

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



website: <http://www.irasia.com/listco/hk/greaterchina/index.htm>

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

SUMMARY OF RESULTS

The board (the “Board”) of directors (the “Directors”) of Greater China Financial Holdings Limited (the “Company”) announces that the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022 (the “Period”), together with the comparative figures for the corresponding period in 2021 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	NOTES	Six months ended 30 June	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Revenue	3		
Contracts with customers		117,413	168,764
Interest under effective interest method		6,687	1,927
Total revenue		124,100	170,691
Cost of sales		(51,935)	(86,355)
Gross profit		72,165	84,336
Other income, gains and losses	4	51,555	39,566
Administrative and other operating expenses		(51,375)	(69,548)
Finance costs	5	(17,415)	(14,000)
Share-based payment expenses		(886)	(2,283)
Provision reversed (charged) for guarantee losses		9,872	(54,042)
Impairment loss, net of reversal	6	(82,423)	(64,918)
Impairment loss on goodwill		(71,790)	–
Impairment loss on right-of-use assets		(249)	–
Loss before taxation		(90,546)	(80,889)
Income tax expense	7	(4,457)	(4,801)
Loss for the period	8	(95,003)	(85,690)

		Six months ended 30 June	
		2022	2021
	<i>NOTE</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Other comprehensive (expense) income, net of tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of operations outside Hong Kong		(7,857)	4,597
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Change in fair value of financial assets at fair value through other comprehensive income		(2,103)	3,926
<i>Item that has been reclassified to profit or loss:</i>			
Reserves released upon disposal of a subsidiary		–	25
		<u>–</u>	<u>25</u>
Other comprehensive (expense) income for the period		(9,960)	8,548
		<u>(9,960)</u>	<u>8,548</u>
Total comprehensive expense for the period		(104,963)	(77,142)
		<u>(104,963)</u>	<u>(77,142)</u>
(Loss) profit for the period attributable to:			
Owners of the Company		(77,415)	(96,520)
Non-controlling interests		(17,588)	10,830
		<u>(95,003)</u>	<u>10,830</u>
		(95,003)	(85,690)
		<u>(95,003)</u>	<u>(85,690)</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(77,647)	(89,979)
Non-controlling interests		(27,316)	12,837
		<u>(104,963)</u>	<u>12,837</u>
		(104,963)	(77,142)
		<u>(104,963)</u>	<u>(77,142)</u>
		HK cents	HK cents
Loss per share			
	<i>10</i>		
– Basic		(1.00)	(1.24)
		<u>(1.00)</u>	<u>(1.24)</u>
– Diluted		(1.00)	(1.24)
		<u>(1.00)</u>	<u>(1.24)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

		30.6.2022	31.12.2021
	NOTES	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment		68,809	77,016
Right-of-use assets		25,254	26,369
Goodwill	11	156,243	228,033
Intangible assets		500	500
Interests in associates		–	–
Financial assets at fair value through other comprehensive income		1,402	3,505
Financial assets at fair value through profit or loss		183,091	144,513
Deferred tax assets		46,841	49,061
Deposits	14	1,081	1,055
		<u>483,221</u>	<u>530,052</u>
Current assets			
Loans and interest receivables	12	340,929	342,298
Trade and other receivables	13	87,223	77,609
Prepayments and deposits	14	47,843	101,028
Loans to and interest receivables from a non-controlling interest		139,111	140,531
Loans to and interest receivables from an associate		1,277	1,260
Financial assets at fair value through profit or loss		7,261	20,891
Cash held on behalf of clients		745	807
Restricted bank deposits		33,323	38,188
Cash and cash equivalents		40,669	47,936
		<u>698,381</u>	<u>770,548</u>

	<i>NOTES</i>	30.6.2022 HK\$'000 (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Current liabilities			
Trade payables, other payables, deposits received and accruals	<i>15</i>	100,397	116,857
Contract liabilities		143	162
Lease liabilities		6,627	5,777
Liabilities from financial guarantees	<i>16</i>	333,771	359,925
Amount due to non-controlling interests		9,840	10,306
Borrowings		101,798	63,799
Tax payables		14,169	12,277
		<u>566,745</u>	<u>569,103</u>
Net current assets		<u>131,636</u>	<u>201,445</u>
Total assets less current liabilities		<u>614,857</u>	<u>731,497</u>
Non-current liabilities			
Lease liabilities		8,374	10,992
Borrowings		160,989	178,082
Convertible notes		182,428	175,280
		<u>351,791</u>	<u>364,354</u>
Net assets		<u>263,066</u>	<u>367,143</u>
Capital and reserves			
Share capital	<i>17</i>	7,776	7,776
Reserves		63,663	140,424
		<u>71,439</u>	<u>148,200</u>
Equity attributable to owners of the Company		71,439	148,200
Non-controlling interests		191,627	218,943
		<u>263,066</u>	<u>367,143</u>
Total equity		<u>263,066</u>	<u>367,143</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following 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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the 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 these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group’s operations are organised into securities brokerage, asset management, insurance brokerage, loan financing, industrial property development business and general trading. Information reported to the chief operating decision maker (“CODM”) for the purpose of resources allocation and assessment of segment performance is prepared on such basis. The Group is organised into the following reportable and operating segments:

- Industrial property development segment represents the operation of warehouse in the People’s Republic of China (the “PRC”).
- General trading segment represents trading of consumable goods in the PRC.

