



China Financial Services Holdings Ltd

China Financial Services Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock code: 605)

2023 Interim Report

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CORPORATE INFORMATION

DIRECTORS

Executive Director

Mr. Zhang Min (*Chief Executive Officer*)

Non-executive Director

Mr. Tao Chun

Independent Non-executive Directors

Mr. John Paul Ribeiro

Mr. Zhang Kun

Mr. Chan Chun Keung

Mr. Lee Ka Wai

Madam Zhan Lili

COMPANY SECRETARY

Mr. Chung Chin Keung FCCA, FCPA, FCA,
CTA

AUDITORS

Baker Tilly Hong Kong Limited

Certified Public Accountants

Registered Public Interest Entity Auditors

AUDIT COMMITTEE

Mr. Lee Ka Wai (*Chairman*)

Mr. Chan Chun Keung

Madam Zhan Lili

Mr. Zhang Kun

REMUNERATION COMMITTEE

Mr. Zhang Kun (*Chairman*)

Mr. Tao Chun

Mr. Chan Chun Keung

Mr. Lee Ka Wai

Madam Zhan Lili

NOMINATION COMMITTEE

Mr. Lee Ka Wai (*Chairman*)

Mr. Tao Chun

Mr. Chan Chun Keung

Madam Zhan Lili

Mr. Zhang Kun

BUSINESS RISKS COMMITTEE

Mr. Zhang Min (*Chairman*)

Mr. Lee Ka Wai

Mr. Chan Chun Keung

Madam Zhan Lili

Mr. Zhang Kun

SHARE REGISTRAR

Tricor Tengis Limited

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Far East Finance Centre

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REGISTERED OFFICE

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18 Harbour Road

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STOCK CODE: 605

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FINANCIAL HIGHLIGHTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

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

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

Overall, the performance of the property market in Mainland China in the first half of the year fell short of expectations. Given the weakening property investment, development, sales activities, and property valuations in some regions, challenges are expected to be posed to the property mortgage business of China Financial Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") to certain extent.

Business Review

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

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

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

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

Future Prospects

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

Financial Review

Interest and financing consultancy services income

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

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

Interest and handling expenses

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

Other Gains and Losses

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

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

General and administrative expenses

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

Loss for the period

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

Liquidity and Financial Resources

The Group adopts a prudent cash and financial management policy. Funds are maintained at a sound and healthy financial resource level. The Group's net current assets and equity attributable to owners of the Company as at end of the Reporting Period were approximately HK\$142,766,000 and approximately HK\$655,111,000 respectively. The Group's outstanding borrowings and loan payables and unsecured bonds as at end of this Reporting Period amounted to HK\$1,218,420,000, a decrease of approximately 11.4% when compared to the same figure last year, out of which HK\$1,202,857,000 are due within one year and HK\$15,563,000 are due after one year. There is no funding requirements for capital expenditure commitments for the Reporting Period.

Capital Management

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

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

Employee and Remuneration Policies

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

Charge on assets

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

Fair Value Estimation

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

Contingent Liabilities

The directors consider that the Group had no material contingent liabilities as at 30 June 2023.

Foreign Exchange Exposure

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

Significant Investments Held, Material Acquisitions and Disposals

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

Business Model

The Group is engaged in the provision of financing services in four operating regions, namely Hong Kong, Shenzhen, Chengdu and Beijing. The clients are individuals' customers and corporate customers locate in Hong Kong and the PRC. The Group identifies potential customers through in-house sales teams, referrals and networks with commercial banks, property developers and small-to-medium sized enterprises. The Group has credit policies, guidelines, standard operating procedures and regional credit committee and Group's loan approval committee and Business Risk Committee in place. The standard workflow of the loan origination includes (i) "know-your-client" background check, (ii) credit assessment, (iii) loan approval, (iv) execution of documents (v) after-loan services and (vi) recovery and collection of loan.



The following is a summary of the key internal controls of the Group's loan financing operation:

Background check

Various identification documents shall be provided by the loan applicant, which shall be reviewed and assessed. Information such as personal ID/passport, corporate constitution documents, business registrations, address proof, payroll or financial records, nature of business, type, and value of collateral (for secured loan applications), and credit rating reports shall be collected. Each loan applicant shall complete a loan application form with his/her intended loan amount, term, purpose of the loan, repayment plan and proposed collateral/security to be offered.

