

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make 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.



Hong Kong Finance Group Limited

香港信貸集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1273)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

Financial Highlights	Six months ended 30 September		Change
	2015 HK\$'million (Unaudited)	2014 HK\$'million (Unaudited)	
Revenue	55.4	48.6	14.0%
Profit and total comprehensive income for the period attributable to owners of the Company	26.1	28.1	(7.1)%
Adjusted profit and total comprehensive income for the period attributable for owners of the Company (note)	27.6	26.3	4.9%
Net profit margin (%)	47.1	57.8	(10.7)pt
Adjusted net profit margin (%) (note)	49.8	54.1	(4.3)pt
Net interest margin (%)	15.5	18.6	(3.1)pt
Basic earnings per share (HK cents)	6.29	6.78	(7.2)%
Diluted earnings per share (HK cents)	6.24	6.78	(8.0)%
Declared interim dividend per share (HK cents)	1.9	1.7	11.8%
	As at 30 September 2015 HK\$'million (Unaudited)	As at 31 March 2015 HK\$'million (Audited)	
Loans receivable	661.0	522.2	26.6%
Total assets	817.8	696.9	17.3%
Total equity	447.6	427.9	4.6%

Note: Excluding fair value gains on revaluation of investment properties and share options expenses.

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

The board of directors (the “Board” or “Directors”) of Hong Kong Finance Group Limited (the “Company”) is pleased to announce the interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2015 prepared in accordance with the relevant requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), together with the comparative figures for the corresponding period in 2014.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2015

		Six months ended	
		30 September	
		2015	2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4, 5	55,386	48,572
Other income	5	950	2,939
Administrative expenses	6	(16,381)	(14,090)
Operating profit		39,955	37,421
Finance costs	7	(8,289)	(4,094)
Profit before income tax		31,666	33,327
Income tax expense	8	(5,583)	(5,210)
Profit and total comprehensive income for the period attributable to owners of the Company		26,083	28,117
Earnings per share for profit attributable to owners of the Company			
— Basic (<i>HK cents</i>)	9(a)	6.29	6.78
— Diluted (<i>HK cents</i>)	9(b)	6.24	6.78
Dividends	10	7,885	7,055

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2015

		As at 30 September 2015	As at 31 March 2015
	<i>Note</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		61,945	63,403
Investment properties		76,860	76,860
Available-for-sale investment		625	–
Loans receivable	<i>11</i>	28,517	56,607
		<hr/>	<hr/>
Total non-current assets		167,947	196,870
Current assets			
Loans receivable	<i>11</i>	632,460	465,579
Interest receivables	<i>12</i>	14,401	10,650
Prepayments, deposits and other receivables		346	998
Cash and cash equivalents		2,694	22,776
		<hr/>	<hr/>
Total current assets		649,901	500,003
		<hr/>	<hr/>
Total assets		817,848	696,873
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,150	4,150
Reserves		435,575	415,866
Proposed dividends		7,885	7,885
		<hr/>	<hr/>
Total equity		447,610	427,901
		<hr/>	<hr/>

		As at 30 September 2015 HK\$'000 (Unaudited)	As at 31 March 2015 HK\$'000 (Audited)
LIABILITIES			
Current liabilities			
Trade and other payables		4,599	3,536
Amount due to a fellow subsidiary	<i>16(b)</i>	73,000	39,231
Tax payable		8,239	4,469
Bank and other borrowings	<i>13</i>	162,066	129,616
Dividends payable		7,885	–
		<hr/>	<hr/>
Total current liabilities		255,789	176,852
Non-current liabilities			
Bonds	<i>14</i>	110,282	87,912
Deferred income tax liabilities		4,167	4,208
		<hr/>	<hr/>
Total non-current liabilities		114,449	92,120
		<hr/>	<hr/>
Total liabilities		370,238	268,972
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		817,848	696,873
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		394,112	323,151
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		562,059	520,021
		<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2015

