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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 2016**

Financial Highlights	Six months ended		Change
	30 September	2015	
	2016	2015	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
	(Unaudited)	(Unaudited)	
Revenue	50.1	55.4	(9.6)%
Profit and total comprehensive income for the period attributable to owners of the Company	24.4	26.1	(6.5)%
Net profit margin (%)	48.7	47.1	1.6pt
Net interest margin (%)	12.2	15.5	(3.3)pt
Basic earnings per share (<i>HK cents</i>)	5.87	6.29	(6.7)%
Diluted earnings per share (<i>HK cents</i>)	5.87	6.24	(5.9)%
Declared interim dividends per share (<i>HK cents</i>)	1.6	1.9	(15.8)%
	As at	As at	
	30 September	31 March	
	2016	2016	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
	(Unaudited)	(Audited)	
Loans receivable, net of provision	637.8	674.1	(5.4)%
Total assets	824.4	854.6	(3.5)%
Total equity	481.0	463.0	3.9%

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The board of directors (the “Board” or “Directors”) of Hong Kong Finance Group Limited (the “Company” or “our 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 2016 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”) (the “Listing Rules”), together with the comparative figures for the corresponding period in 2015.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		Six months ended	
		30 September	
	<i>Note</i>	2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4, 5	50,124	55,386
Other income	5	3,887	950
Administrative expenses	6	(14,583)	(16,381)
Operating profit		39,428	39,955
Finance costs	7	(10,651)	(8,289)
Profit before income tax		28,777	31,666
Income tax expense	8	(4,417)	(5,583)
Profit and total comprehensive income for the period attributable to owners of the Company		24,360	26,083
Earnings per share for profit attributable to owners of the Company			
— Basic (<i>HK cents</i>)	9(a)	5.87	6.29
— Diluted (<i>HK cents</i>)	9(b)	5.87	6.24
Dividends	10	6,640	7,885

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2016

		As at 30 September 2016	As at 31 March 2016
	<i>Note</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		59,446	60,660
Investment properties		79,600	76,860
Available-for-sale investment		625	625
Loans receivable	<i>11</i>	57,250	97,527
Deferred income tax assets		87	87
		<hr/>	<hr/>
Total non-current assets		197,008	235,759
Current assets			
Loans receivable	<i>11</i>	580,536	576,529
Interest receivables	<i>12</i>	15,426	15,197
Prepayments, deposits and other receivables		1,009	987
Repossessed assets		8,603	5,306
Cash and cash equivalents		21,811	20,791
		<hr/>	<hr/>
Total current assets		627,385	618,810
		<hr/>	<hr/>
Total assets		824,393	854,569
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,150	4,150
Reserves		476,840	458,819
		<hr/>	<hr/>
Total equity		480,990	462,969
		<hr/>	<hr/>

		As at 30 September 2016 <i>HK\$'000</i> (Unaudited)	As at 31 March 2016 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
Current liabilities			
Trade and other payables		4,575	5,544
Amount due to a fellow subsidiary	16(b)	62,005	88,951
Tax payable		4,739	2,423
Bank and other borrowings	13	148,815	179,251
Dividends payable		6,640	–
		<hr/>	<hr/>
Total current liabilities		226,774	276,169
Non-current liabilities			
Bonds	14	112,627	111,451
Deferred income tax liabilities		4,002	3,980
		<hr/>	<hr/>
Total non-current liabilities		116,629	115,431
		<hr/>	<hr/>
Total liabilities		343,403	391,600
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		824,393	854,569
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		400,611	342,641
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		597,619	578,400
		<hr/> <hr/>	<hr/> <hr/>

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.

These interim condensed consolidated financial statements of the Company are presented in thousands of Hong Kong dollars (“HK\$’000”), unless otherwise stated. These interim condensed consolidated financial statements were approved by the Board for issue on 29 November 2016.