Credit assessments and Loan approval

The client's background and information such as their financial capabilities, availability of guarantor(s), quality, validity and title deed and liquidity of collaterals, will then be assessed by the credit committee of respective operating region. If the loan amount applied exceeds the approval limit of the regional credit committee but is not more than RMB30 million, then the loan application will be assessed by the Group's loan approval committee. For any loan principal exceeding RMB30 million, the approval from the Business Risks Committee is required. The management team shall consider whether the loan applications are on normal commercial terms, fair and reasonable and in the interests of the Company and the shareholders as a whole. Whenever the loan transaction constitutes a discloseable transaction or above by assessment of size tests under Chapter 14 or involves connected person(s) under Chapter 14A of the Listing Rules or involves connected person(s) as defined under Chapter 14A of the Listing Rules, the loan transaction will also be reported to the Board.

Execution of documents

All loan applications must be approved by the relevant approval committees. The responsible officer will ensure all approval documents have been obtained before the loan documents are executed, and the finance department will be responsible for arranging for outflows of funds. The proper execution of the loan documentations is carried out under the supervision of the responsible officer.

After-loan services	There will be continuous monitoring on the repayments from borrowers, regular communication with the borrowers of their updated financial position, and periodic review on the market value of the collateral(s) pledged.
Collection and recovery	Formal reminder and legal demand letter will be issued to the borrowers whose payment are overdue by the collection department in the respective operating regional offices. Legal action maybe taken against the borrowers for recovery of the amount due and taking possession of the collateral(s) pledged.

The Group offers secured and unsecured loans to individuals and corporate clients. Most of the collaterals of secured loans are in the form of mortgages over residential and/or commercial properties owned by these clients. The total gross amount of property mortgage loans accounted for approximately 94.7% of the entire loan portfolio of the Group as at 30 June 2023. For mortgage loans, the Group would consider the value of the collaterals and grants loans with a loan-to-value ratio (the "LTV Ratio") of no more than 75%. The Group may require the borrower to deposit additional collateral or partially pay down/repay the loan principal if the LTV Ratio is over 75% under regular after-loan services. Unsecured loans accounted for approximately 3.5% of the entire loan portfolio of the Group. At the end of the Reporting Period, the Group had 1,260 active customers, of which 1,211 of them were individual customers and the remaining 49 were corporate customers; and of which 555 of them were secured customers and 705 of them were unsecured customers. The interest and service fees charged by the Group at a range of monthly effective rates of 0.7% to 4.29% for PRC loans and at a range of monthly effective rates of 0.35% to 4.91% for HK loans. A typical loan generally has a term of 30 days to 30 years.

For the Reporting Period, the current ratio⁽ⁱ⁾ and the gearing ratio⁽ⁱⁱ⁾ of the Group are 1.09 and 1.06 respectively.

The top five customers accounted for 14.6% of the total outstanding balances of the Group's loan portfolio as of 30 June 2023.

⁽ⁱ⁾ Current ratio was calculated by dividing current assets by current liabilities as at the end of the Reporting Period.

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the board of directors of China Financial Services Holdings Limited
(Incorporated in the Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information of China Financial Services Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 14 to 38 which comprises the condensed consolidated statement of financial position as at 30 June 2023 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with HKAS 34.

Our responsibility is to express a conclusion, based on our review, on this interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“HKSRE 2410”) issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

OTHER MATTER

The comparative condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period ended 30 June 2022 and the relevant explanatory notes included in this interim financial information were extracted from the condensed consolidated financial statements of the Group for the six-month period ended 30 June 2022 which have not been reviewed in accordance with HKSRE 2410.