- Loan financing (I) segment represents the provision of financial guarantee, loan financing, loan referral and consultancy services in Hong Kong and Beijing.
- Loan financing (II) segment represents the provision of micro-financing, loan referral and consultancy services in Ningbo.
- Others segment represents the operations of securities brokerage, margin financing, provision of asset management services and provision of insurance brokerage and agency service in Hong Kong and advertising service in the PRC.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

Six months ended 30 June 2022 (unaudited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Loan financing (II) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE						
Recognised at a point in time	-	-	6,876	-	1,276	8,152
Recognised over time	8,839	-	67,023	31,103	2,296	109,261
Recognised from other source	-	-	-	6,687	-	6,687
	<u>8,839</u>	<u>-</u>	<u>73,899</u>	<u>37,790</u>	<u>3,572</u>	<u>124,100</u>
SEGMENT RESULTS	<u>935</u>	<u>301</u>	<u>46,061</u>	<u>(83,952)</u>	<u>(2,039)</u>	<u>(38,694)</u>
Impairment loss on goodwill	-	-	-	(71,790)	-	(71,790)
Unallocated corporate income						10,844
Unallocated corporate expenses						(12,432)
Unallocated finance costs						(7,402)
Net fair value change on financial assets at fair value through profit or loss						29,814
Share-based payment expenses						(886)
Loss before taxation						(90,546)
Income tax expense						(4,457)
Loss for the period						<u>(95,003)</u>

Six months ended 30 June 2021 (unaudited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Loan financing (II) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE						
Recognised at a point in time	–	–	4,859	183	1,535	6,577
Recognised over time	4,766	–	119,788	36,129	1,504	162,187
Recognised from other source	–	–	–	1,927	–	1,927
	<u>4,766</u>	<u>–</u>	<u>124,647</u>	<u>38,239</u>	<u>3,039</u>	<u>170,691</u>
SEGMENT RESULTS	<u>(4,066)</u>	<u>166</u>	<u>(80,423)</u>	<u>(339)</u>	<u>(3,089)</u>	<u>(87,751)</u>
Unallocated corporate income						12,382
Unallocated corporate expenses						(13,180)
Unallocated finance costs						(6,806)
Unallocated fair value change on financial assets at fair value through profit or loss						16,749
Share-based payment expenses						<u>(2,283)</u>
Loss before taxation						(80,889)
Income tax expense						<u>(4,801)</u>
Loss for the period						<u><u>(85,690)</u></u>

All of the segment revenue reported above are from external customers.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

At 30 June 2022 (unaudited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Loan financing (II) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS						
Segment assets	93,303	24,246	256,606	446,415	10,231	830,801
Goodwill	–	–	–	156,243	–	156,243
Unallocated cash and cash equivalents						1,011
Unallocated property, plant and equipment						225
Unallocated other receivables, prepayments and deposits						1,568
Unallocated financial assets at fair value through other comprehensive income						1,402
Unallocated financial assets at fair value through profit or loss						190,352
Consolidated total assets						<u>1,181,602</u>
LIABILITIES						
Segment liabilities	55,092	23,440	367,693	256,720	4,394	707,339
Unallocated other payables						353
Unallocated lease liabilities						6,976
Unallocated borrowings						11,600
Unallocated amount due to non-controlling interests						9,840
Unallocated convertible notes						182,428
Consolidated total liabilities						<u>918,536</u>

At 31 December 2021 (audited)

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Loan financing (II) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS						
Segment assets	102,459	26,328	297,237	464,638	10,367	901,029
Goodwill	–	–	–	228,033	–	228,033
Unallocated cash and cash equivalents						625
Unallocated property, plant and equipment						261
Unallocated other receivables, prepayments and deposits						1,743
Unallocated financial assets at fair value through other comprehensive income						3,505
Unallocated financial assets at fair value through profit or loss						<u>165,404</u>
Consolidated total assets						<u><u>1,300,600</u></u>
LIABILITIES						
Segment liabilities	64,491	24,648	429,038	217,162	3,807	739,146
Unallocated other payables						2,190
Unallocated lease liabilities						6,535
Unallocated amount due to non-controlling interests						10,306
Unallocated convertible notes						<u>175,280</u>
Consolidated total liabilities						<u><u>933,457</u></u>

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net fair value change on financial assets at fair value through profit or loss	29,814	15,573
Interest income from:		
Bank deposits	275	183
Other loans	6,264	5,577
Loans to a non-controlling interest	10,714	11,639
Loans to an associate	–	61
Investment income	40	106
Realised loss on disposal of financial assets at fair value through profit or loss	(421)	(64)
Gain on disposal of property, plant and equipment	–	267
Loss on write-off of property, plant and equipment	–	(118)
Loss on disposal of a subsidiary	–	(1,132)
Loss on deregistration of a subsidiary	(47)	–
(Loss) gain on lease modification	(225)	640
Net foreign exchange (loss) gain	(4)	2
Bad debts recovered	3,034	5,447
Forfeited deposit	260	–
Service fee income	118	313
Management service income	312	26
Sundry income	890	450
Government subsidy	531	596
	<u>51,555</u>	<u>39,566</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Effective interest on convertible notes	7,148	6,595
Interest on lease liabilities	524	568
Interest on bank loans	2,484	3,717
Interest on other loans	7,259	3,120
	<u>17,415</u>	<u>14,000</u>

6. IMPAIRMENT LOSSES, NET OF REVERSAL

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Impairment loss (reversal of impairment loss) recognised on:		
– Trade and other receivables	76,288	23,122
– Loans and interest receivables	656	44,690
– Other deposits	(1,274)	(595)
– Loans to and interest receivables from a non-controlling interest	6,772	55
– Loans to and interest receivables from an associate	(19)	(2,354)
	<u>82,423</u>	<u>64,918</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Current tax:		
– PRC Enterprise Income Tax	2,691	3,253
Under provision in prior periods:		
– PRC Enterprise Income Tax	1,766	1,525
Deferred tax:		
– Current period	–	23
	<u>4,457</u>	<u>4,801</u>

Under the two-tiered profits tax rates regime of Hong Kong Profits tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both six months ended 30 June 2022 and 2021. No provision for Hong Kong Profits Tax has been made as the Group's subsidiaries in Hong Kong have no estimated assessable profits for both the six months ended 30 June 2022 and 2021.

PRC Enterprise Income Tax ("EIT") is calculated at the applicable rates based on estimated taxable income earned by the PRC subsidiaries of the Company with certain tax concession, based on existing legislation, interpretation and practice in respect thereof.

Under the Law of the PRC on Enterprises Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the applicable PRC EIT rate of the Group's PRC subsidiaries is 25% for both the six months ended 30 June 2021 and 2022.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Policies for Xinjiang Uygur Autonomous Region and Xinjiang Kashgar Autonomous Region (《財政部、國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》) promulgated by the State Council on 29 November 2011, if a corporate enterprise is newly established within calendar years 2010 to 2020 in two specific regions with business fallen within the scope of the Catalogue of Preferred Enterprise Income Tax for Key Encouraged Industries in Poor Areas of Xinjiang (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》), the corporate enterprise can enjoy a preferential tax treatment, that is 5-year exemption, from the first year when the entity begins to generate revenue.