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

2 BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Company for the six months ended 30 September 2016 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 2016 annual report of the Company, 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 2016, 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 2016:

HKFRSs (amendment)	Annual improvements to HKFRSs 2012–2014 cycle
HKFRS 10, HKFRS 12 and HKAS 28 (2011) (amendment)	Investment entities: applying the consolidation exception
HKFRS 11 (amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
HKAS 1 (amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (amendment)	Acceptable methods of depreciation and amortization
HKAS 16 and HKAS 41 (amendment)	Agriculture: Bearer plants
HKAS 27 (2011) (amendment)	Equity method in separate financial statements

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in the interim financial information and/or disclosures set out in the interim financial information.

- (b) The following new standards and amendments to standards have been issued, but are not effective for the financial year beginning 1 April 2016 and have not been early adopted:

HKFRS 2 (amendment)	Classification and measurement of share-based payment transactions ⁽²⁾
HKFRS 9 (2014)	Financial instruments ⁽²⁾
HKFRS 10 and HKAS 28 (amendment)	Sale or contribution of assets between an investor and its associates or joint venture ⁽⁴⁾
HKFRS 15	Revenue from contracts with customers ⁽²⁾
HKFRS 16	Leases ⁽³⁾
HKAS 7 (amendment)	Statement of cash flows — disclosure initiative ⁽¹⁾
HKAS 12 (amendment)	Recognition of deferred tax assets for unrealised losses ⁽¹⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 March 2017.

⁽²⁾ Effective for the Group for annual period beginning on 1 March 2018.

⁽³⁾ Effective for the Group for annual period beginning on 1 March 2019.

⁽⁴⁾ Effective date to be determined.

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

4 SEGMENT INFORMATION

During the six months ended 30 September 2016 and 2015, 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 2016 and 2015.

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	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Interest income	<u>50,124</u>	<u>55,386</u>
Other income		
Fair value gains on revaluation of investment properties	2,740	–
Rental income	<u>1,147</u>	<u>950</u>
	<u>3,887</u>	<u>950</u>

6 ADMINISTRATIVE EXPENSES

	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Employee benefit expenses (including directors' emoluments)	5,431	5,386
Advertising and marketing expenses	2,865	3,127
Depreciation of property, plant and equipment	1,235	1,497
Share options expenses	301	1,511
Provision for individual impairment assessment of loans receivable	933	699
Provision for collective impairment assessment of loans receivable	640	–
Reversal of provision of individual impairment assessment of loans receivable	(883)	–
Provision for impairment of repossessed asset	65	–
Other expenses	<u>3,996</u>	<u>4,161</u>
	<u>14,583</u>	<u>16,381</u>

7 FINANCE COSTS

	Six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on secured bank borrowings wholly repayable within 5 years	3,508	1,787
Interest on bank overdrafts	183	110
Interest on amount due to a fellow subsidiary	2,053	1,744
Interest and other expenses on bonds	4,538	4,218
Interest on other borrowings	369	430
	<u>10,651</u>	<u>8,289</u>

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits during the six months ended 30 September 2016.

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

	Six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
— Current year	4,372	5,563
— Under provision in prior years	142	60
Deferred income tax	(97)	(40)
	<u>4,417</u>	<u>5,583</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\$24,360,000 (2015: HK\$26,083,000) by the weighted average number of 415,000,000 (2015: 415,000,000) ordinary shares in issue during the six months ended 30 September 2016.

	Six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>HK\$'000</i>)	24,360	26,083
Weighted average number of ordinary shares in issue for basic earnings per share (<i>'000</i>)	415,000	415,000
Basic earnings per share (<i>HK cents</i>)	<u>5.87</u>	<u>6.29</u>

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 September 2016 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.

	Six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>HK\$'000</i>)	24,360	26,083
Weight average number of ordinary shares in issue for diluted earnings per share (<i>'000</i>)	415,000	417,839
Diluted earnings per share (<i>HK cents</i>)	<u>5.87</u>	<u>6.24</u>

The calculation of diluted earnings per share of the six months ended 30 September 2016 do not assume the exercise of the Company's share options as the exercise prices of the outstanding share options were higher than the market price of the shares of the Company during the period.