Baker Tilly Hong Kong Limited

Certified Public Accountants
Hong Kong, 30 August 2023
Del Rosario, Faith Corazon
Practising certificate number P06143

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	Unaudited Six months ended 30 June 2023 HK\$'000	2022 HK\$'000
Interest and financing consultancy services income	3	67,694	113,918
Interest and handling expenses	3	(48,673)	(78,857)
Net interest income and service income	3	19,021	35,061
Education consultancy service income		–	1,385
Other income and other gains and losses	4	(9,483)	12,044
(Impairment losses)/reversal of impairment losses on loan and other receivables		(79,661)	6,472
Impairment loss on goodwill	10	(22,155)	–
Reversal of interest payables		31,706	–
General and administrative expenses		(49,152)	(74,772)
Share of results of associates		8,036	777
Loss before taxation	5	(101,688)	(19,033)
Income tax expense	6	(13,657)	(19,808)
Loss for the period		(115,345)	(38,841)
Attributable to:			
Owners of the Company		(117,100)	(40,833)
Non-controlling interests		1,755	1,992
Loss for the period		(115,345)	(38,841)
Loss per share	7	HK\$	HK\$
– Basic		(0.58)	(0.20)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	14,147	12,097
Investment properties	9	1,920	1,088
Goodwill	10	305,850	337,522
Intangible assets		13,453	13,565
Interests in associates		38,510	30,289
Other financial assets	11	5,421	17,681
Loan receivables	12	225,360	252,261
Deposits	14	34,668	35,000
Deferred tax assets		8,665	8,944
		647,994	708,447
Current assets			
Loan receivables	12	1,096,660	1,372,746
Interest receivables	13	10,846	11,710
Account and other receivables, deposits and prepayments	14	76,006	79,511
Amounts due from associates		55,459	60,398
Cash and cash equivalents		443,582	411,595
		1,682,553	1,935,960
Current liabilities			
Borrowings and loan payables	15	1,149,744	1,240,200
Other payables, accruals and deposit received	16	90,177	100,377
Liabilities arising from loan guarantee contracts	15(e)	83,847	89,340
Amount due to an associate		2,777	2,866
Unsecured bonds	17	53,113	27,741
Lease liabilities		5,448	4,166
Tax payables		154,681	160,153
		1,539,787	1,624,843
Net current assets		142,766	311,117
Total assets less current liabilities		790,760	1,019,564

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2023

	Notes	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Non-current liabilities			
Borrowings and loan payables	15	–	60,932
Unsecured bonds	17	15,563	46,292
Lease liabilities		4,347	2,768
Deferred tax liabilities		38,510	38,510
		58,420	148,502
NET ASSETS		732,340	871,062
EQUITY			
Share capital	18	2,080,113	2,080,113
Reserves		(1,425,002)	(1,290,388)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		655,111	789,725
Non-controlling interests		77,229	81,337
TOTAL EQUITY		732,340	871,062

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company								
	Share capital HK\$'000	Shares-based compensation reserve HK\$'000	Shares held under the share award scheme HK\$'000	Exchange reserve HK\$'000	Statutory surplus reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2023 (audited)	2,080,113	29,675	(56,661)	(309,142)	239,560	(1,193,820)	789,725	81,337	871,062
Changes in equity:									
(Loss)/profit for the period	-	-	-	-	-	(117,100)	(117,100)	1,755	(115,345)
Other comprehensive expense	-	-	-	(17,514)	-	-	(17,514)	(2,469)	(19,983)
Total comprehensive expense	-	-	-	(17,514)	-	(117,100)	(134,614)	(714)	(135,328)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(3,394)	(3,394)
Transfer to reserve	-	-	-	-	5,186	(5,186)	-	-	-
At 30 June 2023 (unaudited)	2,080,113	29,675	(56,661)	(326,656)	244,746	(1,316,106)	655,111	77,229	732,340
At 1 January 2022 (audited)	2,080,113	29,675	(56,661)	(227,603)	227,114	(1,128,821)	923,817	88,652	1,012,469
Changes in equity:									
(Loss)/profit for the period	-	-	-	-	-	(40,833)	(40,833)	1,992	(38,841)
Other comprehensive expense	-	-	-	(43,879)	-	-	(43,879)	(3,847)	(47,726)
Total comprehensive expense	-	-	-	(43,879)	-	(40,833)	(84,712)	(1,855)	(86,567)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(3,622)	(3,622)
Transfer to reserve	-	-	-	-	7,661	(7,661)	-	-	-
At 30 June 2022 (unaudited)	2,080,113	29,675	(56,661)	(271,482)	234,775	(1,177,315)	839,105	83,175	922,280

