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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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

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.

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*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, 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.*

The board of Directors (the “**Board**”) of the Company is pleased to report the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and nine months (the “**Period**”) ended 30 September 2020 together with the comparative figures in 2019 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and nine months ended 30 September 2020

		Three months ended 30 September 2020		Nine months ended 30 September 2020	
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
	Notes				
Revenue	4	7,405	12,164	29,466	42,129
Other income and other gains and losses, net	4	1,239	96	2,176	1,056
Administrative and other expenses		(7,457)	(9,147)	(24,204)	(27,368)
Charge of loss allowance for expected credit losses (“ECLs”) on loans to customers		(10,761)	(25,931)	(23,880)	(34,455)
Finance costs	5	(12,369)	(12,163)	(37,922)	(36,895)
Fair value gains on investment properties		–	–	–	933
Loss before income tax	6	(21,943)	(34,981)	(54,364)	(54,600)
Income tax credit/(expense)	7	667	4,538	(98)	1,898
Loss for the period		(21,276)	(30,443)	(54,462)	(52,702)
Attributable to:					
Owners of the Company		(21,524)	(30,728)	(55,757)	(56,424)
Non-controlling interests		248	285	1,295	3,722
		(21,276)	(30,443)	(54,462)	(52,702)
Loss per share attributable to owners of the Company	9				
– Basic and diluted (Hong Kong cents)		(7.7)	(11.8)	(20.1)	(21.7)

(Restated)

(Restated)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2020

	Three months ended 30 September 2020 (Unaudited) HK\$'000		Nine months ended 30 September 2020 (Unaudited) HK\$'000	
	2019 (Unaudited) HK\$'000		2019 (Unaudited) HK\$'000	
Loss for the period	(21,276)	(30,443)	(54,462)	(52,702)
Other comprehensive income/(expense) for the period				
Item that will be reclassified to profit or loss:				
– Exchange differences on translation of financial statements of foreign operations	16,199	(16,554)	5,990	(18,022)
Other comprehensive income/(expense) for the period, net of tax	16,199	(16,554)	5,990	(18,022)
Total comprehensive expense for the period	(5,077)	(46,997)	(48,472)	(70,724)
Attributable to:				
Owners of the Company	(6,854)	(46,761)	(50,360)	(73,918)
Non-controlling interests	1,777	(236)	1,888	3,194
	(5,077)	(46,997)	(48,472)	(70,724)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2020

	Reserves									Equity attributable to owners of the Company	Non-controlling interests	Total
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve (debit)	Convertible bonds reserve	FVTOCI reserve	Statutory reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2020 (Audited)	13,012	616,828	131,109	280,749	(85,125)	10,978	(3,079)	25,563	(968,668)	21,367	49,620	70,987
Loss for the period	-	-	-	-	-	-	-	-	(55,757)	(55,757)	1,295	(54,462)
Other comprehensive income												
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	5,397	-	-	-	-	5,397	593	5,990
Other comprehensive income for the period	-	-	-	-	5,397	-	-	-	-	5,397	593	5,990
Total comprehensive income/(expense) for the period	-	-	-	-	5,397	-	-	-	(55,757)	(50,360)	1,888	(48,472)
Transactions with owners												
Issue of new shares upon placing	1,052	8,557	-	-	-	-	-	-	-	9,609	-	9,609
Dividend payable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,032)	(3,032)
Redemption of 2022 CB (As defined in Interim Report 2020) by cash	-	-	-	-	-	(1,696)	-	-	1,696	-	-	-
Transactions with owners	1,052	8,557	-	-	-	(1,696)	-	-	1,696	9,609	(3,032)	6,577
At 30 September 2020 (Unaudited)	14,064	625,385	131,109	280,749	(79,728)	9,282	(3,079)	25,563	(1,022,729)	(19,384)	48,476	29,092

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the nine months ended 30 September 2019