10 DIVIDENDS

At the date of this announcement, the Board declared an interim dividend of HK1.6 cents (2015: HK1.9 cents) per share. The interim dividend amounting to HK\$6,640,000 have not been recognised as a liability for the six months ended 30 September 2016. It will be recognised in shareholders' equity in the year ending 31 March 2017.

A final dividend of HK1.6 cents per share relating to the year ended 31 March 2016, amounting to HK\$6,640,000, was declared and approved in September 2016 and paid in October 2016.

11 LOANS RECEIVABLE

	As at 30 September 2016 <i>HK\$'000</i> (Unaudited)	As at 31 March 2016 <i>HK\$'000</i> (Audited)
Loans receivable	641,009	676,589
Less: Provision for individual impairment assessment of loans receivable	(1,841)	(1,791)
Provision for collective impairment assessment of loans receivable	(1,382)	(742)
	<hr/>	<hr/>
Loans receivable, net of provision	637,786	674,056
Less: non-current portion	(57,250)	(97,527)
	<hr/>	<hr/>
Current portion	<u>580,536</u>	<u>576,529</u>

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 dollars.

Loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers.

As at 30 September 2016, additional collective impairment of loans receivable of HK\$640,000 (2015: HK\$742,000) was made. The Group performs collective impairment assessment of loans receivable by grouping together all its receivables with similar credit risk characteristics and by applying a historical impairment rate, taking the average of the most recent 3 financial periods of the percentage of impairment loss recognised in the consolidated statement of comprehensive income to the total loans and interest receivables as at the respective year end dates.

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 30 September 2016 <i>HK\$'000</i> (Unaudited)	As at 31 March 2016 <i>HK\$'000</i> (Audited)
Current	580,536	576,529
2–5 years	17,901	73,479
Over 5 years	39,349	24,048
	<hr/>	<hr/>
	<u>637,786</u>	<u>674,056</u>

12 INTEREST RECEIVABLES

	As at 30 September 2016 HK\$'000 (Unaudited)	As at 31 March 2016 HK\$'000 (Audited)
Interest receivables	<u>15,426</u>	<u>15,197</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 dollars.

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.

13 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 30 September 2016 HK\$'000 (Unaudited)	As at 31 March 2016 HK\$'000 (Audited)
Bank loans	133,196	141,565
Bank overdrafts	13,619	23,686
Other borrowings	<u>2,000</u>	<u>14,000</u>
Total bank and other borrowings	<u>148,815</u>	<u>179,251</u>

The weighted average effective interest rate on bank loans and bank overdrafts during the six months ended 30 September 2016 was 3.3% (31 March 2016: 3.2%) per annum.

The other borrowings of HK\$2,000,000 (31 March 2016: HK\$14,000,000) are unsecured, bear interest at rates of 7.0% (31 March 2016: from 6.5% to 8.0%) per annum and repayable within one year.

At 30 September 2016 and 31 March 2016, all bank borrowings are denominated in Hong Kong dollars.

As at 30 September 2016, the bank loans and overdrafts utilised by the Group amounted to HK\$146,815,000 (31 March 2016: HK\$165,251,000) were secured by the following:

- (i) investment properties held by the Group amounting to HK\$79,600,000 (31 March 2016: HK\$76,860,000);
- (ii) land and buildings held by the Group with net book value of HK\$58,539,000 (31 March 2016: HK\$59,285,000); and
- (iii) corporate guarantee of the Company.

14 BONDS

During the six months period ended 30 September 2016, the Company has 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 2016: HK\$84,000,000 and HK\$37,000,000), before placing commission, respectively, with coupon rates at 6.0% (2015: 6.0%) and 4.5% (2015: 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 date of issuance.

The aggregate carrying amounts of the Bonds are HK\$112,627,000 as at 30 September 2016 (31 March 2016: HK\$111,451,000), 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 within level 3 of the fair value hierarchy. The carrying amounts of the Group’s bonds are denominated in Hong Kong dollars.

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 terms ranges from 1 to 2 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 2016 HK\$’000 (Unaudited)	Year ended 31 March 2016 HK\$’000 (Audited)
Within 1 year	1,171	2,059
Within 2–5 years	44	404
	<u>1,215</u>	<u>2,463</u>

The Company did not have any significant commitments as at 30 September 2016 (31 March 2016: Nil).

