

CFHL

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)

2022

Third Quarterly Report



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*This report, 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 report 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 report 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 ended 30 September 2022 (the “Period”) together with the unaudited comparative figures for the corresponding periods in 2021, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2022

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue	4	6,657	9,084	31,215	35,071
Other income and other gains and losses, net	4	923	446	1,530	2,802
Administrative and other expenses		(6,848)	(9,175)	(24,771)	(26,410)
Reversal/(Charge) of loss allowance for expected credit losses (“ECLs”) on loans to customers		2,388	269	(4,992)	10,871
Fair value loss on financial assets at fair value through profit or loss (“FVTPL”)	5	(217)	(560)	(8,656)	(560)
Write-off of repossessed assets		-	-	-	(2,278)
Loss on deregistration of a subsidiary		-	-	(1,201)	-
Gain on extinguishment of bond payables and liability component of convertible bonds	6	26,944	-	26,944	-
Share of (loss)/profit of a joint venture		(57)	(153)	26	(293)
Finance costs	7	(5,714)	(9,495)	(20,219)	(30,303)
Profit/(Loss) before income tax	8	24,076	(9,584)	(124)	(11,100)
Income tax expenses	9	(1,655)	(1,062)	(1,829)	(8,778)
Profit/(Loss) for the period		22,421	(10,646)	(1,953)	(19,878)
Attributable to:					
Owners of the Company		21,863	(11,409)	(7,030)	(21,242)
Non-controlling interests		558	763	5,077	1,364
		22,421	(10,646)	(1,953)	(19,878)
Earnings/(Loss) per share attributable to owners of the Company	11				
- Basic (Hong Kong cents)		2.16	(1.35)	(0.69)	(3.06)
- Diluted (Hong Kong cents)		0.54	(1.35)	(0.69)	(3.06)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2022

	Three months ended 30 September		Nine months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Profit/(Loss) for the period	22,421	(10,646)	(1,953)	(19,878)
Other comprehensive (expense)/income for the period				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
– Exchange differences on translation of share of other comprehensive income of a joint venture	(310)	–	(557)	–
– Exchange differences on translation of financial statements of foreign operations	(18,046)	611	(33,427)	7,166
<i>Item that has been reclassified to profit or loss:</i>				
– Reclassification adjustment of exchange reserve upon deregistration of a subsidiary	–	–	1,201	–
Other comprehensive (expense)/income for the period, net of tax	(18,356)	611	(32,783)	7,166
Total comprehensive income/(expense) for the period	4,065	(10,035)	(34,736)	(12,712)
Attributable to:				
Owners of the Company	6,041	(10,354)	(35,312)	(14,860)
Non-controlling interests	(1,976)	319	576	2,148
	4,065	(10,035)	(34,736)	(12,712)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2022

