Software CGU has been determined based on fair value less costs of disposal. GCA has assessed the recoverable amount of the Software CGU by considering the historical operation and financial performance of the Software CGU and determined the methodologies and the key valuation parameters and reviewed business assumptions adopted by the management.

Auto-serve Group was disposed of on 31 March 2016 (Note 8).

Other information on fair value measurement of the CGUs

The quantitative information of the significant unobservable inputs and the description of valuation techniques used in the fair value measurement for the CGUs containing goodwill or intangible assets with indefinite useful life, including the sensitivity analysis to changes in unobservable inputs are as follow:

CGUs	Fair value hierarchy	Valuation	Unobservable inputs	Relationship of unobservable inputs to fair value
Short-term Financing CGU/Software CGU	Level 3	Income approach	Perpetual growth rate	The higher the perpetual growth rate, the higher the fair value
			Discount rate	The higher the discount rate, the lower the fair value

There were no transfers into or out of level 3 for the above fair value measurement of the CGUs during the year ended 31 December 2016.

13. LOANS TO CUSTOMERS

	2017	2016
	HK$'000	*HK$'000*
Principal and interest receivable:		
Pawn loans	**316,862**	255,935
Micro-credit loans	**120,964**	104,144
Entrusted loans	**106,082**	21,297
Loans to customers, gross	**543,908**	381,376
Less: Provision for impairment losses		
— Individually assessed	**(2,511)**	(1,394)
— Collectively assessed	**(4,807)**	(3,926)
	(7,318)	(5,320)
Outstanding loans to customers, net	**536,590**	376,056

The loans to customers are arising from the Group's pawn loans, micro-credit and entrusted loans services. The loan periods granted to customers are mainly ranging from one month to one year.

The effective interest rates of the pawn loans, micro-credit loans and entrusted loans charged by the Group are summarized below:

	2017	2016
	% per year	*% per year*
Pawn loans *(Note a)*	**4.13 to 85.9**	4.5 to 75.3
Micro-credit loans *(Note b)*	**22.6 to 27.0**	22.5 to 27.0
Entrusted loans *(Note c)*	**17.5 to 20.5**	19.3

Notes:

(a) As at 31 December 2017, pawn loans advanced to customers bore interest at fixed rates ranging from 0.1% per month to 0.4% per month (2016: 0.1% per month to 0.4% per month). They are also subject to administrative fee rates payable by customers. Further, penalty interests are charged on outstanding loan balances that have been past due, ranging from 0.003% to 0.057% on a daily basis (2016: 0.003% to 0.03% on a daily basis).

(b) As at 31 December 2017, micro-credit loans advanced to customers bore interest at fixed rates ranging from 1.5% per month to 2% per month as at 31 December 2017 (2016: 1.5% per month to 2% per month).

(c) As at 31 December 2017, entrusted loans advanced to customers bore interest at fixed rates, ranging from 15.6% per annum to 17.4% per annum (2016: 17.4% per annum).

For loans that have been past due, the Group charges the same interest rates stipulated in the respective loan contracts but penalty will be imposed on a daily basis stipulated in the respective loan contracts on the outstanding principal amounts.

Loans to customers are all denominated in RMB.

Movements of impairment allowances are as follows:

		2017			2016	
	Individually assessed	**Collectively assessed**	**Total**	Individually assessed	Collectively assessed	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year	**1,394**	**3,926**	**5,320**	4,211	3,326	7,537
Provision for/(Reversal of) impairment losses charged/(credited) to profit or loss	**972**	**562**	**1,534**	(2,663)	853	(1,810)
Exchange realignments	**145**	**319**	**464**	(154)	(253)	(407)
At the end of the year	**2,511**	**4,807**	**7,318**	1,394	3,926	5,320

Impairment provisions are recognised for financial reporting purposes only for losses that have incurred at the end of reporting period based on objective evidence of impairment.

Aging analysis of loans to customers (after impairment allowances) prepared based on loan commencement date set out in the relevant contracts is as follows:

	2017	2016
	HK$'000	*HK$'000*
Less than 30 days	**98,780**	138,666
31 to 90 days	**75,590**	58,917
91 to 180 days	**112,642**	40,739
181 days to 365 days	**150,740**	68,305
Over 365 days	**98,838**	69,429
	536,590	376,056

Aging analysis of loans to customers (after impairment allowances) prepared based on contractual due date is as follows:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**106,081**	21,296
Not yet past due	**289,345**	295,281
1 to 30 days past due	**83,632**	34,691
31 to 90 days past due	**14,386**	7,293
91 to 180 days past due	**20,878**	5,768
181 to 365 days past due	**13,690**	4,272
Over 365 days past due	**8,578**	7,455
	536,590	376,056

Past due loans represent the loans to customers, of which the whole or part of the principal or interest was past due for one day or more.