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	4,904	4,844
Depreciation of right-of-use assets	1,365	1,465
Legal and professional fee	1,798	1,904
Staff costs (including directors' emoluments)	25,296	26,023

9. DIVIDENDS

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

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share for the period attributable to owners of the Company	(77,415)	(96,520)
	'000	'000
Number of shares		
Number/weighted average number of ordinary shares for the purpose of basic and diluted loss per share	7,775,857	7,775,587

The calculation of basic and diluted loss per share is based on the loss attributable to owners of the Company, and the number of approximately 7,775,857,000 ordinary shares (six months ended 30 June 2021: the weighted average number of 7,775,587,000 ordinary shares) in issue during the period.

Diluted loss per share for the six months period ended 30 June 2022 and 2021 did not assume the exercise of the outstanding share options since this would result in a decrease in loss per share. No adjustment was made in calculating diluted loss per share for the six months period ended 30 June 2022 and 2021 as conversion of convertible notes would result in a decrease in loss per share. Accordingly, the diluted loss per share is same as the basic loss per share.

11. GOODWILL

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Cost		
Balance at beginning and end of the period/year	<u>492,354</u>	492,354
Accumulated impairment losses		
Balance at beginning of the period/year	264,321	165,772
Impairment loss recognised for the period/year	<u>71,790</u>	<u>98,549</u>
Balance at end of the period/year	<u>336,111</u>	264,321
Carrying amount		
Balance at end of the period/year	<u><u>156,243</u></u>	<u><u>228,033</u></u>

12. LOANS AND INTEREST RECEIVABLES

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Other loans (<i>Note</i>)	558,926	565,263
Less: Impairment allowance	<u>(217,997)</u>	<u>(222,965)</u>
	<u><u>340,929</u></u>	<u><u>342,298</u></u>

Note:

Other loans are loans denominated in RMB made to independent third parties, of which approximately HK\$279,307,000 (31 December 2021: HK\$282,106,000) are secured and bear interest rates ranging from 5% to 15% (31 December 2021: 5% to 6%) per annum, and approximately HK\$279,619,000 (31 December 2021: HK\$283,157,000) are unsecured and bear interest rates ranging from 6% to 24% (31 December 2021: 6% to 24%) per annum.

An ageing analysis of the loans and interest receivables net of impairment allowance as at the end of the reporting period, based on payment due date, is as follows:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
No past due	246,691	268,638
Less than 1 month past due	36	3,028
1 to 3 months past due	8,909	–
3 to 6 months past due	12,283	–
6 months to less than 1 year past due	2,978	27,785
More than 1 year past due	<u>70,032</u>	<u>42,847</u>
	<u><u>340,929</u></u>	<u><u>342,298</u></u>

The movements in impairment allowance of loans and interest receivables are as follows:

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Balance at beginning of the period/year	222,965	153,114
Amounts recognised during the period/year	966	56,515
Amounts reversed during the period/year	(310)	(5,056)
Amounts recognised for credit-impaired loans (<i>Note</i>)	4,462	13,326
Exchange realignment	(10,086)	5,066
	<u>217,997</u>	<u>222,965</u>
Balance at end of the period/year	<u>217,997</u>	<u>222,965</u>

Note:

The amount represents the increase in impairment allowance for credit-impaired loans as a result of the increase in their gross carrying amount due to the passage of time.

13. TRADE AND OTHER RECEIVABLES

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Trade receivables arising from:		
Loan referral and consultancy services (<i>Note a</i>)	12,361	23,993
Financial guarantee services (<i>Note b</i>)	45,460	43,328
Insurance brokerage commission (<i>Note c</i>)	38	57
Asset management fee (<i>Note d</i>)	3	77
Advertising service fee (<i>Note e</i>)	47	9
	<u>57,909</u>	67,464
Less: Impairment allowance	(31,158)	(40,375)
	<u>26,751</u>	27,089
Other receivables (<i>Note f</i>)	219,541	150,738
Less: Impairment allowance	(159,069)	(100,218)
	<u>60,472</u>	50,520
Total trade and other receivables	<u>87,223</u>	<u>77,609</u>

Notes:

- (a) The normal settlement terms of trade receivables from loan referral and consultancy services are within 30 days upon the contractual obligation being performed.
- (b) The normal settlement terms of trade receivables from financial guarantee services are mainly within 60 to 90 days upon the contractual obligation being performed.

- (c) The normal settlement terms of trade receivables from product issuers arising from the provision of insurance brokerage commission are mainly within 45 to 60 days upon the execution of the insurance policies and/or receipt of statements from product issuers.
- (d) Credit terms granted to customers of asset management fee are within 30 days or as mutually agreed between the contracting parties.
- (e) The normal settlement terms of trade receivables from advertising service fee are mainly within 30 days upon the contractual obligation being performed.
- (f) Included in other receivables were default payment receivables of HK\$206,936,000 (31 December 2021: HK\$144,092,000) in relation to loan financing operation.

An ageing analysis of trade receivables net of impairment allowance as at the end of the reporting period, based on the invoice date, is as follows:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
0 – 30 days	9,390	9,723
31 – 60 days	4,048	1,998
61 – 90 days	1,878	2,125
Over 90 days	11,435	13,243
	<u>26,751</u>	<u>27,089</u>

The movements in impairment allowance on trade receivables are as follows:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Balance at beginning of the period/year	40,375	26,681
Amounts recognised during the period/year	13,908	36,595
Amounts reversed during the period/year	(1,004)	(255)
Amounts written-off during the period/year	(20,295)	(23,528)
Exchange realignment	(1,826)	882
	<u>31,158</u>	<u>40,375</u>

The movements in impairment allowance on other receivables are as follows:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Balance at beginning of the period/year	100,218	9,089
Amounts recognised during the period/year	63,624	91,310
Amounts reversed during the period/year	(240)	(481)
Exchange realignment	(4,533)	300
	<hr/>	<hr/>
Balance at end of the period/year	159,069	100,218
	<hr/> <hr/>	<hr/> <hr/>

14. PREPAYMENTS AND DEPOSITS

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Prepayments (<i>Note a</i>)	13,337	24,764
Rental and utilities deposits	1,464	1,555
Statutory deposits	255	255
Other deposits (<i>Note b</i>)	41,860	85,215
	<hr/>	<hr/>
Less: Impairment allowance	56,916 (7,992)	111,789 (9,706)
	<hr/>	<hr/>
Total prepayments and deposits	48,924	102,083
	<hr/> <hr/>	<hr/> <hr/>
Analysed for reporting purposes as:		
Current assets	47,843	101,028
Non-current assets	1,081	1,055
	<hr/>	<hr/>
	48,924	102,083
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) Included in the prepayment, balance of HK\$10,540,000 (31 December 2021: HK\$20,929,000) represents prepaid data collection service expenses to an associate for loan financing business.
- (b) As at 30 June 2022, other deposits mainly consist of deposits paid to co-operators in relation to the Group's guarantee and trading business, which amounted to HK\$41,812,000 (31 December 2021: HK\$84,339,000).