	Reserves									Equity attributable to owners of the Company	Non-controlling interests	Total
	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	FVTOCI reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000			HK\$'000
As at 31 December 2018												
as originally presented	13,012	616,828	131,109	120,794	(75,051)	713,306	(1,093)	22,367	(1,630,751)	(89,479)	12,402	(77,077)
Initial adoption of HKFRS 16 (Note 1)	-	-	-	-	-	-	-	-	(200)	(200)	(5)	(205)
Restated as at 1 January 2019	13,012	616,828	131,109	120,794	(75,051)	713,306	(1,093)	22,367	(1,630,951)	(89,679)	12,397	(77,282)
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(56,424)	(56,424)	3,722	(52,702)
Other comprehensive expense												
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(17,494)	-	-	-	-	(17,494)	(528)	(18,022)
Other comprehensive expense for the period	-	-	-	-	(17,494)	-	-	-	-	(17,494)	(528)	(18,022)
Total comprehensive (expense)/income for the period	-	-	-	-	(17,494)	-	-	-	(56,424)	(73,918)	3,194	(70,724)
Transactions with owners												
Deemed capital contribution arising from liability portion of convertible bonds	-	-	-	159,955	-	-	-	-	-	159,955	-	159,955
Extinguishment of the 2019 CB and 2020 CB (As defined in Interim Report 2020)	-	-	-	-	-	(713,306)	-	-	713,306	-	-	-
Recognition of the 2022 CB and 2023 CB (As defined in Interim Report 2020)	-	-	-	-	-	10,978	-	-	(10,978)	-	-	-
Transactions with owners	-	-	-	159,955	-	(702,328)	-	-	702,328	159,955	-	159,955
At 30 September 2019 (Unaudited)	13,012	616,828	131,109	280,749	(92,545)	10,978	(1,093)	22,367	(985,047)	(3,642)	15,591	11,949

Note:

- Upon the adoption of HKFRS 16 "Leases" on 1 January 2019, the accumulated impact of HK\$200,000 was recorded as an adjustment to the accumulated losses as at 1 January 2019, including HK\$5,395,000 depreciation on right-of-use assets, HK\$515,000 interest expenses on lease liabilities and HK\$5,710,000 reversal of operating lease expenses.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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 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 is at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.

During the Period, the Company is principally engaged in investment holding. The Group is 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**").

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 *Basis of Preparation*

The unaudited condensed consolidated third quarterly financial statements of the Group for the three months and nine months ended 30 September 2020 (the "**Third Quarterly Financial Statements**") have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance and Chapter 18 of the GEM Listing Rules.

The Third Quarterly Financial Statements have been prepared under the historical cost basis except for investment properties and certain financial instruments which were stated at fair value. The Third Quarterly Financial Statements were presented in Hong Kong dollars ("**HK\$**"), which is same as the functional currency of the Company, and rounded to the nearest thousand unless otherwise indicated.

The Third Quarterly Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performances of the Group since 31 December 2019, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). They shall be read in conjunction with the Group's audited financial statements for the year ended 31 December 2019 (the "**Annual Report**").

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 *Basis of Preparation (Continued)*

The preparation of Third Quarterly Financial Statements requires the Directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The Third Quarterly Financial Statements have not been audited by the Company's independent auditor, but have been reviewed by the Company's audit committee (the "**Audit Committee**").

2.2 *Principal Accounting Policies*

The Third Quarterly Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Annual Report, except for the adoption of the standards, amendments and interpretation issued by the HKICPA that are first effective from the current accounting periods beginning on 1 January 2020.

Other than as described in Note 2.3 regarding "Amendment to HKFRS 16: COVID-19 – Related Rent Concessions", the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effect on the results and financial position of the Group for the current and prior accounting periods.

At the date of authorisation of the Third Quarterly Financial Statements, the Group has not early adopted any new/revised HKFRSs that are not yet effective for the current period. The Directors of the Company are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but not yet in a position to reasonably estimate their impact on the Group's Third Quarterly Financial Statements.

2.3 *Amendment to HKFRS 16: COVID-19 – Related Rent Concessions*

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due to or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual reporting periods beginning on or after 1 June 2020 with earlier application permitted. The Group has early adopted the amendment for the current accounting periods beginning on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the Period. Accordingly, a reduction in lease payments arising from the rent concessions is accounted for as a variable lease payment.

