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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 2019

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, the “**Group**”) for the six months ended 30 September 2019, together with the comparative figures for the corresponding period of the previous year, are as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the six months ended 30 September 2019

		Six months ended	
		30 September	
	<i>Note</i>	2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	6, 7	82,591	79,896
Other income and gain	7	360	1,269
Fair value losses on revaluation of investment properties		–	(1,110)
Provision for impairment and write-off of loans receivable, net	8	(3,683)	(8,115)
Administrative expenses	9	(23,644)	(25,693)
Operating profit		55,624	46,247
Finance costs	10	(17,269)	(16,973)
Profit before income tax		38,355	29,274
Income tax expense	11	(6,401)	(4,886)
Profit and total comprehensive income for the period attributable to owners of the Company		31,954	24,388
Earnings per share for profit attributable to owners of the Company			
— Basic (<i>HK cents</i>)	12(a)	7.70	5.88
— Diluted (<i>HK cents</i>)	12(b)	7.70	5.88
Dividends	13	5,395	4,980

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

		As at 30 September 2019	As at 31 March 2019
	<i>Note</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		76,843	78,198
Investment properties		84,680	84,680
Financial asset at fair value through profit or loss		800	800
Loans receivable	<i>14</i>	188,747	138,153
Other asset		297	435
Deferred income tax assets		369	619
		<hr/>	<hr/>
Total non-current assets		351,736	302,885
		<hr/>	<hr/>
Current assets			
Loans receivable	<i>14</i>	756,396	743,146
Interest receivables	<i>15</i>	17,104	22,075
Repossessed assets	<i>16</i>	35,859	35,859
Prepayments, deposits and other receivables		878	1,480
Tax recoverable		176	2,057
Cash and cash equivalents		22,008	37,294
		<hr/>	<hr/>
Total current assets		832,421	841,911
		<hr/>	<hr/>
Total assets		1,184,157	1,144,796
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,150	4,150
Reserves		592,136	565,577
		<hr/>	<hr/>
Total equity		596,286	569,727
		<hr/>	<hr/>

		As at	As at
		30 September	31 March
		2019	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
LIABILITIES			
Current liabilities			
Other payables and accruals		6,260	6,553
Amount due to a fellow subsidiary	<i>20(b)</i>	124,006	106,524
Tax payable		4,760	683
Dividend payable	<i>13</i>	5,395	–
Bank and other borrowings	<i>17</i>	346,180	360,883
		<hr/>	<hr/>
Total current liabilities		486,601	474,643
Non-current liabilities			
Bonds	<i>18</i>	98,867	98,216
Deferred income tax liabilities		2,403	2,210
		<hr/>	<hr/>
Total non-current liabilities		101,270	100,426
		<hr/>	<hr/>
Total liabilities		587,871	575,069
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		1,184,157	1,144,796
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		345,820	367,268
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		697,556	670,153
		<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 listed on the Main Board of the Stock Exchange of Hong Kong Limited.

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 and personal loans in Hong Kong.

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

This interim condensed consolidated financial information of the Company is presented in thousands of Hong Kong dollars (“**HK\$’000**”), unless otherwise stated. This interim condensed consolidated financial information was approved by the board of the Company for issue on 28 November 2019.

This interim condensed consolidated financial information is unaudited and have been reviewed.

2 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Company for the six months ended 30 September 2019 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 information should be read in conjunction with the 2019 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

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2019, as described in those annual financial statements, except for the estimation of income tax using a tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 March 2019.

(A) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The new and amended standards did not have any material impact to the interim condensed consolidated financial information.

(B) New standards and interpretation issued but not yet applied by the Group

There are no standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods.

4 ESTIMATES

The preparation of the unaudited interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2019.

5 FINANCIAL RISK MANAGEMENT

(A) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2019.

(B) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the management committee which comprises the executive directors and the chief executive officer of the Group. The management committee reviews the Group's internal reporting in order to assess performance and allocate resources. The management committee has determined the operating segments based on these reports.

The management committee has determined that the Group is organised into two main operating segments: (i) Property mortgage loans and (ii) Personal loans. The management committee measures the performance of the segments based on their respective segment results. The segment results derived from profit/loss before taxation, excluding unallocated income/expense. Unallocated income/expenses mainly comprise of corporate income net off with corporate expenses including salary and other administrative expenses which are not attributable to particular reportable segment.

Segment assets exclude cash and cash equivalent and other unallocated head office and corporate assets which are managed on a group basis. Segment liabilities exclude income tax liabilities and other unallocated head office and corporate liabilities which are managed on a group basis.