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 2016 and 2015, and balances arising from related party transactions as at 30 September 2016 and 31 March 2016.

(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	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest expenses paid to a fellow subsidiary — Tin Ching Industrial Company Limited ("Tin Ching Industrial")	<u>2,053</u>	<u>1,744</u>

Interest expenses on an amount due to a fellow subsidiary was charged at effective interest rate of 6.5% (2015: 6.5%) 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\$150,000,000 (31 March 2016: HK\$150,000,000), of which the Group utilised an amount of HK\$62,005,000 as at 30 September 2016 (31 March 2016: HK\$88,951,000).

The amount was unsecured, interest bearing at weighted average effective interest rate of 6.5% (31 March 2016: 6.5%) 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 dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Since the establishment of our Group for about 20 years, we have been principally engaged in the money lending business of providing property mortgage loans in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). During the six months ended 30 September 2016 (the “interim period 2016”), we focused on our property mortgage loans business under our well-known and highly recognised brand name “Hong Kong Finance”.

During the interim period 2016, the property market in Hong Kong has experienced a rebound both in property price and transaction volume, and turned active and energetic again. However, having considered the unstable global economy, anticipated rising interest rate in The United States of America, and keen and competitive mortgage loan market in Hong Kong, we believe that the property market nowadays in Hong Kong is highly unpredictable and challenging that a prudent and cautious approach for conducting our mortgage loan business is necessary and essential.

To minimise the potential credit and default risks in our mortgage loans and interest receivables, we continued to tighten our credit policy when granting mortgage loans to our customers and to re-balance and adjust our mortgage loan portfolio by providing more first-mortgage loan products to our high net worth customers with sound quality and credit history. Although the above prudent measures improved the overall quality of our mortgage loan portfolio, they would unavoidably affected our financial performance during the interim period 2016. Our interest income recorded its first decrease since the listing of our Company, by 9.6% from HK\$55.4 million for the six months ended 30 September 2015 (the “interim period 2015”) to HK\$50.1 million for the interim period 2016. Our net interest margin also pressurised to 12.2% as compared to 15.5% for the interim period 2015. Under our prudent approach for our mortgage loan business, our mortgage loans receivable reduced to HK\$637.8 million (net of provision) as at 30 September 2016, as compared to HK\$674.1 million as at 31 March 2016, also experiencing its first decrease since the listing of our Company in 2013.

We consider that although the recent property market in Hong Kong is rebounding and seems to show the promising growth in terms of property price and transaction volume, the anticipated rise of interest rate, the volatile global economy and the new measure from the Hong Kong Government to increase the stamp duty on sales and purchase of properties have led us to be more cautious when managing our mortgage loan business. We consider the above periodical prudent measures are necessary during the time of unstable and uncertain economic environment and these measures would produce a more solid and healthy position in our mortgage loan business which would compensate the impact on our net interest income and mortgage loan portfolio.

Industry review

Recently, there have been increasing public concerns that deceptive tactics are being used by fraudsters who claim themselves to be financial intermediaries for money lending to induce intending borrowers to engage them for arranging loans with money lenders and charge very high fees under different pretexts in the process. To combat the problem, the Hong Kong Government has already imposed additional licensing conditions on money lenders to facilitate effective enforcement of the statutory ban on separate fee charging by money lenders and their connected parties, ensure better protection of privacy of intending borrowers, enhance transparency and disclosure, and promote the importance of prudent borrowing. These additional licensing conditions will be applicable with effect from 1 December 2016.

We consider that unlike other market players in money lending industry, we do not place substantial reliance on financial intermediaries to refer mortgage loan business to our Group. We believe these new additional licensing conditions in connection with financial intermediaries created minimal impact on our Group's mortgage loan business. Even when financial intermediaries were to be appointed, we would carefully and cautiously select these financial intermediaries and we would strictly follow those requirements under the new additional licensing conditions so that we could provide reliable and legal mortgage loan products to our customers. Our Group will continue to co-operate with the government and other authorities in order to fight against such illegal financial intermediaries so as to retain the reputation of financial institutions and money lenders.