The movements in impairment allowance on other deposits are as follows:

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Balance at beginning of the period/year	9,706	9,635
Amounts recognised during the period/year	18	428
Amounts reversed during the period/year	(1,292)	(676)
Exchange realignment	(440)	319
	<hr/>	<hr/>
Balance at end of the period/year	7,992	9,706

15. TRADE PAYABLES, OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Trade payables from:		
Business of dealing in securities: <i>(Note a)</i>		
– Cash clients	207	346
– Margin clients	434	425
Insurance brokerage service <i>(Note b)</i>	198	227
	<hr/>	<hr/>
Total trade payables	839	998
Accrued expenses	25,137	18,398
Deposits received <i>(Note c)</i>	37,945	71,605
Other payables	36,476	25,856
	<hr/>	<hr/>
Total other payables, deposits received and accruals	99,558	115,859
	<hr/>	<hr/>
Total trade payables, other payables, deposits received and accruals	100,397	116,857

Notes:

- (a) Trade payables to securities brokerage clients represent the monies received from and repayable to brokerage clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have an enforceable right to offset these payables with the deposits placed.

The majority of the trade payables balance are repayable on demand except for certain balances relating to margin deposits received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

The settlement terms of trade payables, except for margin clients, arising from the securities brokerage business are two business days after trade date.

No ageing analysis is disclosed as, in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of the securities business.

- (b) Trade payables arising from the provision of insurance brokerage services are generally settled within 30 days to 120 days upon receipt of payments from product issuers.

An ageing analysis of trade payables from insurance brokerage service at the end of the reporting period is as follows:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
0 – 30 days	60	88
31 – 60 days	6	5
61 – 90 days	1	15
Over 90 days	131	119
	<u>198</u>	<u>227</u>

- (c) Included in deposits received was an amount of HK\$23,924,000 (31 December 2021: HK\$56,955,000) which was received from customers or third parties as collateral security for the financial guarantees issued by the Group. These deposits will be refunded to the customers or third parties upon expiry of the corresponding guarantee contracts. According to the contracts, these deposits are expected to be settled within one year.

16. LIABILITIES FROM FINANCIAL GUARANTEES

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Deferred income	8	8
Provision for guarantee losses	333,763	359,917
	<u>333,771</u>	<u>359,925</u>

Movement analysis of provision for guarantee losses:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Balance at beginning of the period/year	359,917	231,286
Amount (reversed) charged during the period/year	(9,872)	120,977
Exchange realignment	(16,282)	7,654
	<u>333,763</u>	<u>359,917</u>

17. SHARE CAPITAL

	Number of shares '000	Nominal amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	<u>2,109,890,000</u>	<u>2,109,890</u>
Preference shares of HK\$0.001 each At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	<u>110,000</u>	<u>110</u>
Issued and fully paid:		
Ordinary shares of HK\$0.001 each At 1 January 2021	<u>7,775,357</u>	<u>7,775</u>
Exercise of share options (<i>Note</i>)	<u>500</u>	<u>1</u>
At 30 June 2021, 1 January 2022 and 30 June 2022	<u>7,775,857</u>	<u>7,776</u>

Note:

On 9 April 2021, upon the exercise of the share options at an exercise price of HK\$0.188 per share, the Company allotted and issued 500,000 new shares of HK\$0.001 each.

All shares issued during the period/year rank pari passu with the existing shares in all respects.

18. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Property, plant and equipment	65,192	72,755
Right-of-use assets – leasehold lands in the PRC	<u>21,098</u>	<u>22,485</u>
	<u>86,290</u>	<u>95,240</u>

19. GUARANTEE ISSUED

As at 30 June 2022, the total maximum amount of financial guarantees issued was RMB1,449,042,000 (approximately HK\$1,697,408,000) (31 December 2021: RMB2,011,431,000 (approximately HK\$2,467,825,000)). The total maximum amounts of financial guarantees issued represents the maximum potential loss amount that would be recognised if counterparties failed completely to perform as contracted

20. CONTINGENT LIABILITIES

The Group had no significant contingent assets or liabilities as at 30 June 2022 and 31 December 2021 other than those disclosed in note 19.

21. EVENTS AFTER THE REPORTING PERIOD

There is no significant event affecting the Company that have occurred since the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

The Group is principally engaged in investment holding, industrial property development and loan financing operations including the provision of loan financing, financial guarantee services, loan referral and consultancy services. The segment revenue and results of the Group for the Period, together with the comparative figures for the corresponding period in 2021, are stated in the table below:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Revenue from:		
Industrial property development	8,839	4,766
General trading	–	–
Loan financing I (<i>Note 1</i>)	73,899	124,647
Loan financing II (<i>Note 2</i>)	37,790	38,239
Others	3,572	3,039
	<u>124,100</u>	<u>170,691</u>
Segment (loss) profit from:		
Industrial property development	935	(4,066)
General trading	301	166
Loan financing I (<i>Note 1</i>)	46,061	(80,423)
Loan financing II (<i>Note 2</i>)	(83,952)	(339)
Others	(2,039)	(3,089)
	<u>(38,694)</u>	<u>(87,751)</u>

Note 1: Loan financing I represents the provision of loan financing, financial guarantees, loan referral and consultancy services in Hong Kong and Beijing.

Note 2: Loan financing II represents the provision of micro-financing, loan referral and consultancy services in Ningbo.