The management of the Company reviews and assesses for impairment individually based on customers' repayment history and the fair values of the collaterals, if any. As at 31 December 2017, the Group has provided impairment loss of approximately HK$2,511,000 (2016: approximately HK$1,394,000) on loans with the aggregate carrying amount of approximately HK$146,901,000 (2016: approximately HK$59,479,000) on an individual assessment basis. Impairment loss of approximately HK$4,807,000 (2016: approximately HK$3,926,000) was provided on a collective assessment basis.

A summary of the loans to customers (net) by the type of collaterals at the end of the reporting period is as follows:

	2017	2016
	HK$'000	*HK$'000*
Collateralised and *(Note a)*		
With guarantor	**69,888**	21,296
Without guarantor	**414,877**	291,871
Non-collateralised and *(Note b)*		
With guarantor	**49,140**	60,358
Without guarantor	**2,685**	2,530
Total	**536,590**	376,056

Notes:

(a) The collaterals obtained by the Group mainly consists of building ownership rights or movable properties such as equipment and ownership interests in entities. All collaterals are registered in accordance with the relevant laws and regulations. The management of the Company inspects the collaterals and assesses the changes in the value of collaterals regularly during the year and as at the end of the reporting period. In the event of default, the Group might sell the collaterals, the management of the Company monitors the market value of collaterals to ensure the market value of collaterals as at the end of reporting period is sufficient to cover the respective outstanding loans to customers. The management of the Company assessed and concluded that, since the fair value of collateral of each individual loan as at the end of the reporting period was not less than the principal amount of the relevant loan and interest, no further impairment was necessary.

(b) As at the end of the reporting period, the management of the Company performs credit evaluation and due diligence procedures to determine whether the guarantors have the ability to repay the Group in the event of default by customers.

The past due loans to customers of approximately HK$22,816,000 (2016: approximately HK$9,615,000) as at 31 December 2017 has been subsequently settled.

The Group has certain concentration on entrusted loans as it has five (2016: two) customers with outstanding balances of approximately HK$106,081,000 (2016: approximately HK$21,296,000), representing approximately 19.8% (2016: 5.7%) of the total loans to customers (net of impairment) as at 31 December 2017.

For the pawn-broker and micro-financing businesses, the Group has a diversified customer portfolio with more than 400 (2016: 600) customers with principal amount ranging from approximately HK$840 to HK$12,007,000 (2016: approximately HK$610 to HK$11,164,000). In the opinion of the Directors of the Company, the credit risk of the pawn loans and micro-credit loans is reduced with such a large amount of customers with a relatively small loan size.

14. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables from third parties	**180**	167

The aging analysis of the Group's trade receivables (after impairment allowances) at the end of the year, based on invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 365 days	**—**	—
Over 365 days	**180**	167
	180	167

The Group normally allows an average credit term of 30 to 90 days (2016: 30 to 90 days).

Based on the management's assessment of the aging analysis, the subsequent settlement status of the Group's outstanding trade receivables, the past settlement patterns and the current credit quality of trade debtors, the Group recognised impairment allowances to reflect the risk on the recoverability of the amounts due.

	2017	2016
	HK$'000	*HK$'000*
Impairment losses		
At the beginning of the year	**—**	572
Disposal of subsidiaries	**—**	(560)
Exchange realignments	**—**	(12)
At the end of the year	**—**	—

The aging analysis of trade receivables, net of impairment allowances, based on due day is as follows:

	2017	2016
	HK$'000	*HK$'000*
Over 365 days past due	**180**	167

Receivables that were past due but not impaired related to customers that have good track record with the Group. Based on past experience, the management is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over the balances.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

During the year ended 31 December 2017, Capital Finance Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in short-term financing services in the People's Republic of China (the "**PRC**") and Hong Kong.

The Group recorded total revenue for the year ended 31 December 2017 of approximately Hong Kong dollar ("**HK$**") 74,833,000 (2016: approximately HK$111,927,000) from continuing operation, representing a decrease of approximately HK$37,094,000 as compared with last year. The decrease in total revenue was mainly attributable to the significant decrease in income from the financial consultancy business and a moderate decrease in interest income from loans made to customers during the year ended 31 December 2017 due to the unfavorable market environment and the slowdown in economic growth in the Mainland China.