	Reserves							Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total equity	
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Convertible bonds reserve	FVTOCI reserve					HKS'000
As at 1 January 2022 (Audited)	50,591	686,153	131,109	286,867	(46,855)	6,047	106	25,885	(1,064,921)	75,002	42,862	117,864
Loss for the period	-	-	-	-	-	-	-	-	(7,030)	(7,030)	5,077	(1,953)
Other comprehensive (expense)/income												
Items that may be reclassified subsequently to profit or loss:												
Exchange differences on translation of share of other comprehensive income of a joint venture	-	-	-	-	(557)	-	-	-	-	(557)	-	(557)
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(28,926)	-	-	-	-	(28,926)	(4,501)	(33,427)
Item that has been reclassified to profit or loss:												
Reclassification adjustment of exchange reserve upon deregistration of a subsidiary	-	-	-	-	1,201	-	-	-	-	1,201	-	1,201
Other comprehensive expense for the period	-	-	-	-	(28,282)	-	-	-	-	(28,282)	(4,501)	(32,783)
Total comprehensive expense for the period	-	-	-	-	(28,282)	-	-	-	(7,030)	(35,312)	576	(34,736)
Transfer upon deregistration of a subsidiary	-	-	-	-	-	-	-	(4,495)	4,495	-	-	-
Transfer upon disposal of equity investment at fair value through other comprehensive income ("FVTOCI")	-	-	-	-	-	-	(106)	-	106	-	-	-
Transactions with owners												
Dividends declared to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,861)	(1,861)
Redemption of the 2023 CB (As defined in Interim Report 2022) by cash	-	-	-	-	-	(193)	-	-	(52)	(245)	-	(245)
Transferred to accumulated losses upon mature of the 2022 CB (As defined in Interim Report 2022) (Note 6)	-	-	-	-	-	(1,713)	-	-	1,713	-	-	-
Deemed capital contribution arising from bond payables (Note 6)	-	-	-	13,006	-	-	-	-	-	13,006	-	13,006
Extinguishment of the 2023 CB (Note 6)	-	-	-	-	-	(4,141)	-	-	4,141	-	-	-
Recognition of the New 2022 and the New 2023 CB (Note 6)	-	-	-	-	-	33,357	-	-	(33,357)	-	-	-
Deemed capital contribution arising from liability portion of convertible bonds (Note)	-	-	-	4,742	-	-	-	-	-	4,742	-	4,742
Redemption of the New 2022 CB by cash (Note)	-	-	-	-	-	(5,330)	-	-	675	(4,655)	-	(4,655)
Transactions with owners	-	-	-	17,748	-	21,980	-	-	(26,880)	12,848	(1,861)	10,987
As at 30 September 2022 (Unaudited)	50,591	686,153	131,109	304,635	(75,137)	28,027	-	21,390	(1,094,230)	52,538	41,577	94,115



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

For the nine months ended 30 September 2022

Note: On 16 August 2022, the Company and the holder of the New 2022 CB (as defined in Note 6) entered into redemption agreements, to early redeem the zero-coupon convertible bonds with principal amount of HK\$39,006,000 by cash settlement of approximately HK\$35,496,000. The redemption prices were allocated to the liability component and the equity component on the same basis as used in the allocation of the fair value of the New 2022 CB at initial recognition. At the date of redemption, a deemed capital contribution, representing the differences between the redemption prices allocated to the liability component and the carrying amount of the liability component, of approximately HK\$4,742,000 and the redemption prices allocated to the equity component of approximately HK\$4,655,000, were recognised in equity. Upon the redemption of the New 2022 CB, the remaining amount of the convertible bonds reserve attributable to the redeemed New 2022 CB of approximately HK\$675,000 was transferred from accumulated losses.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the nine months ended 30 September 2021

	Reserves									Equity attributable to owners of the Company	Non-controlling interests	Total equity
	Issued capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Convertible bonds reserve	FV/OCI 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 2021 (Audited)	14,064	625,385	131,109	282,885	(61,632)	9,282	(2,831)	26,838	(1,046,088)	(20,988)	47,007	26,019
Loss for the period	-	-	-	-	-	-	-	-	(21,242)	(21,242)	1,364	(19,878)
Other comprehensive income												
Item that may be reclassified subsequently to profit or loss:												
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	6,382	-	-	-	-	6,382	784	7,166
Other comprehensive income for the period	-	-	-	-	6,382	-	-	-	-	6,382	784	7,166
Total comprehensive expense for the period	-	-	-	-	6,382	-	-	-	(21,242)	(14,860)	2,148	(12,712)
Transactions with owners												
Issue of new shares under rights issue	28,127	43,955	-	-	-	-	-	-	-	72,082	-	72,082
Dividend declared to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(588)	(588)
Deemed capital contribution arising from liability portion of convertible bonds	-	-	-	1,361	-	-	-	-	-	1,361	-	1,361
Redemption of 2022 CB (As defined in Interim Report 2022) by cash	-	-	-	-	-	(1,670)	-	-	(342)	(2,012)	-	(2,012)
Transactions with owners	28,127	43,955	-	1,361	-	(1,670)	-	-	(342)	71,431	(588)	70,843
As at 30 September 2021 (Unaudited)	42,191	669,340	131,109	284,246	(55,250)	7,612	(2,831)	26,838	(1,067,672)	35,583	48,567	84,150

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2022

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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The unaudited condensed consolidated financial statements of the Group for the three months and nine months ended 30 September 2022 (the "Third Quarterly Financial Statements") have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622, Laws of Hong Kong) 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 are 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 2021, 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 2021 (the "Annual Report").