Financial review

Revenue

Our interest income from money lending business in providing property mortgage loans in Hong Kong decreased by HK\$5.3 million or 9.6% from HK\$55.4 million for the interim period 2015 to HK\$50.1 million for the interim period 2016. Such decrease was primarily due to the decrease in the interest margin we earned from our mortgage loan portfolio during the interim period 2016.

Administrative expenses

We incurred administrative expenses of HK\$14.6 million for the interim period 2016 (2015: HK\$16.4 million), which mainly comprised employee benefit expenses, advertising and marketing expenses, depreciation of property, plant and equipment, provision for impairment assessment and other miscellaneous expenses. Overall the decrease of our administrative expenses by 11.0% was mainly because of no further share options granted during the period which decreased share options expenses significantly.

Finance costs

We incurred finance costs of HK\$10.7 million for the interim period 2016 (2015: HK\$8.3 million), which mainly comprised interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary and issue of bonds. The increase in the finance costs by HK\$2.4 million or 28.9% from HK\$8.3 million for the interim period 2015 to HK\$10.7 million for the interim period 2016 was mainly attributable to the increase in interest rates from bank borrowings.

Net interest margin

The net interest margin of our property mortgage loans decreased from 15.5% for the interim period 2015 to 12.2% for the interim period 2016. The periodical prudent measures and increase in our cost of finance, which we have mentioned above, led to a decrease in net interest margin accordingly.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income for the interim period 2016 and 2015 attributable to owners of our Company achieved HK\$24.4 million and HK\$26.1 million, respectively, representing a decrease of 6.5%.

LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES

During the interim period 2016, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from our controlling shareholders, Tin Ching Industrial Company Limited, as well as bank and other borrowings, and the proceeds from 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 interim period 2016.

As at 30 September 2016, our cash and cash equivalent amounted to HK\$21.8 million (31 March 2016: HK\$20.8 million); amount due to a fellow subsidiary amounted to HK\$62.0 million (31 March 2016: HK\$89.0 million); interest bearing bank and other borrowings amounted to HK\$148.8 million (31 March 2016: HK\$179.3 million), and bonds amounted to HK\$112.6 million (31 March 2016: HK\$111.5 million).

During the interim period 2016, 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 the Company. The amount due to a fellow subsidiary and the other borrowings were unsecured, interest bearing at a rate ranging from 6.5% to 7.0% per annum and with fixed term of repayment. The bonds were unsecured, interest bearing at their respective pre-determined interest rate ranging from 4.5% to 6.0% per annum, and were repayable upon 7 years of its issuance.

During the interim period 2016, 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 2016, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$25.4 million and HK\$88.0 million, respectively.

During the interim period 2016, our bonds were subject to covenants relating to financial ratio requirements, such as interest coverage ratio, current ratio and debt to equity ratio.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group during the interim period 2015 and 2016 and as at 31 March 2016 and 30 September 2016 respectively:

	As at 30 September 2016	As at 31 March 2016
Current ratio ⁽¹⁾	2.77	2.24
Gearing ratio ⁽²⁾	0.63	0.78
	For the six months ended 30 September	
	2016	2015
Net interest margin ratio ⁽³⁾	12.2%	15.5%
Return on equity ratio ⁽⁴⁾	10.1%	11.7%
Interest coverage ratio ⁽⁵⁾	3.4 times	4.8 times

Notes:

- ⁽¹⁾ Current ratio was calculated by dividing current assets by current liabilities as at the respective period/year-end date.
- ⁽²⁾ Gearing ratio 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 as at the respective period/year-end date.
- ⁽³⁾ Net interest margin ratio was calculated by dividing annualised net interest income (being the annualised interest income net of annualised finance costs) by the monthly average balance of mortgage loan receivable at the respective period-end date.
- ⁽⁴⁾ Return on equity ratio was calculated by dividing annualised profit and total comprehensive income for year attributable to owners of the Company by the total equity as at the respective period-end date.
- ⁽⁵⁾ Interest coverage ratio was calculated by dividing profit before finance costs and income tax expenses (excluding fair value gains on revaluation of investment properties) by the finance costs for the corresponding period.