Industrial Property Development

Revenue from the segment mainly represents warehouse storage income generated from warehouse operation. The Group's warehouse is located in Taicang, Jiangsu Province, the PRC. It is divided into six units and the total area is approximately 48,600 square meters. Revenue from the warehouse operation recorded an increase of approximately HK\$4,073,000 to approximately HK\$8,839,000 for the Period (30 June 2021: approximately HK\$4,766,000) and its segment profit for the Period was approximately HK\$935,000 (30 June 2021: segment loss of approximately HK\$4,066,000). The average occupancy rate of the Group's warehouse during the Period was 92% and was primarily used as storage of electric power tools and consumer products.

The new round of the novel coronavirus disease (the "COVID-19 pandemic") broke out in many areas in the PRC since March this year. In particular, Shanghai was severely affected as the COVID-19 pandemic situation was more serious. During the Period, the implementation of stricter epidemic prevention and control measures, including multiple rounds of mass testing, partial or whole city lockdown, etc., affected the operations of the Group's warehouse tenants. However, the Group maintained a high percentage of occupancy during the Period due to the advantageous location of its warehouse. The Group's management anticipates that the Group's warehouse occupancy can maintain at a rate of over 93% for the year of 2022.

General Trading

The Group suspended the operation of liquor trading in 2021 and there was no sales revenue generated during the Period. The segment recorded a profit of approximately HK\$301,000 for the Period (30 June 2021: approximately HK\$166,000) due to the reversal of impairment loss of deposit.

Loan Financing I

The Group's loan financing I services comprise the provision of loan financing, financial guarantees, loan referral and consultancy services in Hong Kong and Beijing. Revenue from the segment for the Period was approximately HK\$73,899,000 (30 June 2021: approximately HK\$124,647,000), resulted in a segment profit of approximately HK\$46,061,000 (30 June 2021: segment loss of approximately HK\$80,423,000). The decrease in segment revenue was mainly due to the recent outbreak of the COVID-19 pandemic and the slowdown of the economy in the PRC.

Loan Financing Business in Beijing

In the first half of 2022, with the rapid change of the COVID-19 pandemic situation, most provinces in the PRC, especially the Yangtze River Delta region, were severely affected by the pandemic, impacting the steady economic recovery of China. Currently, medium and micro sized enterprises and individuals are still the economic drivers of domestic consumption and capital investment recovery. Witnessing the rapid development of the increasing emerging e-commerce consumption brands, the Group expects that these new consumption brands would have huge development potential. The Group will empower the emerging e-commerce brands relying on its resources strength and flexible cooperation model. Also, the Group will continue to broaden the cooperation industries, optimize its business model, and improve risk control strategies as time changes to grasp the financing needs of emerging customers and provide them with better service.

Loan Financing Business in Hong Kong

The Group's loan financing operation in Hong Kong is mainly the provision of mortgage loan. There was no new loan drawdown during the Period, and no outstanding loan as at 30 June 2022. The Group will continue to implement a prudent strategy with stringent internal loan management system in the loan financing operation in Hong Kong to identify suitable high net worth customers through its business partnership such as loan referral agents.

Loan Financing II

The Group's loan financing II services comprise the provision of micro-financing, loan referral and consultancy services in Ningbo, the PRC. Revenue from the segment for the Period was approximately HK\$37,790,000 (30 June 2021: approximately HK\$38,239,000), resulted in a segment loss of approximately HK\$83,952,000 (30 June 2021: HK\$339,000).

The segment loss was mainly due to the impairment loss on loans and interest receivables and trade and other receivables recognised for the Period, as some customers were affected by the outbreak of the COVID-19 pandemic in March this year.

The acquisition of Xin Yunlian Investment Limited ("Xin Yunlian") and its subsidiaries and associated company (collectively, the "Xin Yunlian Group") was completed on 31 July 2020. The major activities of the Xin Yunlian Group are the operation of an e-commerce platform, provision of financial services (including micro-financing and loan referral operations), and advertising business. All operations are targeted to the 5.6 million tobacco retailers in the PRC. As at 30 June 2022, there were approximately 4.8 million tobacco retailers registered on the e-commerce platform of the Xin Yunlian Group. The above acquisitions have created synergies, as the Group leveraged its knowledge, expertise, experience and financial resources in the loan financing business in China to guide and enable the Xin Yunlian Group to provide loan financing business for tobacco retailers. The combined network of client base and financial institutions covered by the Group is expected to form a stronger platform for cross selling and achieve growth in the loan referral business and the small and micro enterprises finance business. In addition, the profit guarantee of not less than RMB153 million (equivalent to approximately HK\$168 million) for the five years ending 31 December 2024 will also provide a positive impact on the financial position of the Group as a whole in the years ahead.

Business Model

網新新雲聯金融信息服務(浙江)有限公司 (Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited*, “Xin Yunlian Financial”) is the exclusive financial service provider of 中煙新商盟電子商務有限公司 (Zhongyan Xin Shangmeng E-commerce Limited*, “Zhongyan E-commerce”). Xin Yunlian Financial is a wholly-owned subsidiary of 浙江新雲聯雲科技有限公司 (Zhejiang Xin Yunlian Cloud Technology Company Limited*), which is indirectly controlled as to 51% by Xin Yunlian. Zhongyan E-commerce is owned as to 49% by 浙江新雲聯數字科技有限公司 (Zhejiang Xin Yunlian Digital Technology Company Limited*), which is owned as to 51% by Xin Yunlian. Zhongyan E-commerce shares its e-commerce platforms with Xin Yunlian Financial to publish notices and advertisements to over 4.8 million registered tobacco retailers in the PRC. In addition, Xin Yunlian Financial also uses the official accounts, other new media platforms as well as through tobacco monopoly administration at province and city levels to promote their services to the customers. With the authorization of registered users of the e-commerce platform, Xin Yunlian Financial can access the readily available customer database. The Group also provides financial service to qualified tobacco retailers in need that are identified through telephone marketing or site visiting.

The services provided by Xin Yunlian Financial include the referral of potential borrowers for loan services to financial institutions with a focus on retailers licensed to distribute tobacco products in the PRC. Considering the financial needs of tobacco retailers in making tobacco orders, store improvement and other operating matters, Xin Yunlian Financial has launched a tobacco credit loan service, through which the tobacco retailers can apply for credit loan on-line with their tobacco retail license. Target clients can directly contact Xin Yunlian Financial through the e-commerce platform, WeChat official account, customer service hotline and Xin Yunlian Financial mobile application to inquire about loan services.