	Attributable to owners of the Company (Unaudited)					
	Share capital	Share premium	Capital reserve	Share options reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2015	4,150	103,665	100,020	–	220,066	427,901
Total comprehensive income for the period ended 30 September 2015	–	–	–	–	26,083	26,083
Share options granted during the period	–	–	–	1,511	–	1,511
Share options lapsed during the period	–	–	–	(32)	32	–
Transactions with owners Dividends relating to the year ended 31 March 2015	–	–	–	–	(7,885)	(7,885)
Balance at 30 September 2015	<u>4,150</u>	<u>103,665</u>	<u>100,020</u>	<u>1,479</u>	<u>238,296</u>	<u>447,610</u>
Balance at 1 April 2014	4,150	103,665	100,020	–	185,865	393,700
Total comprehensive income for the period ended 30 September 2014	–	–	–	–	28,117	28,117
Transactions with owners Dividends relating to the year ended 31 March 2014	–	–	–	–	(11,620)	(11,620)
Balance at 30 September 2014	<u>4,150</u>	<u>103,665</u>	<u>100,020</u>	<u>–</u>	<u>202,362</u>	<u>410,197</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2015

	Six months ended	
	30 September	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash (used in)/generated from operations	(62,965)	26,405
Interest paid	(8,289)	(4,094)
Hong Kong profits tax paid	(1,854)	(1,681)
	<u>(73,108)</u>	<u>20,630</u>
Net cash (used in)/generated from operating activities		
Cash flows from investing activities		
Purchase of an available-for-sale investment	(625)	–
Purchase of property, plant and equipment	(39)	(101)
	<u>(664)</u>	<u>(101)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Repayment of bank and other borrowings	(36,503)	(31,851)
Proceeds from new bank and other borrowings	68,953	22,507
Proceeds from issuance of bonds	21,240	–
Dividends paid	–	(11,620)
	<u>53,690</u>	<u>(20,964)</u>
Net cash generated from/(used in) financing activities		
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of the period	22,776	863
	<u>2,694</u>	<u>428</u>
Cash and cash equivalents at end of the period		

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Hong Kong Finance Group Limited (the “Company”) was incorporated in the Cayman Islands on 6 February 2013 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (the “Group”) are principally engaged in money lending business of providing property mortgage loans in Hong Kong.

The ultimate holding company of the Company is Tin Ching Holdings Limited, a company incorporated in the British Virgin Islands on 10 July 1996.

These interim condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. These interim condensed consolidated financial statements were approved by the Board for issue on 11 November 2015.

These interim condensed consolidated financial statements have been reviewed, not audited.

2 BASIC OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 September 2015 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim condensed consolidated financial statements should be read in conjunction with the 2015 annual report of the Company dated 10 June 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Except from described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2015, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following new or amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2015:

HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions
Annual improvements 2010 to 2012	Improvements to HKASs and HKFRSs
Annual improvements 2011 to 2013	Improvements to HKASs and HKFRSs

- (b) The following new standards and amendments/revisions to standards have been issued, but are not effective for the financial year beginning 1 April 2015 and have not been early adopted.

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	The disclosure initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
HKAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investments entities applying the consolidation exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operation	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
Annual improvement to HKFRSs	2012–2014 cycle	1 January 2016

The Group has commenced an assessment of the impact of these new, amended and revised HKFRSs but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

4 SEGMENT INFORMATION

During the six months ended 30 September 2015 and 2014, all of the Group's revenue was generated from the money lending business of providing property mortgage loans in Hong Kong. Revenue represents interest income earned from such loans offered to the Group's customers. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and assessment of the Group's performance, is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis or information about the Group's products and services are presented.

All of the Group's revenue from external customers and assets were generated from and located in Hong Kong during the six months ended 30 September 2015 and 2014.