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.

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

2.1 *Basis of Preparation (Continued)*

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 initial adoption of Amendments to HKFRS 16 "COVID-19-Related Rent Concessions Beyond 30 June 2021", details of which are described in Note 2.3, and 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 2022.

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 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 *Amendments to HKFRS 16: COVID-19-Related Rent Concessions Beyond 30 June 2021*

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

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. On this basis, the Group has determined that it only has one operating segment which is the provision of short-term financing services to the customers. 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.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile.

All the Group's revenue are derived from the PRC during the three months and nine months ended 30 September 2022 and 30 September 2021, being the single geographical region.

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

	Three months ended 30 September		Nine months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue				
Revenue from other sources				
Interest income from loans to customers	6,630	8,676	21,451	34,550
Settlement (loss)/gain from distressed debt assets classified in loans to customers	(167)	-	9,570	113
	6,463	8,676	31,021	34,663
Revenue from contracts with customers within HKFRS 15				
Financial consultancy income	194	408	194	408
Short-term financing services income	6,657	9,084	31,215	35,071
Other income and other gains and losses, net				
Exchange difference, net	(465)	27	(833)	151
Bank interest income	525	401	1,117	1,725
Investment income	-	-	-	26
Gain on disposal of repossessed assets	-	-	6	-
Rental income from investment properties	-	8	-	50
Gain on early redemption of convertible bonds (Note)	-	-	303	126
Sundry income	863	10	937	724
	923	446	1,530	2,802

Note: On 25 March 2021, the Company and the holder of 2022 CB, which is an independent third party of the Company, entered into redemption agreements, to early redeem the zero-coupon convertible bonds with aggregate principal amount of HK\$10,000,000 by cash settlement of approximately HK\$9,300,000. The redemption prices were allocated to the liability component and the equity component on the same basis as used in the allocation of the fair value of 2022 CB at initial recognition. At the date of redemption, a settlement gain on early redemption, representing the differences between the redemption prices allocated to the liability component and the carrying amount of the liability component, of approximately HK\$126,000 and the redemption prices allocated to the equity component of approximately HK\$206,000, were recognised in profit or loss and equity respectively. Upon the redemption of 2022 CB, the remaining amount of the convertible bonds reserve attributable to the redeemed 2022 CB of approximately HK\$34,000 was transferred to accumulated losses.

4. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES, NET (Continued)

Note: (continued)

On 6 January 2022, the Company and the holder of 2023 CB, which is an independent third party of the Company, entered into a redemption agreement, to early redeem the zero-coupon convertible bonds with principal amount of HK\$8,600,000 by cash settlement of HK\$8,000,000. The redemption prices were allocated to the liability component and the equity component on the same basis as used in the allocation of the fair value of 2023 CB at initial recognition. At the date of redemption, a settlement gain on early redemption, representing the differences between the redemption prices allocated to the liability component and the carrying amount of the liability component, of approximately HK\$303,000 and the redemption prices allocated to the equity component of approximately HK\$245,000, were recognised in profit or loss and equity respectively. Upon the redemption of 2023 CB, the remaining amount of the convertible bonds reserve attributable to the redeemed 2023 CB of approximately HK\$52,000 was transferred to accumulated losses.

5. FAIR VALUE LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Fair value loss on financial assets at FVTPL represents the change in fair value of the investment in the listed equity securities in the Main Board of the Exchange based on closing price in an active market.

6. GAIN ON EXTINGUISHMENT OF BOND PAYABLES AND LIABILITY COMPONENT OF CONVERTIBLE BONDS

On 21 July 2022, the Company issued 2 series of zero-coupon convertible bonds as all conditions precedent set out in each of the convertible bonds subscription agreements had been fulfilled, with respective principal amounts of HK\$99,840,000 due on 24 December 2023 (the "New 2022 CB") and HK\$185,400,000 due on 5 August 2024 (the "New 2023 CB"). The conversion price of each of the New 2022 CB and the New 2023 CB is HK\$0.05 per ordinary share. The New 2022 CB and the New 2023 CB were issued to settle the outstanding principal amounts of 2022 CB and 2023 CB, respectively (together referred to the "Setting Off"). After the issuance of the New 2022 CB and the New 2023 CB, the contractual obligations associated with the 2022 CB and the 2023 CB were discharged. The Setting Off is based on the terms of the 2022 CB and the 2023 CB, which allows early repurchase by the Company and is essentially an early redemption of the 2022 CB and the 2023 CB and there is no alternation of the terms to the 2022 CB and the 2023 CB except for the new conversion price and maturity dates of the New 2022 CB and the New 2023 CB.