3. 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.

Executive Directors have determined that the Group has only one single business component/reportable segment as the Group is only engaged in the Short-term Financing Services comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business in the PRC and Hong Kong, which is the basis to allocate resources and assets performance. 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, revenues and results are based on the location in which the customer is located.

All the Group's revenue are derived from PRC during the nine months ended 30 September 2020 and 30 September 2019.

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

	Three months ended 30 September 2020 (Unaudited) HK\$'000		2019 (Unaudited) HK\$'000		Nine months ended 30 September 2020 (Unaudited) HK\$'000		2019 (Unaudited) HK\$'000	
Revenue								
Revenue from other sources								
Interest income from loans to customers	7,394		12,160		27,319		42,033	
Settlement gain from distressed debt assets classified in loans to customers	5		–		1,098		–	
	7,399		12,160		28,417		42,033	
Revenue from contracts with customers within HKFRS 15								
Financial consultancy income	6		4		1,049		96	
Short-term financing services income	7,405		12,164		29,466		42,129	
Other income and other gains and losses, net								
Exchange difference, net	276		(304)		111		(312)	
Bank interest income	1,431		230		2,416		979	
Gain on modification of terms of promissory note (Note 1)	–		–		215		–	
(Loss)/Gain on disposal of property, plant and equipment	(2)		–		(7)		41	
Loss on disposal of investment property	(1,009)		–		(1,009)		–	
Rental income from investment property	6		7		18		14	
Settlement gain on early redemption of convertible bonds, net (Note 2)	433		–		247		–	
Sundry income	104		163		185		334	
	1,239		96		2,176		1,056	

Notes:

- On 21 February 2020, the Company and the holder of the promissory note, which is an independent third party to the Group, entered into an amendment agreement, to extend the maturity date of the promissory note with principal amount of HK\$5,000,000, by 1 year from 6 February 2020 to 6 February 2021 and to carry interest at the rate of 8% per annum based on the actual number of borrowing days. The modification was not accounted for as an extinguishment and gain on modification of terms of HK\$215,000 was recognised in profit or loss for the modification.
- On 21 May 2020, the Company and the holder of 2022 CB entered into a redemption agreement, to early redeem the zero-coupon convertible bonds with principal amount of HK\$33,858,000 by cash settlement of approximately HK\$28,780,000. As at the settlement date, the carrying amount of the liability component of the redeemed 2022 CB was approximately HK\$28,594,000 and hence a settlement loss on early redemption of convertible bonds of approximately HK\$186,000 was recognised in profit or loss for the Period.

On 29 September 2020, the Company and the holder of 2022 CB entered into a redemption agreement, to early redeem the zero-coupon convertible bonds with principal amount of HK\$64,993,000 by cash settlement of approximately HK\$56,544,000. As at the settlement date, the carrying amount of the liability component of the redeemed 2022 CB was approximately HK\$56,977,000 and hence a settlement gain on early redemption of convertible bonds of approximately HK\$433,000 was recognised in profit or loss for the Period.

5. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest expenses on:				
– Convertible bonds	12,166	11,664	36,475	35,389
– Promissory notes	155	445	1,311	1,327
– Lease liabilities	48	54	136	179
	12,369	12,163	37,922	36,895

6. LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived at after charging/(crediting) the following:

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (excluding Directors' emoluments)				
Salaries, allowance and other benefits	3,039	3,316	9,456	10,113
Pension scheme contributions	292	524	862	1,505
Auditor's remuneration	164	202	696	764
Depreciation of property, plant and equipment	117	133	307	418
Depreciation of right-of-use assets				
– land and buildings	817	794	2,425	2,429
Variable lease payment income	–	–	(71)	–

7. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credit)/expense in the unaudited condensed consolidated statement of profit or loss represents:

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current income tax				
PRC				
Current tax charge for the period	1,018	1,926	3,934	6,491
(Over)/Under-provision in respect of prior periods	–	(3)	(3)	201
	1,018	1,923	3,931	6,692
Withholding tax on dividends	1,005	–	2,137	1,136
Deferred tax credited	(2,690)	(6,461)	(5,970)	(9,726)
Income tax (credit)/expense	(667)	(4,538)	98	(1,898)

The Company is subject to income tax on an entity basis on profits arising in or derived from the jurisdiction in which entities in the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax under these jurisdictions.