The administrative and other expenses for the year ended 31 December 2017 from continuing operation has decreased from approximately HK$52,845,000 in 2016 to approximately HK$36,305,000.

The loss attributable to the owners of the Company for the year ended 31 December 2017 was approximately HK$14,735,000 (2016: substantial loss of approximately HK$254,406,000.) The significant decrease in loss was mainly attributable to no non-cash impairment losses on goodwill and intangible assets in relation to the short-term financing cash generating unit was recorded for the year ended 31 December 2017, while an impairment loss of approximately HK$151,657,000 and HK$149,000,000 (after deferred tax liabilities of approximately HK$37,321,000) on goodwill and intangible assets relating to the short-term financing cash generating unit respectively was recorded for the year ended 31 December 2016.

CONTINUING OPERATION

Short-term Financing Services

During the year ended 31 December 2017, the revenue of short-term financing services was approximately HK$74,833,000 (2016: approximately HK$111,927,000). The operating results of the short-term financing services recorded a profit before income tax of approximately HK$51,569,000 (2016: loss before income tax of approximately HK$218,695,000). The change from segment loss to segment profit position for the year ended 31 December 2017 when compared with last year was mainly contributed to a one-off non-cash impairment losses on goodwill and intangible asset in the year 2016 as mentioned above.

Prospects

Looking to the future, although facing with a complicated business environment, and keen industry competition, the Group is still optimistic about its business aspect. Compared with other financial institutions in the PRC, our short-term financing services business which including provision of pawn loans, micro-loans, entrusted loans and financial consultancy services provides a fast and flexible service to the small medium enterprises ("**SMEs**") and individual borrowers in the PRC. Going forward to 2018, the PRC government is encouraging the development of SMEs, which often have difficulty obtaining bank loans. Our short-term financing services would be a good option for SMEs which need a fast and flexible solution to their financial needs. The Group will grasp the above mentioned opportunities and at the same time will continue to look for opportunities to broaden and diversify our income stream so as to improve the overall operational performance of the Group and enhance the long-term benefits of our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had nil bank borrowing (2016: approximately HK$11,834,000 denominated in RMB and all those were obtained on secured basis) and other debts comprising promissory notes and liability component of convertible bonds of approximately HK$548,910,000 (2016: approximately HK$538,103,000). The Group will try to obtain future financing, and whenever possible and appropriate, raise fund via equity funding activities in order to further reduce the financing cost.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$55,893,000 (2016: approximately HK$154,012,000) which were mainly denominated in HK$ and RMB. To manage liquidity risk, management monitors forecasts of the Group's liability position and cash and cash equivalent position on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations.

As at 31 December 2017, the gearing ratio for the Group was approximately 23.0 (2016: approximately negative 16.36 due to the Company's negative equity position), calculated based on the total debts (2017: comprising other debts; 2016: comprising bank borrowings and other debts) of approximately HK$548,910,000 (2016: approximately HK$549,937,000) over shareholder's equity of approximately HK$23,882,000 (2016: approximately negative HK$33,623,000). The debt ratio was approximately 0.93 (2016: approximately 1.03), calculated as total liabilities over total assets of the Group.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

CAPITAL STRUCTURE

The capital structure of the Group as at 31 December 2017 is summarised as follows:

(i) Bank Borrowings

There were no bank borrowings outstanding as at 31 December 2017 (2016: approximately HK$11,834,000 bore a fixed interest rate of 6.0% per annum and was secured by a corporate guarantee given by an independent third party at a fee charged.)

(ii) Promissory Notes

As at 31 December 2017, the Company had promissory notes issued as part of consideration for the acquisition of the Prima Finance Group outstanding. Summary of the promissory notes is as follows.

Date of issue	Principal amount as at 1 January 2017 *(HK$)*	Interest rate per annum	Principal repayment due date	Redeemed principal amount *(HK$)*	Outstanding principal amount as at 31 December 2017 *(HK$)*
6 February 2015	20,000,000	8%	6 February 2020	—	20,000,000

(iii) Convertible Bonds

As at 31 December 2017, the Company had 2 series of non-interest bearing convertible bonds issued as part of consideration of the acquisition of the Prima Finance Group outstanding. Summary of the convertible bonds is as follows.

Date of issue	Principal amount as at 1 January 2017 *(HK$)*	Maturity Date	Conversion Price per share	Amount converted into shares during the year *(HK$)*	Outstanding principal amount as at 31 December 2017 *(HK$)*	Number of Shares to be issued upon full conversion as at 31 December 2017
25 June 2014	387,200,000	24 June 2019	HK$0.35	—	387,200,000	1,106,285,714
6 February 2015	236,000,000	5 February 2020	HK$0.35	42,000,000	194,000,000	554,285,714

SIGNIFICANT INVESTMENTS AND DISPOSALS OF SUBSIDIARIES

The Group did not have any significant investments and disposals of subsidiaries during the year ended 31 December 2017.