After the date of maturity of the 2022 CB on 24 June 2022, the bond is no longer convertible into shares of the Company. Therefore, the 2022 CB in an aggregate principal amount of HK\$99,840,000 and accrued interest of approximately HK\$4,992,000 were reclassified as bond payables which included in accrued expenses, other payables and deposits received in the unaudited condensed consolidated statement of financial position, and the remaining amount of convertible bonds reserve attributable to 2022 CB of approximately HK\$1,713,000 was transferred to accumulated losses.

6. GAIN ON EXTINGUISHMENT OF BOND PAYABLES AND LIABILITY COMPONENT OF CONVERTIBLE BONDS (Continued)

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was more than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the Setting Off constituted a significant modification and was accounted for as an extinguishment of the bond payables and the liability component of the 2023 CB and the recognition of a new financial liability of the New 2022 CB and the New 2023 CB. The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the New 2022 CB and the New 2023 CB is calculated using effective interest rate ranging from 10.67% to 10.95% per annum.

The Group recognised a gain on extinguishment of bond payables and liability component of convertible bonds of approximately HK\$26,944,000 in profit or loss on 21 July 2022. As certain bond payables are entered with a shareholder of the Company, a deemed capital contribution of approximately HK\$13,006,000 was recognised in equity at the date of issuance of the New 2022 CB.

The balance of the convertible bonds reserve for the 2023 CB of approximately HK\$4,141,000 was transferred from the convertible bonds reserve to accumulated losses.

The recognition of the New 2022 CB and the New 2023 CB had accounted for approximately HK\$33,357,000 and HK\$248,648,000 in the convertible bonds reserve and liability component of convertible bonds, respectively. The extinguishment of the bond payables and the 2023 CB resulted in the setting off of bond payables and liability component of the 2023 CB of approximately HK\$104,832,000 and HK\$183,766,000, respectively.

For details of the above convertible bonds, please refer to the announcements of the Company dated 4 April 2022, 29 April 2022, 3 May 2022, 31 May 2022, 13 June 2022, 28 June 2022 and 21 July 2022, and the circular of the Company dated 13 June 2022.

7. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest expenses on:				
– Convertible bonds	5,666	9,434	20,068	30,019
– Promissory notes	–	–	–	109
– Lease liabilities	48	61	151	175
	5,714	9,495	20,219	30,303

8. PROFIT/(LOSS) BEFORE INCOME TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Staff costs (excluding Directors' emoluments)				
Salaries, allowance and other benefits	3,070	3,665	10,880	10,502
Pension scheme contributions	400	456	1,387	1,302
	3,470	4,121	12,267	11,804
Auditor's remuneration	313	331	810	779
Depreciation of property, plant and equipment	104	132	324	414
Depreciation of right-of-use assets	372	444	1,187	1,329
Short-term or low value lease payments	418	440	1,301	1,316

9. INCOME TAX EXPENSES

The amount of income tax expenses in the unaudited condensed consolidated income statement represents:

	Three months ended 30 September		Nine months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current income tax				
The PRC				
Current tax charge for the period	1,061	946	2,903	4,922
(Over)/Under-provision in respect of prior periods	(3)	-	174	198
	1,058	946	3,077	5,120
Withholding tax on dividends	-	-	-	892
Deferred tax charged/(credited)	597	116	(1,248)	2,766
Income tax expenses	1,655	1,062	1,829	8,778

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 Bermuda, the Cayman Islands and British Virgin Islands, 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 profits arising in Hong Kong (2021: Nil).