5 REVENUE AND OTHER INCOME

Revenue represents the interest income earned from the money lending business of providing property mortgage loans in Hong Kong. Revenue and other income recognised during the period are as follows:

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Revenue		
Interest income	<u>55,386</u>	<u>48,572</u>
Other income		
Fair value gains on revaluation of investment properties	–	1,850
Rental income	<u>950</u>	<u>1,089</u>
	<u>950</u>	<u>2,939</u>

6 EXPENSES BY NATURE

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Employee benefit expenses (including directors' emoluments)	5,386	4,222
Advertising and marketing expenses	3,127	5,211
Depreciation of property, plant and equipment	1,497	1,570
Share options expenses	1,511	–
Provision for individual impairment assessment of loans and interest receivables (<i>Notes 11 and 12</i>)	699	–
Other expenses	<u>4,161</u>	<u>3,087</u>
	<u>16,381</u>	<u>14,090</u>

7 FINANCE COSTS

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Interest on secured bank borrowings wholly repayable within 5 years	1,787	1,883
Interest on bank overdrafts	110	353
Interest on amount due to a fellow subsidiary	1,744	1,682
Interest and other expenses on bonds	4,218	–
Interest on other borrowings	<u>430</u>	<u>176</u>
	<u>8,289</u>	<u>4,094</u>

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits during the six months ended 30 September 2015.

The amount of income tax charged to the interim condensed consolidated statement of comprehensive income represents:

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Hong Kong profits tax		
— Current year	5,563	5,206
— Under provision in prior years	60	—
Deferred income tax	(40)	4
	<u>5,583</u>	<u>5,210</u>

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of HK\$26,083,000 (2014: HK\$28,117,000) by the weighted average number of ordinary shares in issue during the six months ended 30 September 2015 of 415,000,000 (2014: 415,000,000).

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Profit attributable to owners of the Company	26,083	28,117
Number of ordinary shares in issue for basic earnings per share ('000)	415,000	415,000
Basic earnings per share (HK cents)	<u>6.29</u>	<u>6.78</u>

(b) Diluted earnings per share

Diluted earnings per share during the six months ended 30 September 2015 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option scheme are the only dilutive potential ordinary shares of the Company. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

There were no potential dilutive ordinary shares outstanding during the six months ended 30 September 2014 and hence the diluted earnings per share is the same as basic earnings per share.

	Six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company	26,083	28,117
Weight average number of ordinary shares in issue for basic earnings per share ('000)	417,839	415,000
Basic earnings per share (HK cents)	6.24	6.78

10 DIVIDENDS

At the date of this announcement, the Board declared an interim dividend of HK1.9 cents (2014: HK1.7 cents) per share. The interim dividends amounting to HK\$7,885,000 have not been recognised as a liability for the six months ended 30 September 2015. It will be recognised in shareholders' equity in the year ending 31 March 2016.

A final dividend of HK1.9 cents per share relating to the year ended 31 March 2015, amounting to HK\$7,885,000, was declared and approved in September 2015 and paid in October 2015.

11 LOANS RECEIVABLE

	As at	As at
	30 September	31 March
	2015	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Loans receivable	661,664	522,186
Less: Provision for individual impairment assessment of loans receivable	(687)	–
Loans receivable, net of provision	660,977	522,186
Less: non-current portion	(28,517)	(56,607)
Current portion	632,460	465,579

The Group's loans receivable, which arise from the money lending business of providing property mortgage loans in Hong Kong, are denominated in Hong Kong dollar.

Loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

As at 30 September 2015, loans receivable of HK\$687,000 (30 September 2014: Nil) was individually impaired. The amount of the provision was HK\$687,000 (30 September 2014: Nil) as at 30 September 2015. This was related to a third party customer for whom the directors are of the view that the collection of the loans receivable was not probable.