CHARGE OF GROUP ASSETS

As at 31 December 2017 and 2016, the Group did not have any assets under charged.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 31 December 2017, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currency, i.e. RMB, used by the respective group entities.

The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 31 December 2017, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

As at 31 December 2017, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedging or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions.

ADVANCE TO AN ENTITY

On 27 June 2017, the Group entered into an entrusted loan agreement with 北京銀行股份有限公司(Bank of Beijing Co., Ltd.*) (the "**Lending Bank**") and 北京愛迪泰智能科技有限公司 (Beijing Aiditai Intelligent and Technology Co., Ltd.*) (the "**Borrower**") pursuant to which the Group entrusted the Lending Bank with an amount of RMB40,000,000 (equivalent to approximately HK$48,028,000) for the purpose of lending the same to the Borrower for a period of 12 months at an interest rate of 17.4% per annum with interest payable on a monthly basis and the principal amount at the end of the loan period (the "**Transaction**"). A corporate guarantee is provided by Guarantor A and a personal guarantee is provided by Guarantor B, each of which is in favour of Lhasa Jiade Financial Consultant Company Limited, a subsidiary of the Group, to secure the obligations of the Borrower under the entrusted loan agreement. As at 28 June 2017. RMB20,000,000 (equivalent to approximately HK$24,014,000) was drawn by the Borrower and the total outstanding amount was repaid by the Borrower on 18 July 2017 and 1 August 2017 with RMB10,000,000 each (equivalent to approximately HK$12,007,000 each). A further advance was granted to the Borrower under the entrusted loan agreement on 8 November 2017 with RMB20,000,000 (equivalent to approximately HK$24,014,000), which was fully repaid by the Borrower on 30 January 2018 and 31 January 2018 with RMB15,000,000 (equivalent to approximately HK$18,011,000) and RMB5,000,000 (equivalent to approximately HK$6,004,000) respectively. Up to the date of this announcement, no further advance was granted to the Borrower under the entrusted loan agreement.

Details of the Transaction are set out in the announcement of the Company dated 27 June 2017.

* English name for identification purpose only.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liability (2016: Nil).

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2017, the Group employed a total of 78 employees (2016: 102). The salaries and benefits of the Group's employees are maintained at a competitive level and employees are rewarded on a discretionary performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Year-ended bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to its employees. Staff costs, excluding Directors' emoluments, for the year ended 31 December 2017 amounted to approximately HK$15,973,000 (2016: approximately HK$24,367,000).

The Company adopted the Share Option Scheme where share options to subscribe for shares of the Company may be granted to the eligible participants of the Group. No share options have been granted to the eligible participants under the Share Option Scheme during the year ended 31 December 2017.

SHARE OPTION

No share option was granted, outstanding, lapsed, cancelled or exercised at any time during the year ended 31 December 2017.

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

Neither the Company, nor any its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable growth of the Group and for safeguarding the interests and the Group's assets.

Throughout the year ended 31 December 2017, the Company had complied with all the code provisions set out in the Appendix 15 Corporate Governance Code and Corporate Governance Report (the "**CG Code**") of the GEM Listing Rules with the exception of the following deviation:

CODE PROVISION A.2.1

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Zhang Wei was appointed as Chairman and chief executive officer of the Company (the "**CEO**") on 1 December 2015. Given the size and that the Company's and the Group's current business operations and administration have been stable, the Board is justified that the current structure is able to effectively discharge the duties of both positions. However, going forward, the Board will review from time to time the need to separate the roles of the Chairman and the CEO if the situation warrants it.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by Directors on terms equivalent to the Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Model Code**"). The Company had made specific enquiries with written guidelines in relation to the Model Code to all Directors and all Directors have confirmed that they complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group and recommended to the Board for approval. The Audit Committee has also considered selected accounting, internal control, risk management and financial reporting matters of the Group, in conjunction with the external auditor (if appropriate) of the Company.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this announcement, there is sufficient public float of the Company's issued shares as required under the GEM Listing Rules throughout the year ended 31 December 2017.

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

Hong Kong, 13 March 2018

As at the date of this announcement, the executive Directors are Mr. Zhang Wei and Mr. Yang Bo, 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 will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company's website at http://www.capitalfinance.hk.