After a review of the funding needs of potential borrowers and a preliminary assessment of their credit profile, Xin Yunlian Financial will refer the potential borrowers to appropriate banks for suitable financial products. The banks in cooperation with Xin Yunlian Financial will, based on their respective concerns, mitigate credit risks in further by assessing such potential borrowers. For the customers passing risk assessment, those banks will remit loans to the account designated by the borrowers. Since credit risk is the main risk inherent in the financial services business, with the support of the e-commerce platform which allows Xin Yunlian Financial to assess the tobacco retailers based on actual and verifiable transactions, Xin Yunlian Financial is able to effectively manage and supervise the credit risk of potential borrowers to be referred by them to financial institutions.

In terms of loan transactions through referral, Xin Yunlian Financial, as an intermediary agency, will charge the banks or borrowers referral fees.

During the Period, Xin Yunlian Financial continued to cooperate with regional banks in the PRC to provide funding to the potential borrowers. The loan products are mainly one-year credit loan and repayable by instalment. The interest rate ranges from 4.8% to 24% per annum depending on the credit assessment of each individual borrower. A referral fee of approximately 3% is charged by Xin Yunlian Financial depending on the terms of the banks.

From a regional perspective, the top ten provinces with the largest business scale are Guangdong Province, Hunan Province, Guizhou Province, Henan Province, Shaanxi Province, Jiangsu Province, Sichuan Province, Yunnan Province, Hebei Province and Guangxi Zhuang Autonomous Region.

Policy

The CPC Central Committee and the State Council issued the National Standardization Development Outline (《國家標準化發展綱要》) and the Notice of Issuing the Plan for Development of the Digital Economy During the “14th Five-Year” period (《關於印發「十四五」數字經濟發展規劃的通知》), which specify the guiding ideology, basic principles, development objectives, key tasks and guarantee measures for promoting the healthy development of the digital economy during the “14th Five-Year” period. As the main economic modality after the agricultural economy and the industrial economy, the digital economy is a new economic modality that promotes greater unity of fairness and efficiency with data resources as the key element, modern information networks as the main carrier, and with integration and application of information and communication technology and digital transformation of all elements as important driving forces. With the unprecedented rapid development, unprecedented wide coverage, and unprecedented degree of influence, the digital economy is promoting profound changes in production methods, lifestyles and governance methods, and has become a key force in restructuring global factor resources, reshaping the global economic structure, and changing the global competition pattern. During the “14th Five-Year” period, China’s digital economy has entered a new stage featuring in-depth application, standardized development, and inclusive sharing. For the purposes of implementing the decisions and plans of the CPC Central Committee and the State Council on stabilizing economic growth and market participants, as well as addressing the increasing difficulties encountered by enterprises in some sectors hard hit by the current pandemic situation, and problems in relation to financial institutions, such as insufficient internal impetus, failure to maximize the role of external incentives and constraints, the People’s Bank of China issued the Notice of Promoting the Establishment of a Long-term Mechanism for Boosting Financial Sector’s Confidence, Willingness, Capability, and Expertise in Lending to Micro and Small Enterprises (《關於推動建立金融服務小微企業敢貸願貸能貸會貸長效機制的通知》) in May 2022, which proposes to further deepen the supply-side structural reform of financial services for small and micro-sized enterprises and accelerate the establishment of a long-term mechanism starting from the factors that restrict the lending of financial institutions under the principles of marketization, strive to improve financial institutions’ willingness, ability and sustainability of serving small and micro-sized enterprises, and assist in stabilizing market participants, employment and business startup, and economic growth.

Guided by the promotion of digitalization and by leveraging their core competitiveness in the fields of technology and finance, Zhongyan E-commerce and Xin Yunlian Financial will further strengthen product development with the target of directly serving tobacco retailers, thereby consolidating their leading position in the financial sector of the tobacco industry. Furthermore, the two companies will also join hands with various banking institutions to practice inclusive finance, promote common prosperity, and assist small and micro-sized tobacco retailers and financial institutions in getting through the “last mile” of the long-term mechanism, so as to ensure a positive impact on the implementation of policies to stabilize social growth, meet basic living needs and safeguard market participants.

Xin Yunlian Financial will continue to strengthen cooperation with large national commercial banks and innovative asset management institutions, with serving tobacco retailers as its feature. Xin Yunlian Financial will further increase the market share by expanding inclusive and customized services in line with industry ecology, in order to consolidate its leading position in the financial sector of the tobacco industry as an inclusive financial technology enterprise that provides comprehensive internet financial services.

For the micro-financing operation, as at 30 June 2022, loans and interest receivables of the Group was approximately HK\$340,929,000 (31 December 2021: approximately HK\$342,298,000) with interest rates ranging from 5% to 24% (31 December 2021: 5% to 24%) per annum.

Others

Others segment represents the operation of securities brokerage, margin financing, provision of asset management services, provision of insurance brokerage and agency service in Hong Kong and advertising service in the PRC. Revenue from the segment for the Period was approximately HK\$3,572,000 (30 June 2021: approximately HK\$3,039,000), resulted in a segment loss of approximately HK\$2,039,000 (30 June 2021: segment loss of approximately HK\$3,089,000). In the future, the Group will continue to increase the return on assets under strict cost control measures in all others segment.

SIGNIFICANT IMPAIRMENT

During the Period, an impairment loss of approximately HK\$82 million (30 June 2021: approximately HK\$65 million) was resulted in the loan financing operations of the Group.

The Group provides financial referral and guarantee services to the tobacco retailers subsequent to the acquisition of the Xin Yunlian Group in July 2020. In 2021, the operation of such financial referral and guarantee services increased significantly as more regional financial institutions were interested in providing funding to the approved tobacco retailers. With the guarantee services provided by the Group, a default payment receivables included in the trade and other receivables will result as the Group would repay on behalf of the borrowers referred by the Group once non-repayment is noted, and the Group will then follow up for repayment from the borrowers subsequently.