Movements on the Group's individual impairment assessment of loans receivable are as follows:

	Six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
At beginning of period	–	–
Provision for individual impairment assessment of loans receivable	687	–
	<hr/>	<hr/>
At end of the period	687	–
	<hr/> <hr/>	<hr/> <hr/>

The Group performs collective assessment of the loans and interest receivables by grouping together all its receivables with similar credit risk characteristics. The impairment review is carried out on all these loans and interest receivables based on historical impairment rate. The historical impairment rate is arrived at taking the average of the most recent 3 years of the percentage of impairment loss to the total loans and interest receivables as at the period ended 30 September 2014 and 2015.

A maturity profile of the loans receivable as at the end of the reporting periods, based on the maturity date is as follows:

	As at	As at
	30 September	31 March
	2015	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Current	632,460	465,579
2–5 years	16,413	39,690
Over 5 years	12,104	16,917
	<hr/>	<hr/>
	660,977	522,186
	<hr/> <hr/>	<hr/> <hr/>

Loans receivable totalling HK\$29,400,000 (31 March 2015: Nil) were past due but not impaired as at 30 September 2015, as the relevant interest payments had not been paid by these third party customers on time and that the Group had issued legal letters to collect the outstanding principals/interests. The directors of the Group are of the opinion that no provision for impairment of those balances is necessary as the respective principal and/or interest that had been overdue were still fully secured by the fair value of the collateral at their respective prevailing market price. Accordingly, these balances are still considered fully recoverable.

Other than these loans receivables, the credit quality of the remaining loans receivable of HK\$631,577,000 (31 March 2015: HK\$522,186,000) that are neither past due nor impaired has been assessed by reference to historical information about counterparties default rates. The existing counterparties do not have defaults in the past.

12 INTEREST RECEIVABLES

	As at 30 September 2015 <i>HK\$'000</i> (Unaudited)	As at 31 March 2015 <i>HK\$'000</i> (Audited)
Interest receivables	14,413	10,650
Less: Provision for individual impairment assessment of interest receivables	<u>(12)</u>	<u>–</u>
Interest receivables, net of provision	<u>14,401</u>	<u>10,650</u>

The Group's interest receivables, which arise from the money lending business of providing property mortgage loans in Hong Kong, are denominated in Hong Kong dollar.

Interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

As at 30 September 2015, interest receivables of HK\$12,000 (30 September 2014: Nil) was individually impaired. The amount of the provision was HK\$12,000 (30 September 2014: Nil) as at 30 September 2015. This was related to a third party customer for whom the directors are of the view that the collection of the interest receivables was not probable.

Movements of the Group's individual impairment assessment of interest receivables are as follows:

	Six months ended 30 September 2015 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i> (Unaudited)
At beginning of period	–	–
Provision for individual impairment assessment of interest receivables	<u>12</u>	<u>–</u>
At end of the period	<u>12</u>	<u>–</u>

The ageing analysis of interest receivables as at the end of reporting periods, by past due date is as follows:

	As at 30 September 2015 <i>HK\$'000</i> (Unaudited)	As at 31 March 2015 <i>HK\$'000</i> (Audited)
Current	5,020	4,462
0–30 days due	2,298	2,108
31–60 days due	3,234	2,603
Over 60 days due	<u>3,849</u>	<u>1,477</u>
	<u>14,401</u>	<u>10,650</u>

As at 30 September 2015, interest receivables of approximately HK\$3,155,000 (31 March 2015: Nil) had been considered by the directors of the Group as default as the relevant interest payments had not been paid by these third party customers on time and that the Group had issued legal letters to collect the outstanding principals/interests. The directors of the Group are of the opinion that no provisions for impairment on these interest receivables is necessary as the interest receivables that had been overdue were still fully secured by the fair value of collateral at their respective prevailing market price. Accordingly, these balances are still considered fully recoverable.