9. INCOME TAX EXPENSES (Continued)

The subsidiaries of the Group established in the PRC, save for below, are subject to enterprise income tax ("EIT") of the PRC at 25% (2021: 25%). Pursuant to the relevant laws and implementation rules announced by the People's Government of the Tibet Autonomous Region, 拉薩嘉德財務顧問有限公司 (Lhasa Jiade Financial Consultant Company Limited*), a subsidiary of the Group established in Tibet of the PRC is subject to the EIT at 15% for the three months and nine months ended 30 September 2021. According to the notices on implementing the respective preferential income tax 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 2022 and 2021 of certain subsidiaries of the Group established in the PRC were less than Renminbi ("RMB") 3,000,000, which satisfies the provisions of the notice above. During the Period, the part of taxable income that is not in excess of RMB1,000,000 is reduced to 12.5% (2021: 12.5%) of original total taxable income, and the applicable EIT rate is 20% (2021: 20%). Additionally, the part of taxable income that is between RMB1,000,000 and RMB3,000,000 is reduced to 25% (2021: 50%) of original total taxable income, and the applicable EIT rate is 20% (2021: 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% (2021: 10%).

10. DIVIDEND

The Directors do not recommend for payment of a dividend for the Period (2021: Nil).

11. EARNINGS/(LOSS) PER SHARE

The calculations of basic earnings/(loss) per share for the current period and prior period are based on the profit/(loss) for the periods attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the current period and prior period are set forth below.

The calculations of diluted earnings/(loss) per share for the current period and prior period are based on the profit/(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 period and prior period 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 ended 30 September 2022, the diluted earnings per share would reduce if the Company's outstanding convertible bonds were taken into account, as those convertible bonds had a dilutive effect to the basic earnings per share and hence the conversion of the above potential dilutive shares is assumed in the computation of diluted earnings per share.

For the nine months ended 30 September 2022 and three months and nine months ended 30 September 2021, 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 nine months ended 30 September 2022 and three months and nine months ended 30 September 2021 are equal.

* English name is for identification purpose only.

11. EARNINGS/(LOSS) PER SHARE (Continued)

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

	Three months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Profit/(Loss)		
Profit/(Loss) attributable to the owners of the Company, used in basic earnings/(loss) per share calculation	21,863	(11,409)
Adjustment of profit/(loss) attributable to the owners of the Company:		
Interest saving of the convertible bonds	5,666	—*
Profit/(Loss) attributable to the owners of the Company, used in the diluted earnings/(loss) per share calculation	27,529	(11,409)

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

	Three months ended 30 September	
	2022 (Unaudited) '000	2021 (Unaudited) '000
Share		
Weighted average number of ordinary shares for basic loss per share calculation (Note)	1,011,829	843,829
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	4,097,597	—*
Weighted average number of ordinary shares for diluted loss per share calculation (Note)	5,109,426	843,829

Note: The weighted average number of ordinary shares of 843,829,233 for the three months ended 30 September 2021 is derived from 281,276,411 shares in issue as at 1 January 2021 and after taking into account of the effect of the respective adjustment in relation to the rights issue which became unconditional and completed as announced on 15 March 2021.

11. EARNINGS/(LOSS) PER SHARE (Continued)

	Nine months ended 30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(7,030)	(21,242)
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	(7,030)	(21,242)

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

	Nine months ended 30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	'000	'000
Share		
Weighted average number of ordinary shares for basic loss per share calculation (Note)	1,011,829	693,630
Effect of dilutive potential ordinary shares:		
Conversion of convertible bonds	—*	—*
Weighted average number of ordinary shares for diluted loss per share calculation (Note)	1,011,829	693,630

Note: The weighted average number of ordinary shares of 693,629,690 for the Period is derived from 281,276,411 shares in issue as at 1 January 2021 and after taking into account of the effect of the respective adjustment in relation to the rights issue which became unconditional and completed as announced on 15 March 2021.

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

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\$31,215,000 (2021: approximately HK\$35,071,000), representing a decrease of approximately HK\$3,856,000 as compared with the corresponding period last year. The decrease was mainly attributable to the decrease in interest income from loans to customers during the Period.