For the Period, no provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising in Hong Kong (2019: Nil).

The subsidiaries of the Group established in the PRC save for below are subject to enterprise income tax ("EIT") of the PRC at 25% (2019: 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 Jiade"), a subsidiary of the Group established in Tibet of the PRC is subject to the EIT at 15% for the Period (2019: 15%). According to the Notice on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises issued by Ministry of Finance and the State Administration of Taxation, the taxable income in period ended 30 September 2020 of certain subsidiaries of the Group established in the PRC, is expected to be less than RMB3 million, which satisfies the provisions of the notice above. During the Period, the part of taxable income that is not in excess of RMB1 million is reduced to 25% of original total taxable income, and the applicable EIT rate is 20%. Additionally, the part of taxable income that is between RMB1 million and RMB3 million is reduced to 50% of original total taxable income, and the applicable EIT rate is 20%.

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% (2019: 10%).

* English name is for identification purpose only.

8. DIVIDEND

The Directors do not recommend for payment of a dividend for the Period (2019: Nil).

9. LOSS PER SHARE

The calculations of basic loss per share for the current and prior periods are based on the loss for the periods attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the current and prior periods.

The calculations of diluted loss per share for the current and prior periods are based on the loss for the periods 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 current and prior periods 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 three months and nine months ended 30 September 2020 and three months and nine months ended 30 September 2019, 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 three months and nine months ended 30 September 2020 and three months and nine months ended 30 September 2019 are equal.

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

	Three months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(21,524)	(30,728)
Adjustment of loss attributable to the owners of the Company:		
Interest saving of the convertible bonds	—*	—*
Loss attributable to the owners of the Company, used in the diluted loss per share calculation	(21,524)	(30,728)

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

9. LOSS PER SHARE (Continued)

	Three months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	'000	'000
		(Restated)
Share		
Weighted average number of ordinary shares for basic loss per share calculation (Notes a and b)	281,276	260,224
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*
Weighted average number of ordinary shares for diluted loss per share calculation (Notes a and b)	281,276	260,224
Notes:		
(a) The weighted average number of ordinary shares of 281,276,411 for the three months ended 30 September 2020 is derived from 1,301,118,056 in issue as at 1 January 2020 after taking into account the effects of (i) placing of shares under general mandate completed on 17 February 2020; and (ii) the share consolidation with effect on 8 April 2020.		
(b) The weighted average number of ordinary shares of 260,223,611 for the three months ended 30 September 2019 is derived from 1,301,118,056 in issue as at 1 January 2019 after taking into account the effect of the share consolidation with effect on 8 April 2020.		
	Nine months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(55,757)	(56,424)
Adjustment of loss attributable to the owners of the Company:		
Interest saving of the convertible bonds	—*	—*
Loss attributable to the owners of the Company, used in the diluted loss per share calculation	(55,757)	(56,424)

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

9. LOSS PER SHARE *(Continued)*

	Nine months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	'000	'000
		(Restated)
Share		
Weighted average number of ordinary shares for basic loss per share calculation (Notes a and b)	277,588	260,224
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*
Weighted average number of ordinary shares for diluted loss per share calculation (Notes a and b)	277,588	260,224

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

Notes:

- (a) The weighted average number of ordinary shares of 277,588,329 for the Period is derived from 1,301,118,056 in issue as at 1 January 2020 after taking into account the effects of (i) placing of shares under general mandate completed on 17 February 2020; and (ii) the share consolidation with effect on 8 April 2020.
- (b) The weighted average number of ordinary shares of 260,223,611 for the nine months ended 30 September 2019 is derived from 1,301,118,056 in issue as at 1 January 2019 after taking into account the effect of the share consolidation with effect on 8 April 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

During the Period, the Group is principally engaged in short-term financing services in the PRC and Hong Kong.