13 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 30 September 2015 HK\$'000 (Unaudited)	As at 31 March 2015 HK\$'000 (Audited)
Bank loans	138,869	115,616
Bank overdrafts	12,197	–
Other borrowings	11,000	14,000
	<hr/>	<hr/>
Total bank and other borrowings	<u>162,066</u>	<u>129,616</u>

The weighted average effective interest rate on bank loans and bank overdrafts during the six months ended 30 September 2015 was 2.1% (31 March 2015: 2.8%) per annum.

The other borrowings of HK\$11,000,000 are unsecured, bear interest at rates of 7.0% (31 March 2015: 7.0%) per annum and repayable within one year.

At 30 September 2015 and 31 March 2015, all bank borrowings are denominated in Hong Kong dollar.

As at 30 September 2015, the bank loans and overdrafts utilised by the Group amounted to HK\$151,066,000 (31 March 2015: HK\$115,616,000) were secured by the following:

- (i) investment properties held by the Group amounting to HK\$76,860,000 (31 March 2015: HK\$76,860,000);
- (ii) land and buildings held by the Group with net book value of HK\$60,031,000 (31 March 2015: HK\$60,777,000); and
- (iii) corporate guarantee of the Company.

14 BONDS

During the six months period ended 30 September 2015, the Company issued to and had balances of Bond I and Bond II (in aggregate, the “Bonds”) with an aggregate amount of HK\$84,000,000 and HK\$37,000,000 (31 March 2015: HK\$61,000,000 and HK\$37,000,000), before placing commission respectively from several independent third parties with coupon rates at 6.0% and 4.5% per annum, respectively, repayable in 7 years from the respective issue dates. Bond II carries an option by the bondholder to redeem Bond II three years after the issuance of the Bond II.

The aggregate carrying amounts of the Bonds are HK\$110,282,000 as at 30 September 2015 (31 March 2015: HK\$87,912,000), which approximate to their fair values. The fair values are determined using the expected future payments discounted at effective interest rates prevailing at the period end date and are classified as level 3 of the fair value hierarchy. The carrying amounts of the Group’s bonds are denominated in Hong Kong dollar.

15 COMMITMENTS

Operating lease commitments — Group as lessor

The Group leases out its investment properties to independent third parties under non-cancellable operating lease agreements. The lease term ranges from 1 to 3 years, and the lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease receipts under non-cancellable operating leases in respect of the investment properties are as follows:

	Six months ended 30 September 2015 HK\$'000 (Unaudited)	Year ended 31 March 2015 HK\$'000 (Audited)
Not later than 1 year	2,425	611
Within 2–5 years	26	166
	<u>2,451</u>	<u>777</u>

16 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 September 2015 and 2014, and balances arising from related party transactions as at 30 September 2015 and 31 March 2015.

(a) Significant related party transactions

Saved as disclosed elsewhere in this announcement, the following significant transactions were undertaken by the Group with related parties.

	Six months ended 30 September 2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Interest expenses paid to a fellow subsidiary — Tin Ching Industrial Company Limited (“Tin Ching Industrial”)	<u>1,744</u>	<u>1,682</u>

Interest expenses on an amount due to a fellow subsidiary was charged at weighted average effective interest rate of 7.0% (2014: 7.0%) per annum.

(b) Amount due to a fellow subsidiary

Tin Ching Industrial, a fellow subsidiary, provided the Group with a loan facility with a limit of HK\$80,000,000 (31 March 2015: HK\$80,000,000), of which the Group utilised an amount of HK\$73,000,000 as at 30 September 2015 (31 March 2015: HK\$39,231,000).