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 interim period 2016.

IMPORTANT EVENTS OCCURRED AFTER THE SIX MONTHS ENDED OF 30 SEPTEMBER 2016

Our Group did not have any important events affecting our Company and our subsidiaries since the six months ended 30 September 2016 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2016 our Group employed 24 full time employees. The total staff costs of our Group for the interim period 2016 were HK\$5.4 million (2015: HK\$5.4 million).

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, 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. No share option was granted during the interim period 2016. As at 30 September 2016, 19,600,000 share options were still outstanding which represents approximately 4.7% of the issued ordinary shares of our Company.

CHARGES ON GROUP ASSETS

As at 30 September 2016, our land and buildings of HK\$58.5 million (31 March 2016: HK\$59.3 million) and our investment properties of HK\$79.6 million (31 March 2016: HK\$76.9 million) were secured for the Group's bank borrowings.

FOREIGN EXCHANGE EXPOSURE

During the interim period 2016, the business activities of our Group were denominated in Hong Kong dollars. Our 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.

CONTINGENT LIABILITIES

As at 30 September 2016, our Group had no material contingent liabilities (31 March 2016: Nil).

FUTURE DEVELOPMENT AND PROSPECTS

As discussed above, although the recent property market in Hong Kong has experienced a rebound in terms of both the property price and the transaction volume, the financial hard times and unstable economic environment continued which have put additional burdens and hurdles on our mortgage loan business. The recent increase in stamp duty on property transactions also created further uncertainty on the property market. However, being professional and highly experienced in our mortgage loan business, we believe the current economic difficulty could give us an opportunity to consolidate and to expand our mortgage loan business and portfolio. During the interim period 2016, we have continued to tighten our credit policy when granting mortgage loan to our customers and we have continued to re-balance and adjust our mortgage loan portfolio by providing more first mortgage to our high net worth customers. We believe these periodical prudent measures are particularly important and essential during the unstable and unpredictable economic hard times. We are also in the progress to launch a new product line of money lending in order to capture new market segment and opportunity and to diversify our overall business and market risks in money lending business. We shall continue to source different financial resources to maintain our cost of funding and net interest margin at a justifiable level. We shall continue to channel more resources and effort in advertising and enhancing our brand image and awareness, and to promote and develop our products and services. We are confident in our business expansion and the growth of interest income which will create sound financial results and performance for our shareholders and stakeholders in the years to come.

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 interim period 2016 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 Listing Rules during the interim period 2016.

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 period under review.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive Directors, namely, Mr. Chan Siu Wing Raymond (Chairman of Audit Committee), Mr. Chu Yat Pang Terry and Mr. Cheung Kok Cheong.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim report of the Company for the interim period 2016 in conjunction with the management of the Group. In addition, the independent auditor of our Company have reviewed the unaudited interim results for the interim period 2016 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 HK1.6 cents (2015: HK1.9 cents) per share for the interim period 2016 and will be payable to the shareholders of our Company whose names appear on the register of members of our Company on Monday, 19 December 2016. The declared interim dividend will be paid on Thursday, 19 January 2017.

CLOSURES OF REGISTER OF MEMBERS

The register of members of our Company will be closed on Monday, 19 December 2016, during which period no transfer of shares will be effected. In order to qualify for the interim dividend declared, all transfers of shares of our Company, duly 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, no later than 4:30 p.m. on Friday, 16 December 2016.

PUBLICATION

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.hkfinance.hk), respectively. The 2016 interim report will be dispatched to the shareholders of our Company and published on the above websites 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, 29 November 2016

As at the date of this announcement, the Board comprises the following members:

Executive Directors:

Mr. Chan Kwong Yin William (*Chairman*)
Mr. Chan Koung Nam
Mr. Tse Pui To (*Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Chan Siu Wing Raymond
Mr. Chu Yat Pang Terry
Mr. Cheung Kok Cheong