The Group recorded total revenue for the Period of approximately HK\$29,466,000 (2019: approximately HK\$42,129,000), representing a decrease of approximately HK\$12,663,000 as compared with the corresponding period last year.

The administrative and other expenses for the Period has decreased by approximately HK\$3,164,000 to approximately HK\$24,204,000 (2019: approximately HK\$27,368,000).

The Group recorded a charge of loss allowance for ECLs for the Period of approximately HK\$23,880,000 (2019: approximately HK\$34,455,000), which represents a decrease of approximately HK\$10,575,000 when compared to the corresponding period in 2019. Due to uncertain operating environment caused by the COVID-19 pandemic, the Group will continue to adopt a cautious credit and risk management approach by closely monitoring the creditworthiness of its customers, including but not limited to adopting a strict control on loan-to-value ratio, continuous review on customers' repayment ability, etc., to minimise the Group's credit risk uncertainty.

The loss attributable to the owners of the Company for the Period was approximately HK\$55,757,000 (2019: loss attributable to the owners to the Company of approximately HK\$56,424,000). The decrease in loss was mainly due to the net-off effects of (i) decrease in revenue as a result of the unfavorable economic environment and the extreme market and operating conditions caused by COVID-19 pandemic; (ii) decrease in administrative and other expenses; and (iii) decrease in charge of loss allowance for ECLs on loans to customers.

PROSPECTS

Looking to the future, the tensions between US and China, and the COVID-19 pandemic are expected to create difficult operating conditions for businesses in general. In this regard, the People's Bank of China is carrying out prudent and moderately flexible monetary policy by strengthening countercyclical adjustments and keeping reasonably abundant liquidity in the banking system to ensure sound monetary and financial conditions of the small, medium and micro-sized enterprises (the "SMMEs"). This may lead to a more fierce competition among the money lending industry in the PRC. Our short-term financing service business will continue to offer a faster and flexible service to the SMMEs and individual borrowers in order to maintain competitiveness in the financial market. Going forward, the Group believes that the acquisition of 50% equity interests in Beijing Huayuan Sifang Asset Management Company Limited, a company principally engaged in distressed debt assets management and provision of consultancy services, will help diversifying the business risks and to create synergies with the existing business, thereby taking the Group to the next stage. At the same time, the Group will continue to seek new investment opportunities to broaden and diversify our income stream so as to improve the overall financial performance of the Group and maximise the value for our shareholders.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Subscription of Trust Fund and Provision of Management Service to Trust Fund

On 28 September 2020, (i) Lhasa Jiade, an indirect wholly-owned subsidiary of the Company, as an applicant subscribed for 10 million secondary units of a trust fund established by Bohai International Trust Co., Ltd (the "**Trust Fund**"), in an amount of RMB10 million (equivalent to approximately HK\$11.4 million) (the "**Subscription**"); and (ii) Beijing Wanchi Technology Company Limited* ("**Beijing Wanchi**"), an indirect wholly-owned subsidiary of the Company, as manager and the trustee entered into the management service agreement to the appointment of Beijing Wanchi as a manager of the Trust Fund (the "**Management Service**").

As the relevant applicable percentage ratios (as defined under Rule 19.07 of the GEM Listing Rules) of the Subscription exceed 5% but are less than 25%, the Subscription constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

Details of the abovementioned Subscription and Management Service are set out in the Company's announcement dated 28 September 2020.

During the Period, the Trust Fund did not hold any underlying investment.

During the Period, save as disclosed above, the Group did not process any other significant investment, acquisition or disposal of subsidiaries or associated companies.

FUND RAISING ACTIVITIES

Placing of New Shares under General Mandate

On 30 January 2020, the Company and a placing agent entered into a placing agreement pursuant to which the placing agent agreed to procure not less than six independent placees (the "**Placees**") to subscribe for a maximum of 105,264,000 new ordinary shares of HK\$0.01 each (the "**Share(s)**") of the Company at the placing price of HK\$0.095 per Share (the "**Placing**"). The new Shares were issued under the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 23 May 2019. The 105,264,000 new Shares were placed to the Placees on 17 February 2020 with a net proceeds of approximately HK\$9,609,000 ("**Net Proceeds**"). The Company applied the Net Proceeds from the Placing towards the settlement of outstanding short-term liabilities of the Company.