Since the second half of 2021, the Group has more active co-operation with various financial institutions which would provide loan funding to the approved tobacco retailers referred by the Group while the Group provided guarantee service to the financial institutions in the event of non-repayment from the borrowers. The operations were processed automatically via the bank's electronic platform between the bank, the borrowers and the Group as the guarantor. And the repayment by the Group on behalf of the borrowers would automatically recorded as default payment receivables. Normally, the Group should follow up immediately upon default payment directly with the various tobacco retailers involved which were located in different areas and arrange repayment with them accordingly. However, due to the COVID-19 situation and a lack of manpower and mobility across different areas in the PRC as a result of COVID-19 restriction, the direct follow-up process with the borrowers were delayed and thus the recovery rate was unsatisfactory during the Period, leading to the impairment on other receivables. During the first half of 2022, the tight control of COVID-19 policy in the PRC did not loosen given COVID-19 cases have risen to the highest level since last year and the overall sentiment on the market is doomed. However, the Group managed to co-operate with various financial institutions in the PRC which will provide funding for the loans to the tobacco retailers with or without guarantee offered by the Group. The management of the Company target to gradually increase the proportion of loans to the tobacco retailers without guarantee and thus will reduce the overall default payment risk of the Group as the guarantor.

As the business closure and restriction of access or minor lockdown are still imposed in various locations in the PRC and thus no much progress is resulted in the default payment follow-up. As a result, impairment on other receivables represented the repayment made by the Group on behalf of the default tobacco retailers amounted to approximately HK\$63 million are made during the Period.

From the understanding of the management of the Company, the majority of the borrowers are still in business and the amount owed individually was not significant to the total default receivables, once the travelling in the PRC is resumed, the Group will allocate more resources in default debt collection with the aim to improve the recovery rate.

The breakdown of the impairment loss recognised during the Period is summarised as below:

	Six months ended 30 June 2022 <i>HK\$ million</i>	Six months ended 31 December 2021 <i>HK\$ million</i>	Six months ended 30 June 2021 <i>HK\$ million</i>
Impairment loss recognised on:			
Loan and interest receivables	1	7	45
Trade and other receivables	76	104	23
Others	5	–	(3)
	<hr/>	<hr/>	<hr/>
Total impairment loss recognised	<u>82</u>	<u>111</u>	<u>65</u>

Before approving the financial referral and offering guarantee services by the Group, all tobacco retailers will undergo a detailed credit assessment process. The major assessment criteria a tobacco retailer must fulfill are as follows:

- A tobacco retailer should obtain the Tobacco License granted by China National Tobacco Corporation and has in active tobacco retail operation for over 1 year;
- A tobacco retailer should maintain a monthly turnover in the tobacco retail operation of not less than RMB10,000 on a regular basis; and
- The age of the license owner of the tobacco retailer should be ranged from 22 to 55 years old.

Upon fulfillment of the major assessment criteria and based on the financial data provided by the tobacco retailer, a credit ranking ranging from A to E will be assigned to each tobacco retailer. Tobacco retailer with a credit ranking of E will be rejected directly while the others from A to D will be forwarded to the funding banks for further assessment including but not limited to the personal credit report assessment and/or other financial related big data assessment within their respective banking systems. Upon approval of this final credit assessment performed by the bank, a loan will be granted to the tobacco retailer.

The management of the Company are responsible in developing and maintaining the processes for measuring expected credit loss under the impairment requirements of HKFRS 9, the Group assessed these default payment receivables to be credit-impaired since default history had already existed. At 31 December 2021 and 2020, the loss rate of default payment receivables were approximately 80% (i.e. probability of default 100% and recovery rate 20%) with reference to the valuation performed by an independent professional valuer.

During the Period, the financial performance of micro-financing and financing referral operations (the “Tobacco Financing CGU”) was unable to achieve the forecast prepared in last year. The management of the Company revised the forecast projection in coming four years in accordance with the historical performance. As there is a trend in increasing credit-impaired default payments, the status in recovering those receivables did not improve and the Company considered there is an increase in future cash outflow on the operation by adjusting the loss rate from 4% to 4.4% on each transaction as those credit-impaired default payments may not recovered eventually.

The major change of circumstance that led to the revision of the forecast is attributable to the continuous COVID-19 preventive measures in various cities in the PRC in 2021 which greatly affected the retail operation of the tobacco retailers. Many of them were forced to close temporarily as commercial activities needed to be suspended in various districts with identified COVID-19 cases. As a consequence, a higher than normal number of tobacco retailers failed to repay the loan granted on a timely basis which triggered the guaranteed repayment arrangement to the banks by the Group automatically, resulting in an increase in the default payments. At the same time, the preventative arrangement increased the difficulty for the debt collection follow-up procedures.

The below table is extracted from the valuation reports of the Tobacco Financing CGU conducted at the acquisition of the operation, in December 2020 and 2021 and June 2022 respectively:

	July 2020	December 2020	December 2021	June 2022
	<i>HK\$ in million</i>	<i>HK\$ in million</i>	<i>HK\$ in million</i>	<i>HK\$ in million</i>
Average revenue	199	213	287	231
Average earnings before interest and tax (“EBIT”)	69	73	68	40
EBIT margin (EBIT/Revenue)	35%	35%	24%	17%
Terminal cashflow after 4th year projection	604	634	428	254
Discount rate applied	16%	17%	18%	19%
Loss rate applied	3%	3%	4%	4.4%

As a result of the impairment on the other receivables, the average revenues as well as the EBIT margin have been revised downward, leading to an impairment loss on goodwill amounted to HK\$72 million for the Period.

The Group has engaged an independent professional valuer to conduct a valuation to support the impairment loss of goodwill calculation.

The valuation method of discounted cash flow was adopted for the calculation of the value-in-use (the “VIU”) of the cash generating units (the “CGUs”). In accordance with HKAS 36 Impairment of Assets, the recoverable amount should be the higher of (i) the fair value less costs of disposal, and (ii) the VIU. After assessing both the VIU and the fair value, the valuation opted for the VIU because it was the higher between the two figures. VIU is based on the estimated future cash flows expected to be derived from the CGU discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

FINANCIAL REVIEW

Administrative and Other Operating Expenses

Administrative expenses include office utilities and administration, legal and professional fee, employee expenses, depreciation of right-of-use assets and property, plant and equipment and amortisation. Other operating expenses mainly consist of operating expenses of industrial property development and loan financing. Administrative and other operating expenses amounted to approximately HK\$51,375,000 during the Period, representing a decrease of approximately 26.1% or HK\$18,173,000 as compared to the six months ended 30 June 2021, as the Group continued to optimize and reform business processes to reduce costs and improve operational efficiency. The Company's management will continue to act on its stringent measures on cost control to maintain the administrative and other operating expenses at a reasonable level.