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Operating activities		
Loss before taxation	(101,688)	(19,033)
Adjustment for		
Interest and handling expenses	48,673	78,857
Impairment losses/(reversal of impairment losses) on loan and other receivables	79,661	(6,472)
Impairment loss on goodwill	22,155	–
Reversal of interest payables	(31,706)	–
Other non-cash items	5,431	(5,450)
	22,526	47,902
Changes in working capital		
Decrease in loan receivables	192,911	129,098
Decrease in consideration payables	–	(97,429)
Decrease in other payables, accruals and other deposits received	(10,555)	(10,280)
Other operating cash flows	7,539	(7,780)
	212,421	61,511
Cash generated from operations		
Taxation paid	(21,169)	(34,745)
	191,252	26,766

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Investing activities		
Proceeds from disposal of other financial assets	–	9,682
Advance to an associate	3,391	–
Other investing cash flows	2,817	982
Net cash generated from investing activities	6,208	10,664
Financing activities		
Proceeds from new borrowings	42,800	41,300
Repayment of borrowings	(162,906)	(67,243)
Redemption of unsecured bonds	(5,000)	(87,413)
Other interest paid	(18,915)	(25,472)
Other financing cash flows	(7,983)	(8,043)
Net cash used in financing activities	(152,004)	(146,871)
Net increase/(decrease) in cash and cash equivalents	45,456	(109,441)
Effect of foreign exchange rate changes	(13,469)	(30,085)
Cash and cash equivalents at beginning of the period	411,595	571,668
Cash and cash equivalents at end of the period	443,582	432,142

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

Application of amendments to HKFRSs

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

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

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

Amends to HKAS 8 "Definition of Accounting Estimates"

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

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

2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

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

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

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

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

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

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

3. REVENUE AND SEGMENT REPORTING

a) Revenue

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

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

b) Segmental Information

Operating segment information

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

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

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

5. LOSS BEFORE TAXATION

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

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

6. INCOME TAX EXPENSE

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

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

7. LOSS PER SHARE

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

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

8. INTERIM DIVIDEND

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

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Property, plant and equipment

During the six months ended 30 June 2023, the Group acquired property, plant and equipment of HK\$330,000 (six months ended 30 June 2022: HK\$411,000).

During the current interim period, the Group renewed several lease agreements. On date of lease modification, the Group recognised right-of-use assets of HK\$6,041,000 (six months ended 30 June 2022: nil) and lease liabilities of HK\$6,041,000 (six months ended 30 June 2022: nil).

Investment properties

During the current interim period, the Group acquired investment properties at the fair value of RMB1,286,000 (equivalent to approximately HK\$1,455,000) (six months ended 30 June 2022: nil).

The Group's investment properties at the end of the current interim period were valued by the external valuer on direct comparison approach, by making reference to the comparable sales evidence in the relevant locality. The resulting decrease in fair value of investment properties of HK\$552,000 (six months ended 30 June 2022: nil) has been recognised in profit or loss for the six months ended 30 June 2023.

10. GOODWILL

	<i>HK\$'000</i>
At 1 January 2022 (audited)	384,504
Arising on acquisition of subsidiaries	2,582
Disposal of subsidiaries	(18,564)
Exchange adjustment	(31,000)
	<hr/>
At 31 December 2022 and 1 January 2023 (audited)	337,522
Impairment loss	(22,155)
Exchange adjustment	(9,517)
	<hr/>
At 30 June 2023 (unaudited)	<u>305,850</u>

10. GOODWILL (Cont'd)

Goodwill has been allocated for impairment testing purposes to the following cash-generating units.