The amount was unsecured, interest bearing at weighted average effective interest rate of 7.0% (31 March 2015: 7.0%) per annum on the outstanding amount, and repayable on demand. The carrying amount of the amount due to a fellow subsidiary is denominated in Hong Kong dollar.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, though the mortgage loan business in Hong Kong was highly competitive and challenging, our Group has still been proactively expanding our money lending business of providing property mortgage loans in Hong Kong to our customers. During the six months ended 30 September 2015, our property mortgage loan portfolio continued to grow since the demand on mortgage loan products was persisting strong in the market. Our property mortgage loans receivable recorded an increase of 26.6% from HK\$522.2 million as at 31 March 2015 to HK\$661.0 million as at 30 September 2015. Our interest income derived from property mortgage loan portfolio also surged up to HK\$55.4 million for the six months ended 30 September 2015, as compared to HK\$48.6 million for the corresponding period in 2014, representing an increase of 14.0%.

During the period under review, owing to the recent turbulence in global stock markets, anticipated rising interest rate in The United States of America, uncertainty in the local property market, and keen and competitive mortgage loan market in Hong Kong, we have implemented various measures when conducting our mortgage loan business during the period. One of the significant measures was re-balancing and adjusting our mortgage loan portfolio by providing more first-mortgage loan products to our customers, so as to maintain our reasonable returns from our mortgage loan portfolio with anticipated increase in credit and business risks under this unfavourable business environment. Further, we have also performed more strict and tight credit assessments and controls when granting mortgage loans to our customers so as to manage and reduce the possible default risks from our loans receivable. The above measures unavoidably reduced our net interest margin in our mortgage loan portfolio to 15.5%, as compared to 18.6% for the corresponding period last year.

Our Directors are of the view that although the above periodical measures would pressurise our net interest margin, the above measures would produce a more solid and healthy position in our mortgage loan business which would compensate the impact on our net interest margin, and we believe these measures were particularly important and essential during the time of unstable and uncertain economic environment.

Financial review

Revenue

Our interest income from money lending business of providing property mortgage loans in Hong Kong increased by HK\$6.8 million or 14.0% from HK\$48.6 million for the six months ended 30 September 2014 to HK\$55.4 million for the six months ended 30 September 2015. Such increase was primarily due to the increase in the average month-end balance of mortgage loans receivable. As discussed above, the demand for mortgage loan products in the money lending market remained strong which increased our average month-end balance of aggregate mortgage loans receivable by HK\$111.4 million or 22.5% from HK\$495.6 million for the year ended 31 March 2015 to HK\$607.0 million for the six months ended 30 September 2015.

Other income

Our Group's other income mainly represents the fair value gains on revaluation of investment properties and rental income received from the leasing of our investment properties. The decrease was mainly due to the nil amount of fair value gains on revaluation of investment properties obtained by us (2014: HK\$1.8 million) as a result of the unfavourable property market as experienced recently in Hong Kong.

Administrative expenses

We incurred administrative expenses of HK\$16.4 million for the six months ended 30 September 2015 (2014: HK\$14.1 million), which mainly comprised employee benefit expenses, advertising and marketing expenses, depreciation of property, plant and equipment, share options expenses and other miscellaneous expenses. The increase was mainly due to the grant of 21,350,000 share options to our eligible employees during the period which additionally incurred share options expenses of HK\$1.5 million for the current period (2014: Nil). Details of such grant have been set out in our Company's announcement dated 1 April 2015.

Finance costs

Finance costs mainly comprised interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary and issue of bonds. The significant increase in the finance costs by HK\$4.2 million or 102.4% from HK\$4.1 million for the six months ended 30 September 2014 to HK\$8.3 million for the six months ended 30 September 2015 was mainly attributable to the nil balance of bonds in last period which significantly increased the average balance of bonds and incurred interest and other expenses on bonds with a total of HK\$4.2 million (2014: Nil) for the current period.

Net interest margin

The net interest margin of our property mortgage loans decreased from 18.6% for the six months ended 30 September 2014 to 15.5% for the six months ended 30 September 2015. The periodical measures, which we have mentioned above, was the major cause of such decrease in our net interest margin.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income for the six months ended 30 September 2015 and 2014 attributable to owners of our Company achieved HK\$26.1 million and HK\$28.1 million, respectively, representing a decrease of 7.1%.