Finance Costs

The finance cost of the Group for the Period mainly consisted of effective interest expenses on convertible bonds issued for the acquisition of the Xin Yunlian Group in 2020 and loan interest on bank loans and others loans. Finance costs increased from approximately HK\$14,000,000 for the six months ended 30 June 2021 to approximately HK\$17,415,000 for the Period, which was caused by the additional interest on loan borrowing for the Period.

Liquidity and Financial Resources

The Group continued to adopt the policy of prudence in managing its working capital. During the Period, the operations of the Group were primarily financed by internally generated cash flow from operating activities and external financing. As at 30 June 2022, the equity attributable to owners of the Company and net current assets of the Group amounted to approximately HK\$71,439,000 (31 December 2021: approximately HK\$148,200,000) and approximately HK\$137,636,000 (31 December 2021: approximately HK\$201,445,000), respectively. As at 30 June 2022, the Group's cash and cash equivalents amounted to approximately HK\$40,669,000 (31 December 2021: approximately HK\$47,936,000), which were principally denominated in Hong Kong dollars and Renminbi. Current ratio as at 30 June 2022 was 1.23 (31 December 2021: 1.35).

As at 30 June 2022, the Group's total borrowings amounted to approximately HK\$262,787,000 (31 December 2021: approximately HK\$241,881,000) of which approximately HK\$101,798,000 is repayable within 1 year, approximately HK\$128,776,000 is repayable between 1 to 2 years, approximately HK\$32,213,000 is repayable between 2 to 5 years. As at 30 June 2022, the Group's borrowings were denominated in Hong Kong dollars and Renminbi for approximately HK\$11,600,000 and HK\$251,187,000 respectively and bear fixed interest rates from 4.95% to 10.55%. The gearing ratio, measured on the basis of total borrowings over net assets, was 100% as at 30 June 2022 (31 December 2021: 65.9%).

There was no capital commitment in respect of the acquisition and construction of property, plant and equipment as at 30 June 2022 (31 December 2021: nil).

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are mainly in Hong Kong dollars and Renminbi. Therefore, the Group did not use any financial instruments for hedging purposes.

Fund Investments

The Group's investment portfolio is classified as financial assets at fair value through other comprehensive income ("FVTOCI") and financial assets at fair value through profit or loss ("FVTPL") according to HKFRS 9, the relevant carrying amounts of the financial assets at FVTOCI and financial assets at FVTPL as at 30 June 2022 were approximately HK\$1,402,000 and HK\$0 (31 December 2021: approximately HK\$3,505,000 and HK\$4,866,000), respectively. The investment portfolio includes listed equity in Hong Kong.

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2022 other than the financial guarantees issued as disclosed below.

Guarantee Issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. For the Period, the Group's total maximum amount of financial guarantees issued was approximately RMB1,449,042,000 (equivalent to approximately HK\$1,697,408,000) (31 December 2021: approximately RMB2,011,431,000 (equivalent to approximately HK\$2,467,825,000)).

Capital Structure

As at 30 June 2022, the total number of issued ordinary shares of the Company with a par value of HK\$0.001 each was 7,775,857,621 (31 December 2021: 7,775,857,621).

Charges on Assets

The Group's warehouse located in Taicang, the PRC with the following carrying amount has been pledged to secure general banking facilities granted to the Group:

	30.6.2022	31.12.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	65,192	72,755
Right-of-use assets	21,098	22,485
	<hr/> 86,290 <hr/>	<hr/> 95,240 <hr/>

Save for the above, the Group did not charge other assets to secure its borrowings as at 30 June 2022.

Foreign currency exposure

As confirmed by the Directors, the Group's present operations are mainly carried out in the PRC and Hong Kong, and all of the Group's receipts and payments in relation to the operations are denominated in Renminbi or Hong Kong dollars. The Group does not use derivative financial instruments to hedge its foreign currency risks. The management will continue to monitor its foreign exchange exposure and take appropriate measures if needed.

Employees and Remuneration Policies

As at 30 June 2022, the Group had 143 employees (31 December 2021: 141 employees). Remuneration is determined by reference to their respective qualifications and experiences and according to the prevailing industry practice. In addition to salary payments, the Group's staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme. As required by the regulations in the PRC, the Group makes contributions to mandatory social security funds for the benefit of the Group's employees in the PRC, including pension insurance, medical insurance, unemployment insurance, personal injury insurance, maternity insurance and housing funds.

Significant Investments, Material Acquisitions and Disposals

The Group did not hold any significant investments and did not conduct any material acquisition or disposal of subsidiaries, associates or joint ventures during the Period.

Future Plans for Material Investments or Capital Assets

As at 30 June 2022, the Group did not have any definite plans authorised by the Board for material investments or capital assets acquisition.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (for the six months ended 30 June 2021: nil).

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

During the Period, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

During the Period, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code contained in Part 2 of Appendix 14 of the Listing Rules as in effective from time to time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct regarding securities transactions by the Directors. Having made specific enquiry, all the Directors have confirmed that they have complied with the Model Code throughout the Period.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the Listing Rules. The Audit Committee currently comprises three independent non-executive Directors, including Mr. Kwan Kei Chor (chairman of the Audit Committee), Dr. Lyu Ziang and Mr. Zhou Liangyu.

The Audit Committee has discussed with the management of the Company and the external auditors, HLM CPA Limited in respect of the Group’s interim condensed consolidated financial statements for the Period. The unaudited interim results of the Group for the Period have not been audited but have been reviewed by the Audit Committee. The Audit Committee is of the view that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made, and recommended the Board to adopt the same.

The unaudited interim results of the Group for the Period were prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our staff for their dedication, loyalty and integrity towards the Group. I would also like to express my gratitude to our shareholders, customers and other business partners and professional consultants for their support to the Group.

By order of the Board of
Greater China Financial Holdings Limited
Liu Kequan
Chairman

Hong Kong, 30 August 2022

As at the date of this announcement, the Board comprises Mr. Liu Kequan, Mr. Yang Dayong and Mr. Chen Zheng as executive Directors; Mr. Zhang Peidong as non-executive Director; and Mr. Kwan Kei Chor, Dr. Lyu Ziang and Mr. Zhou Liangyu as independent non-executive Directors.

* *For identification purpose only*