The administrative and other expenses for the Period has decreased by approximately HK\$1,639,000 to approximately HK\$24,771,000 (2021: approximately HK\$26,410,000).

The Group recorded a charge of loss allowance for ECLs on loans to customers for the Period of approximately HK\$4,992,000 (2021: reversal of loss allowance for ECLs of approximately HK\$10,871,000), representing an increase in charge of loss allowance for ECLs of approximately HK\$15,863,000 as compared with the corresponding period in 2021. The significant charge of loss allowance for ECLs for the Period was mainly due to the resurgence of COVID-19 pandemic since early 2022 which has brought an adverse impact on the financial condition of certain customers of the Group, resulting in a deterioration of the customers' ageing.

Fair value loss on financial assets at FVTPL for the Period has significantly increased from approximately HK\$560,000 in the corresponding period last year to approximately HK\$8,656,000, representing an unrealised loss recognised from the listed equity investment.

On 21 July 2022, the Company issued the New 2022 CB and the New 2023 CB to settle the outstanding principal amounts of 2022 CB and 2023 CB, respectively. The Setting Off resulted in a one-off gain on extinguishment of bond payables and liability component of convertible bonds in the amount of approximately HK\$26,944,000 recorded for the Period whereas no such gain was recognised for the nine months ended 30 September 2021.

The loss attributable to the owners of the Company for the Period was approximately HK\$7,030,000 (2021: approximately HK\$21,242,000). The decrease in loss was mainly due to the net-off effect of (i) decrease in total revenue; (ii) increase in charge of loss allowance for ECLs on loans to customers (net of corresponding deferred tax impacts); (iii) increase in fair value loss on financial assets at FVTPL; (iv) a one-off gain on extinguishment of bond payables and liability component of convertible bonds recorded during the Period; and (v) decrease in finance costs as a result of partial redemptions of convertible bonds made by the Group during the year ended 31 December 2021 and the Period.

PROSPECTS

Looking forward, the challenges arising from the combined effect of the ongoing geopolitical tensions, the prolonged and complex COVID-19 pandemic situation as well as the global interest and inflation hikes will continue to bring uncertainties to the global economy including the Group's business operations. The domestic economy in the PRC will face threefold pressure from shrinking demands, supply shocks and weakening expectations. In this regard, the People's Bank of China pledged to use more monetary policy tools to stabilize economy and maintain a stable overall money supply. From the perspective of optimising the liquidity situation in the banking system and reducing lending costs, it is expected that the Group will face a fierce competition from inclusive finance operated by commercial banks. To maintain competitiveness in the market, the Group will continue to leverage its strengths and actively adjust its operation strategy on its short-term financing services business.

Going forward, the Group will continue to explore and seize business opportunities to broaden and diversify its income stream and further integrate its resources to improve the overall financial performance of the Group and to maximise the value for its shareholders.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

FURTHER PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group currently does not have any firm intention or specific plans for material investments or capital assets.

FUND RAISING ACTIVITIES

Proposed Increase in Authorised Share Capital; and Connected Transaction in relation to Proposed Issue of Convertible Bonds under Specific Mandate

The Company entered into the conditional subscription agreements with the respective subscribers on 4 April 2022 (as amended and supplemented on 6 June 2022), pursuant to which each of the subscribers has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the zero-coupon convertible bonds due on 24 December 2023 in the aggregate principal amount of HK\$99,840,000 (the **"New 2022 Convertible Bonds"**) under relevant subscription agreements with Bustling Capital Limited and Choice Magic Limited as subscribers (the **"New 2022 CB Subscription Agreements"**) and the zero-coupon convertible bonds due on 5 August 2024 in the aggregate principal amount of HK\$185,400,000 (the **"New 2023 Convertible Bonds"**) under relevant subscription agreements with Exuberant Global Limited and Mr. Liu Yongli as subscribers (the **"New 2023 CB Subscription Agreements"**) (the **"Proposed Issue of Convertible Bonds"**). The market price of the Shares as of 4 April 2022 was HK\$0.031, being the date of the conditional subscription agreements.