As mentioned above, we did not have any fair value gains on revaluation of investment properties and we incurred share options expenses for the current period. Should these non-operating and non-cash items be excluded, for comparison and information purposes, our profit and total comprehensive income for the six months ended 30 September 2015 and 2014 attributable to owners of our Company would be HK\$27.6 million and HK\$26.3 million, respectively, representing an increase of 4.9%.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 September 2015, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from our fellow subsidiary, Tin Ching Industrial, as well as bank and other borrowings, and the issue of bonds. Based on our current and anticipated levels of operations, barring unforeseeable market conditions, our future operations and capital requirements will be financed through loans from banks or other financial institutions that are independent third parties, retained earnings, proceeds from the issue of the bonds and our share capital. We had no significant commitments for capital expenditure during the six months ended 30 September 2015.

As at 30 September 2015, cash and cash equivalent amounted to HK\$2.7 million (31 March 2015: HK\$22.8 million); amount due to a fellow subsidiary amounted to HK\$73.0 million (31 March 2015: HK\$39.2 million); interest bearing bank and other borrowings amounted to HK\$162.1 million (31 March 2015: HK\$129.6 million), and bonds amounted to HK\$110.3 million (31 March 2015: HK\$87.9 million).

During the six months ended 30 September 2015, all interest bearing bank borrowings were repayable on demand and were secured by our Group's investment properties, land and buildings, and corporate guarantee of our Company. The amount due to a fellow subsidiary and the other borrowings were unsecured, interest bearing at 7.0% per annum and with fixed term of repayment. The bonds were unsecured, interest bearing at their respective pre-determined interest rates ranging from 4.5% to 6.0% per annum, and were repayable upon 7 years of its maturity.

During the six months ended 30 September 2015, none of our banking facilities were subject to any covenants relating to financial ratio requirements or any material covenants that restrict our Group to undertake additional debt or equity financing. As at 30 September 2015, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$27.3 million and HK\$7.0 million, respectively.

During the six months ended 30 September 2015, our bonds were subject to covenants relating to financial ratio requirements, such as interest coverage ratio, current ratio and debt to equity ratio.

GEARING RATIO

As at 30 September 2015, the gearing ratio, which was calculated by dividing net debts (being the total interest bearing bank and other borrowings, amount due to a fellow subsidiary and the bonds, less cash and cash equivalents) by total equity, was 0.77 (31 March 2015: 0.55).

FOREIGN EXCHANGE EXPOSURE

During the six months ended 30 September 2015, the business activities of our Group were denominated in Hong Kong dollar. The Directors did not consider our Group was exposed to any significant foreign exchange risks. Our Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

Our Group did not have any significant investments held, material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 September 2015.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2015, our Group employed 21 full time employees. The total staff costs of our Group for the six months ended 30 September 2015 and 2014 were HK\$5.4 million and HK\$4.2 million, respectively.

Our Group relies on our remuneration policy on the position, duties and performance of our employees. The remuneration of our employees may include salary, overtime allowance, bonus and various subsidies. We conduct performance appraisal on an annual basis. Our Company has also adopted the share option scheme on 4 September 2013, the purpose of which is to provide incentives to our employees who made contributions to our Group with a view to motivating them and/or attracting and retaining them for the long term growth of our Group. During the period, our Group has granted 21,350,000 share options to our eligible employees, the details of which were set out in our Company's announcement dated 1 April 2015.

CHARGES ON GROUP ASSETS

As at 30 September 2015, our land and buildings of HK\$60.0 million (31 March 2015: HK\$60.8 million) and our investment properties of HK\$76.9 million (31 March 2015: HK\$76.9 million) were secured for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 30 September 2015, our Group had no material contingent liabilities (31 March 2015: Nil).