Details of the Placing are set out in the Company's announcements dated 30 January 2020 and 17 February 2020.

During the Period, save as disclosed above, the Group did not process any fund raising activities.

EVENTS AFTER REPORTING PERIOD

Termination of Existing VIE Structure and Establishment of New VIE Structure

Reference is made to the circular of the Company dated 30 May 2014 in relation to, among other things, the existing variable interest entity(ies) (the "**VIE**") structure. On 23 October 2020, the relevant parties have entered into the following agreements to change certain registered shareholders of Beijing Zhongjinfu Micro-financing Company Limited* (the "**Beijing Micro-financing**") and to terminate the existing VIE structure:

- (1) the equity transfer agreement, pursuant to which Beijing Yongjin Jiye Technology Incubator Company Limited* (the "**Beijing Yongjin**") agreed to transfer 20% of the equity interests in Beijing Micro-financing to Mr. Zhang Wei ("**Mr. Zhang**") at a consideration of RMB10,000,000;

* English name is for identification purpose only.

EVENTS AFTER REPORTING PERIOD *(Continued)*

Termination of Existing VIE Structure and Establishment of New VIE Structure (Continued)

- (2) the equity transfer agreement, pursuant to which Yongtai Real Estate (Group) Company Limited* (the “**Yongtai**”) agreed to transfer 20% of the equity interests in Beijing Micro-financing to Puhui Weijin (Beijing) Education Consultation Company Limited* (the “**Puhui Weijin**”) at a consideration of RMB10,000,000;
- (3) the equity transfer agreement, pursuant to which Mr. Wang Feng (“**Mr. Wang**”) agreed to transfer 13% of the equity interests in Beijing Micro-financing to Ms. Li Wei (“**Ms. Li**”) at a consideration of RMB6,500,000 and 6% of the equity interests in Beijing Micro-financing to Ms. Chang Shu Wen (“**Ms. Chang**”) at a consideration of RMB3,000,000; and
- (4) the termination agreements, pursuant to which Beijing Yongjin, Yongtai, Mr. Xu Ya Liang (“**Mr. Xu**”) and Mr. Wang, Beijing Wanchi and Beijing Micro-financing agreed that the existing structured agreements shall be terminated upon the new structured agreements becoming effective.

On the same date, and immediately after execution of the abovementioned equity transfer agreements and the termination agreements, Beijing Wanchi, Beijing Micro-financing and Mr. Zhang, Puhui Weijin, Mr. Xu, Ms. Li and Ms. Chang entered into the new structured agreements and the undertaking to establish the new VIE structure. Upon the new structured agreements becoming effective, 79% of the financial results of Beijing Micro-financing will continue to be accounted for and consolidated in the accounts of the Group as if it is a subsidiary of the Company.

As (i) Mr. Zhang is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing; (ii) Ms. Li is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing; (iii) Puhui Weijin is indirectly wholly and beneficially owned by Mr. Dai Di, Ms. Jin Yu (being the spouse of Mr. Dai Hao) and Mr. Dai Hao (being the brother of Mr. Dai Di), who are the substantial shareholders of the Company; and (iv) Ms. Chang is an executive director of a subsidiary of the Company, Mr. Zhang, Ms. Li, Puhui Weijin and Ms. Chang are connected persons of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the new structured agreements constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

As the relevant applicable percentage ratios (other than profits ratio) with reference to the expected annual amount of the exclusive service agreement is more than 5%, the continuing connected transactions contemplated under the new structured agreements are subject to the reporting, announcement, annual review and the independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

The Company has applied and the Exchange has granted a waiver from strict compliance with (i) the independent shareholders’ approval requirement in respect of the new structured agreements pursuant to Rule 20.34 of the GEM Listing Rules; (ii) limiting the term of the new structured agreements to three years or less pursuant to Rule 20.50 of the GEM Listing Rules; and (iii) setting maximum aggregate annual caps pursuant to Rule 20.51 of the GEM Listing Rules for the service fees payable under the relevant new structured agreements subject to certain conditions.