The existing convertibles bonds of the Company would mature in June 2022 and February 2023 (the **"Existing CBs"**) respectively and it is not expected that the Company would have sufficient internal resources to redeem all the Existing CBs upon maturity. It was also considered that (i) it is unlikely for the Company to obtain other debt financing from financial institutions or otherwise with acceptable terms or terms better than those for the New 2022 Convertible Bonds and the New 2023 Convertible Bonds; and (ii) the holders of the Existing CBs have no intention to exercise the conversion rights attached to the Existing CBs taking into account of that the prevailing conversion price of the Existing CBs per Share is significantly higher than the market price. As such the Company considers that the entering into the New 2022 CB Subscription Agreements and the New 2023 CB Subscription Agreements would be an effective way to settle the Existing CBs. The Proposed Issue of Convertible Bonds bear similar salient features as the Existing CBs such as conversion restriction and essentially is an extension of the Existing CBs, except that the conversion price is adjusted to reflect the prevailing market price of the Shares which provides the subscribers a better opportunity to convert the convertible bonds before the respective maturity date.

On the assumption that the New 2022 Convertible Bonds would be converted into conversion shares in full at the initial conversion price of HK\$0.05 per conversion share (subject to adjustments), 1,996,800,000 conversion shares will be issued, representing (1) approximately 197.35% of the existing issued share capital of the Company, (2) approximately 66.37% of the issued share capital of the Company as to be enlarged by the allotment and issue of the conversion shares upon full conversion of the New 2022 Convertible Bonds (assuming that no conversion shares to be allotted and issued under the New 2023 Convertible Bonds), and (3) approximately 29.73% of the issued share capital of the Company as to be enlarged by the allotment and issue of the conversion shares upon full conversion of the New 2022 Convertible Bonds and the New 2023 Convertible Bonds. The aggregate subscription amounts of HK\$99,840,000 for the New 2022 Convertible Bonds will be set off by the respective outstanding principal amounts of the 2014 Convertible Bonds (as defined in the Company's announcement dated 4 April 2022) held by the relevant subscribers respectively which shall fall due on 24 June 2022.

FUND RAISING ACTIVITIES (Continued)

Proposed Increase in Authorised Share Capital; and Connected Transaction in relation to Proposed Issue of Convertible Bonds under Specific Mandate (Continued)

On the assumption that the New 2023 Convertible Bonds would be converted into conversion shares in full at the initial conversion price of HK\$0.05 per conversion share (subject to adjustments), 3,708,000,000 conversion shares will be issued, representing (1) approximately 366.47% of the existing issued share capital of the Company, (2) approximately 78.56% of the issued share capital of the Company as to be enlarged by the allotment and issue of the conversion shares upon full conversion of the New 2023 Convertible Bonds (assuming that no conversion shares to be allotted and issued under the New 2022 Convertible Bonds), and (3) approximately 55.21% of the issued share capital of the Company as to be enlarged by the allotment and issue of the conversion shares upon full conversion of the New 2022 Convertible Bonds and the New 2023 Convertible Bonds. The aggregate subscription amounts of HK\$185,400,000 for the New 2023 Convertible Bonds will be set off by the respective outstanding principal amounts of the 2015 Convertible Bonds (as defined in the Company's announcement dated 4 April 2022) held by the relevant subscribers respectively which shall fall due on 5 February 2023.

In order to accommodate the growth of the Group and to provide the Company with greater flexibility for the issue of the conversion shares under the New 2022 Convertible Bonds and the New 2023 Convertible Bonds and other possible fund-raising activities in the future as and when necessary, the Board proposed to increase the authorised share capital of the Company from HK\$100,000,000 divided into 2,000,000,000 shares to HK\$1,000,000,000 divided into 20,000,000,000 shares by the creation of an additional 18,000,000,000 shares (the "**Proposed Increase in Authorised Share Capital**"). Subject to the passing of an ordinary resolution by the shareholders of the Company at the special general meeting (the "**SGM**") to approve the increase in authorised share capital, the increase in authorised share capital would become effective on the date of the SGM.

The independent board committee (the "**Independent Board Committee**") comprising all the independent non-executive Directors had been established and an independent financial adviser, Giraffe Capital Limited, had been appointed to advise the Independent Board Committee and the independent shareholders in this regard.