PROSPECTS

During the period under review, Hong Kong Monetary Authority ("HKMA") continued to impose stringent policy and prudential measures on property mortgage loans provided by authorised financial institutions in Hong Kong. These measures and tight controls have created extra hurdles for the general public who may look for mortgages to satisfy their financial needs which, as a result, give us further opportunities to expand our mortgage loan business.

Under the prudential measures imposed by the HKMA, although we consider the market demand of mortgage loan products is still strong, as we have mentioned above, under the current unfavourable and volatile property market, we have already implemented vigorous measures when conducting our mortgage loan business. We strongly believe these measures were particularly important and essential which help us produce a more solid and healthy position for our mortgage loan business during the time of unstable and uncertain economic environment. We further believe that being one of the listed financial institutions having solid financial and strategic position, and being one of the best alternative to banks' mortgage, with

our strong reputation and highly-recognised brand name “**Hong Kong Finance**”, we are in a leading position and we are confident to capture this opportunity to expand our market share under the current challenging environment of the mortgage loan industry.

Last but not least, we still continue to spend significant amount of resources and effort in advertising to enhance our brand image and awareness, and to promote our mortgage loan products and services. We are currently and proactively looking for different financial resources for our business expansion so as to maintain our cost of funding and net interest margin at justifiable level. We do believe the aforesaid measures and process will help us maintain growth and returns from our mortgage loan business under the current challenging business environment and will continue to create stable and solid returns to our shareholders and stakeholders in the coming years.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither our Company nor any of our subsidiaries purchased, sold or redeemed any of our Company’s listed securities during the six months ended 30 September 2015 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

Our Company has adopted and complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the six months ended 30 September 2015.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules to monitor the code of conduct regarding securities transactions by our Directors.

Having made enquiry to all Directors, they all have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 September 2015.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee (the “Audit Committee”) of our Company consists of three independent non-executive Directors, namely, Mr. Chan Siu Wing Raymond (“Mr. Raymond Chan”), Mr. Chu Yat Pang Terry and Mr. Cheung Kok Cheong, and is chaired by Mr. Raymond Chan. Our Company has adopted written terms of reference which set out clearly with the constitution, authority, duties, powers and functions of the Audit Committee. Our Group’s interim condensed consolidated results for the six months ended 30 September 2015 were reviewed by the Audit Committee prior to the submission to the Board for approval.

The Audit Committee together with the management of our Company has reviewed the accounting policies and practices adopted by our Group and discussed, among other things, internal controls and financial reporting matters including a review of the unaudited interim results for the six months ended 30 September 2015. In addition, the independent auditor of our Company has reviewed the unaudited interim results for the six months ended 30

September 2015 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

INTERIM DIVIDENDS

The Board declared the payment of an interim dividend of HK1.9 cents per share for the six months ended 30 September 2015 and will be payable to the shareholders of our Company whose names appear on the register of members of our Company which will be closed on Thursday, 3 December 2015. The declared interim dividends will be paid on Wednesday, 6 January 2016.

CLOSURES OF REGISTER OF MEMBERS

For determining the entitlement to the declared interim dividends, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of our Company, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 2 December 2015.

PUBLICATION

The interim results announcement of our Company for the six months ended 30 September 2015 is published on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.hkfinance.hk) respectively. The 2015 interim report will be dispatched to the shareholders of our Company and published on the respective websites of the Stock Exchange and our Company in due course.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks to our shareholders for their unwavering support and trust, and express my deepest gratitude to the Board, the management team and all staff of the Group for their dedication and diligence.

By Order of the Board
Hong Kong Finance Group Limited
Chan Kwong Yin William
Chairman

Hong Kong, 11 November 2015

As at the date of this announcement, the Board comprises Mr. Chan Kwong Yin William (Chairman), Mr. Chan Koung Nam and Mr. Tse Pui To (Chief Executive Officer) being the executive Directors, Mr. Chan Siu Wing Raymond, Mr. Chu Yat Pang Terry and Mr. Cheung Kok Cheong being the independent non-executive Directors.