- Financing business in Beijing, the PRC ("Division A")
- Financing business in Shenzhen, the PRC ("Division B")
- Financing business in Hong Kong ("Division C")

The carrying amounts of goodwill as at 30 June 2023 and 31 December 2022 allocated to these units are as below:

	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Division A	303,032	334,696
Division B	236	244
Division C	2,582	2,582
	305,850	337,522

Division A

During the six months ended 30 June 2023, loan volume and interest rates for loan receivables are estimated to be downward under the present economic environment, resulting in the lower estimated future revenue than previously expected. In addition, the trend for expected credit loss ("ECL") for loan receivables is estimated to be upward, resulting in a lower cash inflow than previously expected. Accordingly, the estimated recoverable amount was lower than its carrying amount, hence an impairment loss of HK\$22,155,000 (six months ended 30 June 2022: nil) was recognised for the period.

11. OTHER FINANCIAL ASSETS

	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Financial assets mandatory measured at FVTPL		
– Equity securities listed in Hong Kong	5,421	5,756
– Unlisted investment funds in the PRC	–	11,925
Total	5,421	17,681

12. LOAN RECEIVABLES

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

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

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

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

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

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

12. LOAN RECEIVABLES (Cont'd)

Maturity profile

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

As at 30 June 2023 (Unaudited)

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

As at 31 December 2022 (Audited)

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

13. INTEREST RECEIVABLES

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

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

Ageing analysis

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

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

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

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

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

14. ACCOUNT AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 June 2023 <i>HK\$'000</i> (Unaudited)	At 31 December 2022 <i>HK\$'000</i> (Audited)
Non-current asset		
Deposit paid for potential investment project	34,668	35,000
Current assets		
Other receivables	53,096	57,100
Consideration receivables	18,194	18,194
Prepayments	1,960	1,561
Deposit placed with brokers	631	631
Utility and sundry deposits	2,125	2,025
	76,006	79,511
Total	110,674	114,511

Except for the deposits paid for potential investment project, all of the other receivables, deposits and prepayments are expected to be recovered or recognised as expense within one year.

15. BORROWINGS AND LOAN PAYABLES

		At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Borrowings from employees and independent third parties	15(a)	65,206	68,350
Borrowings from shareholders	20(b)	103,509	93,510
Borrowings from related parties	15(b)	25,207	30,740
Loan payables arising from the Incidents	15(c)	894,890	967,311
Note payables	15(d)	60,932	141,221
		1,149,744	1,301,132
Amounts due within one year		1,149,744	1,240,200
Amounts due after one year		–	60,932
		1,149,744	1,301,132

Notes:

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

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

- b) The borrowings from Geston Limited, a company that is controlled by Madam Lo Wan ("Madam Lo"), a substantial shareholder of the Company, bore finance costs measured at an annualised rate of 9% (31 December 2022: 9%), and were repayable within one year and not secured by any assets or guarantees of the Group.

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

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

15. BORROWINGS AND LOAN PAYABLES (Cont'd)

Notes:(Cont'd)

c) (Cont'd)

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

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

- d) In February 2018, the Company issued note with principal amount of HK\$270,000,000. Pursuant to the subscription agreement dated 15 February 2018 and deed of amendment dated 3 November 2022, the note bears interest of 8% per annum and is secured by equity interest of Brilliant Star Capital (Cayman) Limited and KP Financial Holdings Limited, wholly-owned subsidiaries of the Company, personal guarantee given by Mr. Cheung Siu Lam ("Mr. Cheung"), the controlling shareholder of the Company, and Madam Lo. Mr. Cheung and Madam Lo deposited 930,000,000 shares of the Company into a specific account with the safe keeping agent. The note is repayable in nine instalments commencing from May 2022 and the last instalment is due in May 2024.
- e) As at 30 June 2023, the aggregate amount of outstanding financial guarantees of the Company under certain financial products issued by third parties arising from the Incidents amounts to RMB77,305,000 (equivalent to approximately HK\$83,847,000) (31 December 2022: RMB79,805,000 (equivalent to approximately HK\$89,340,000)) if the guarantees were called upon in entirety.

16. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Other payables	83,966	66,634
Accrued salaries and other benefits	1,073	2,723
Other accrued expenses	940	25,197
Deposits received	95	1,489
Dividend payable	739	739
Other tax payables	3,364	3,595
	90,177	100,377

All of the other payables, accruals and deposits received are expected to be settled within one year or are repayable on demand.