Details of the above are set out in the Company’s announcement dated 23 October 2020.

Save as disclosed above, there is no material subsequent event undertaken by the Group after 30 September 2020 and up to the date of this announcement.

* English name is for identification purpose only.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2020, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**") which (i) were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) which were required to be notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long Positions in the Shares

Name of Director	Capacity	Number of ordinary shares ("Shares") held	Approximate percentage of shareholding in the Company
Mr. Zhang Wei	Beneficial owner	22,752,640	8.09
Ms. Li Wei	Beneficial owner	14,587,600	5.19

Save for disclosed above, as at 30 September 2020, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the Model Code (as defined below).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the Period.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, as at 30 September 2020, the following companies and persons (other than a director or chief executive of the Company as disclosed under the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above) had interests in more than 5% of the Company's issued shares:

Long Position in the Shares

Name of substantial shareholder	Number of shares interested			Percentage of the issued share capital of the Company (Note 5)
	Direct interests	Deemed interests	Total interests	
Exuberant Global Limited (Note 1)	220,427,999	–	220,427,999	78.36
Mr. Dai Di (Note 1)	–	220,427,999	220,427,999	78.36
Time Prestige Holdings Limited (Note 2)	32,228,571	–	32,228,571	11.45
Mr. Dai Hao (Notes 2 and 3)	–	112,799,999	112,799,999	40.10
Bustling Capital Limited (Note 3)	80,571,428	–	80,571,428	28.64
Ms. Jin Yu (Notes 2 and 3)	–	112,799,999	112,799,999	40.10
Silver Palm Limited (Note 4)	14,285,714	–	14,285,714	5.08
Mr. Zhang Xiaoman (Note 4)	–	14,285,714	14,285,714	5.08

Notes:

1. The 220,427,999 Shares held by Exuberant Global Limited ("**Exuberant Global**") represent (i) 58,840,000 Shares; and (ii) 161,587,999 Shares to be issued upon full conversion of the convertible bonds. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 220,427,999 Shares held by Exuberant Global.
2. The 32,228,571 Shares held by Time Prestige Holdings Limited ("**Time Prestige**") represent (i) 5,360,000 Shares; and (ii) 26,868,571 Shares to be issued upon full conversion of the convertible bonds. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the 32,228,571 Shares. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 80,571,428 Shares held by Bustling Capital Limited ("**Bustling Capital**").
3. The 80,571,428 Shares held by Bustling Capital represent (i) 13,400,000 Shares; and (ii) 67,171,428 Shares to be issued upon full conversion of the convertible bonds. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the 80,571,428 Shares. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the 32,228,571 Shares held by Time Prestige.
4. Silver Palm Limited ("**Silver Palm**") is wholly and beneficially owned by Mr. Zhang Xiaoman ("**Mr. Zhang**"). Accordingly, Mr. Zhang is deemed to be interested in the 14,285,714 Shares held by Silver Palm.
5. The percentage represents the number of Shares interested divided by the number of the issued Shares as at 30 September 2020 (i.e. 281,276,411 Shares).

Save as disclosed above, the Directors are not aware of any person who, as at 30 September 2020, had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register kept by the Company under Section 336 of the SFO.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by the Directors on terms no less exacting than the Rules 5.48 to 5.67 (the “**Model Code**”) of the GEM Listing Rules. 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 Period.

INTERESTS IN A COMPETING BUSINESS

During the Period, none of the Directors, the controlling shareholders or substantial shareholders of the Company or any of their respective close associates (as defined in the GEM Listing Rules) had engaged in any business that competes or might compete with the business of the Group, or had any other conflict of interest with the Group.

PURCHASE, SALE OR REDEMPTION OF COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Period.

AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee, which was of the opinion that the preparation of such financial information complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

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

Hong Kong, 9 November 2020

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