The Proposed Increase in Authorised Share Capital and Proposed Issue of Convertible Bonds were approved by the independent shareholders at the SGM held on 28 June 2022. Accordingly, the Proposed Increase in Authorised Share Capital took effective on 28 June 2022. All conditions precedent set out in each of the New 2022 CB Subscription Agreements and the New 2023 CB Subscription Agreements have been fulfilled and the completion of the issue of the New 2022 Convertible Bonds and the New 2023 Convertible Bonds took place on 21 July 2022 in accordance with the terms and conditions of the Subscription Agreements.

For details, please refer to the announcements of the Company dated 4 April 2022, 29 April 2022, 3 May 2022, 31 May 2022, 13 June 2022, 28 June 2022 and 21 July 2022, and the circular of the Company dated 13 June 2022.

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

USE OF PROCEEDS

Placing of New Shares under General Mandate

The actual net proceeds raised from the placing of 168,000,000 ordinary shares of the Company under general mandate on 1 December 2021 was approximately HK\$25,200,000. Up to 30 September 2022, the Group has utilised the net proceeds as follows:

	Intended use of net proceeds HK\$'000	Actual use of net proceeds up to 30 September 2022 HK\$'000	Unutilised net proceeds up to the date of this report HK\$'000
Settlement of outstanding short-term liabilities of the Company	25,000	25,000	-
General working capital	213	213	-
	25,213	25,213	-

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 2022, 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 held	Approximate percentage of shareholding in the Company (Note)
Mr. Zhang Wei	Beneficial owner	127,377,920	12.59
Ms. Li Wei	Beneficial owner	72,652,800	7.18

Note: The percentage represents the number of shares interested divided by the number of the issued shares as at 30 September 2022 (i.e. 1,011,829,233 shares).

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

Long Positions in the Shares (Continued)

Save for disclosed above, as at 30 September 2022, 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 2022, 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 share capital:

Long Positions in the Shares

Name of substantial shareholder	Number of shares interested			Percentage of the issued share of the Company (Note 5)
	Direct interests	Deemed interests	Total interests	
Exuberant Global Limited (Note 1)	3,580,000,000	–	3,580,000,000	353.81
Mr. Dai Di (Note 1)	–	3,580,000,000	3,580,000,000	353.81
Bustling Capital Limited (Note 2)	1,026,680,000	–	1,026,680,000	101.46
Ms. Jin Yu (Note 2)	–	1,026,680,000	1,026,680,000	101.46
Mr. Dai Hao (Notes 2 and 3)	–	1,026,680,000	1,026,680,000	101.46
Ms. Yip Sze Pui Fione (Note 4)	155,330,000	–	155,330,000	15.35
Mr. Hui Kwan Wah Hugo (Note 4)	155,330,000	–	155,330,000	15.35

Notes:

- The 3,580,000,000 shares held by Exuberant Global Limited ("Exuberant Global") represent 3,580,000,000 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 3,580,000,000 shares held by Exuberant Global.

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

Long Positions in the Shares (Continued)

Notes: (Continued)

2. The 1,026,680,000 shares held by Bustling Capital Limited ("**Bustling Capital**") represent (i) 10,000,000 shares and (ii) 1,016,680,000 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 1,026,680,000 shares.
3. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 1,026,680,000 shares held by Bustling Capital.
4. The 155,330,000 shares are jointly held by Ms. Yip Sze Pui Fione and Mr. Hui Kwan Wah Hugo.
5. The percentage represents the number of shares interested divided by the number of the issued shares as at 30 September 2022 (i.e. 1,011,829,233 shares).

Save as disclosed above, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who, as at 30 September 2022, had an interest or a short position in the shares, underlying shares or debentures 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 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 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 2022

As at the date of this report, the executive Directors are Mr. Zhang Wei and Ms. Li Wei and the independent non-executive Directors are Mr. Chen Yihua, Mr. Lee Zak Yuen and Mr. Chan Ngai Fan.

This report will remain on the "Latest Listed Company Information" page of the website of the Exchange at <http://www.hkexnews.hk> for at least 7 days from the date of its posting and on the Company's website at <http://www.capitalfinance.hk>.