17. UNSECURED BONDS

The Company issued unlisted and unsecured bonds. All of unsecured bonds are carried at amortised cost.

	Coupon rate per annum	At 30 June 2023 HK\$'000 (Unaudited)	At 31 December 2022 HK\$'000 (Audited)
Unsecured bonds – current liabilities	3.00% to 6.00% (31 December 2022: 5.00%)	53,113	27,741
Unsecured bonds – non-current liabilities	4.50% to 5.00% (31 December 2022: 3.00% to 6.00%)	15,563	46,292
		68,676	74,033

18. SHARE CAPITAL

	No. of shares	HK\$'000
Ordinary shares, issued and fully paid:		
At 1 January 2022, 31 December 2022 and 30 June 2023	209,286,067	2,080,113

19. SHARE-BASED PAYMENTS

a) *Share options*

For the six months ended 30 June 2023 and 2022, no share options were granted, exercised or lapsed under the Company's share option scheme.

b) *Share award scheme*

The Directors adopted a share award scheme (the "Scheme") to recognise the contribution by employee(s), director(s) or advisor(s) of any member of the Group (the "Grantees") and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2022, 31 December 2022 and 30 June 2023	6,962,700	56,661

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

20. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in this unaudited condensed consolidated interim financial information, the Group had the following significant transactions with its related parties during the period:

a) *Remuneration of key management personnel of the Group*

Remuneration for key management personnel of the Group, including amounts paid to the Directors is as follows:

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	2,258	3,675
Post-employment benefits	154	185
	2,412	3,860

20. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

b) Financing arrangements

In addition to the financing arrangements with related parties disclosed elsewhere in the unaudited condensed consolidated interim financial information, the details of the borrowings from shareholders included in borrowings and loan payables are as follows:

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

Notes:

- (1) The loan from Mr. Cheung is unsecured, bears interest at 9% per annum and is repayable on demand.
- (2) The loan from Ms. Cheung Siu Hung, a shareholder of the Company and sister of Mr. Cheung, is unsecured, bears interest at 7% (31 December 2022: 7%) per annum and is repayable on demand.

c) Transaction with related parties

- (i) The details of consultancy fee paid by the Group during the periods are as follows:

	Note	For the six months ended 30 June	2022
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Oyster Pie Solutions Limited	(1)	–	332

- (1) A joint venture held by the Group until 31 August 2022.

20. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

c) *Transaction with related parties (Cont'd)*

(ii) The details of rental paid by the Group are as follows:

- (1) During the six months ended 30 June 2023, the Group paid office rental of approximately HK\$26,000 (six months ended 30 June 2022: HK\$718,000), HK\$457,000 (six months ended 30 June 2022: HK\$521,000) and HK\$582,000 (six months ended 30 June 2022: HK\$311,000) to 北京元長厚茶葉有限公司, 北京萬方後海前企業經營管理有限公司 and 北京達隆鼎業管理諮詢有限公司, respectively, of which Madam Lo is the beneficial owner.
- (2) During the six months ended 30 June 2022, the Group paid rental expenses in respect of former director's quarter of approximately HK\$900,000 to Anton (H.K.) Limited, in which Mr. Cheung and Madam Lo, have controlling interests. No such rental expenses were paid for the six months ended 30 June 2023. In addition, as at 30 June 2023, the Group had paid rental deposit of HK\$300,000 (31 December 2022: HK\$300,000) to Anton (H.K.) Limited, the amount was included in "Account and other receivables, deposits and prepayments" in the condensed consolidated statement of financial position.

21. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2023, the following directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock 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) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Number of Ordinary Shares held	Percentage of aggregate Long Position in Shares to Issued Share Capital (Note 1)
Tao Chun	Beneficial owner	4,000	0.0019%

Note:

1. The percentage is calculated based on the total number of issued shares as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, none of the directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2023, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of substantial shareholders maintained under Section 336 of the SFO or were otherwise notified to the Company:

Long Positions in Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares held	Percentage of aggregate Long Position in Shares to Issued Share Capital (Note 4)
Cheung Siu Lam	Beneficial owner of 86,002,212 ordinary shares, family interest of 29,662,100 ordinary shares (Note 1)	115,664,312	55.27%
Lo Wan	Beneficial owner of 25,342,100 ordinary shares, interest in controlled corporation of 4,320,000 ordinary shares (Note 3) and family interest of 86,002,212 ordinary shares (Note 2)	115,664,312	55.27%
China United SME Guarantee Corporation	Beneficial owner of ordinary shares	30,249,000	14.45%

Notes:

- By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 29,662,100 ordinary shares held directly and indirectly through Arbalice Holdings Limited by his spouse, Lo Wan.
- By virtue of the SFO, Lo Wan, being spouse of Cheung Siu Lam, is deemed to be interested in 86,002,212 ordinary shares held by Cheung Siu Lam.
- Arbalice Holdings Limited is beneficially owned by Lo Wan. By virtue of the SFO, Lo Wan are deemed to be interested in 4,320,000 shares held by Arbalice Holdings Limited.
- The percentage is calculated based on the total number of issued shares as at 30 June 2023.

Save as disclosed above, no persons, other than a director whose interests are set out above, had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 7 June 2004 (the “2004 Scheme”) which was terminated on 6 June 2014. The Company adopted a new share option scheme (the “2014 Scheme”) at the Company’s annual general meeting held on 20 May 2014. Unless otherwise cancelled or amended, the 2014 Scheme will remain in force for 10 years from that date.

Subsequent to the termination of the 2004 Scheme, no further option can be granted thereunder but in all other respects, the provisions of the 2004 Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The following share options were outstanding under the 2004 Scheme and the 2014 Scheme for the Reporting Period:

Type of participant	Date of Grant	Vesting Period	Exercisable Period	Outstanding at 1 January 2023	Number of shares				Outstanding at 30 June 2023	Exercise price per share	Closing price of the securities immediately before the date on which the options were granted
					Granted and Vested during the Reporting Period (Note 1)	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period			
									HK\$	HK\$	
Service providers	11.04.14 (Note 2)	11.04.15-11.04.17	11.04.14-10.04.24	1,500,000	-	-	-	-	1,500,000	13.20	12.60
Service providers	26.08.15 (Note 3)	26.08.16-26.08.18	26.08.15-25.08.25	2,750,000	-	-	-	-	2,750,000	10.92	9.80

Note:

1. There is no minimum period for which such option granted must be held or performance target to be met before such share options can be exercised. As such, all share options are vested upon grant.
2. The 1,500,000 options were granted under the 2004 Scheme.
3. The 2,750,000 options were granted under the 2014 Scheme.

At as 1 January 2023 and 30 June 2023, (i) no options were available for grant under the 2004 Scheme as the scheme was terminated on 6 June 2014 and (ii) 17,145,431 options (adjusted as a result of the share consolidation) were available for grant under the 2014 Scheme pursuant to the mandate adopted at the Company's annual general meeting held on 20 May 2014.

Given no new shares may be issued under the Share Award Scheme, the aggregate number of shares that may be issued in respect of options granted under all share schemes of the Company during the Reporting Period was 4,250,000 Shares, amounted to approximately 2.03% of the number of the shares in issue during the Reporting Period.

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

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

SHARE AWARD SCHEME

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

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

INTERIM DIVIDEND

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

EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE GOVERNANCE

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

Code Provision C.2.1

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

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

AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS

The audit committee of the Company (the “Audit Committee”), which comprises four independent non-executive directors, has reviewed the interim results for six months ended 30 June 2023. The Audit Committee considered that the unaudited condensed consolidated interim financial information for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on the Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. In addition, the independent auditor of the Company, Baker Tilly Hong Kong Limited, has reviewed the unaudited interim financial information for the Reporting Period in accordance with Hong Kong Standard on Review Engagements 2410 “Reviews of Interim Financial Information Performed by the Independent Auditor of the Entity” (“HKSRE 2410”) issued by the Hong Kong Institute of Certified Public Accountants. Please refer to pages 12 and 13 of this report for the report on review of interim financial information by the independent auditor of the Company.

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

On behalf of the Board

Zhang Min

Executive Director & Chief Executive Officer

Hong Kong, 30 August 2023