There are no sales between the operating segments for the period ended 30 September 2019.

All of the Group's revenue was generated from and located in Hong Kong during the six months ended 30 September 2019 and 2018.

All of the Group's operating segments operate in Hong Kong, and accordingly geographical segment information is not presented.

For the period ended 30 September 2019

	Property mortgage loans HK\$'000	Personal loans HK\$'000	Unallocated HK\$'000	Total HK\$'000
Total segment revenue	58,525	24,310	–	82,835
Inter-segment revenue	–	(244)	–	(244)
Revenue from external customers	58,525	24,066	–	82,591
Other income and gain	36	7	317	360
Provision for impairment and write-off of loans receivable, net	(948)	(2,735)	–	(3,683)
Administrative expenses	(13,254)	(8,549)	(1,841)	(23,644)
Operating profit/(loss)	44,359	12,789	(1,524)	55,624
Finance costs	(17,263)	(6)	–	(17,269)
Profit/(loss) before income tax	27,096	12,783	(1,524)	38,355
Income tax expense	(4,082)	(1,934)	(385)	(6,401)
Profit/(loss) and total comprehensive income/(loss) for the period attributable to owners of the Company	<u>23,014</u>	<u>10,849</u>	<u>(1,909)</u>	<u>31,954</u>
Other information:				
Depreciation expense	(610)	(562)	(344)	(1,516)
(Provision for)/reversal of impairment on loans receivable:				
— Stage 1	(367)	1,487	–	1,120
— Stage 2	431	(37)	–	394
— Stage 3	(1,012)	(899)	–	(1,911)
Loans receivable written-off	–	(3,286)	–	(3,286)

As at 30 September 2019

	Property mortgage loans HK\$'000	Personal loans HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment assets	<u>843,965</u>	<u>164,525</u>	<u>175,667</u>	<u>1,184,157</u>
Segment liabilities	<u>(469,266)</u>	<u>(3,446)</u>	<u>(115,159)</u>	<u>(587,871)</u>

For the period ended 30 September 2018

	Property mortgage loans <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Total segment revenue	56,238	23,782	–	80,020
Inter-segment revenue	–	(124)	–	(124)
Revenue from external customers	56,238	23,658	–	79,896
Other income and gain	228	5	1,036	1,269
Fair value losses on revaluation of investment properties	–	–	(1,110)	(1,110)
Provision for impairment and write-off of loans receivable, net	(618)	(7,497)	–	(8,115)
Administrative expenses	(13,556)	(11,015)	(1,122)	(25,693)
Operating profit/(loss)	42,292	5,151	(1,196)	46,247
Finance costs	(16,973)	–	–	(16,973)
Profit/(loss) before income tax	25,319	5,151	(1,196)	29,274
Income tax expense	(4,001)	(831)	(54)	(4,886)
Profit/(loss) and total comprehensive income/(loss) for the period attributable to owners of the Company	<u>21,318</u>	<u>4,320</u>	<u>(1,250)</u>	<u>24,388</u>
Other information:				
Depreciation expense	(606)	(515)	(344)	(1,465)
Provision for individual impairment of loans receivable	–	(3,484)	–	(3,484)
Provision of collective impairment of loans receivable	(618)	(1,145)	–	(1,763)
Loans receivable written-off	–	(2,868)	–	(2,868)

As at 31 March 2019

	Property mortgage loans <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>850,682</u>	<u>137,275</u>	<u>156,839</u>	<u>1,144,796</u>
Segment liabilities	<u>(463,339)</u>	<u>(2,031)</u>	<u>(109,699)</u>	<u>(575,069)</u>

7 REVENUE AND OTHER INCOME AND GAIN

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

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue:		
Interest income — property mortgage loans	58,525	56,238
Interest income — personal loans	24,066	23,658
Total revenue	<u>82,591</u>	<u>79,896</u>
Other income and gain:		
Fair value gain on revaluation of financial asset at fair value through profit or loss	–	175
Rental income	352	1,035
Others	8	59
Total other income and gain	<u>360</u>	<u>1,269</u>

8 PROVISION FOR IMPAIRMENT AND WRITE-OFF OF LOANS RECEIVABLE, NET

	Six months ended 30 September 2019			Total HK\$'000
	12 months expected credit loss (Stage 1) HK\$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK\$'000	Lifetime expected credit loss credit impaired (Stage 3) HK\$'000	
(Reversal of)/provisions for impairment on loans receivable (Note 14)	(1,120)	(394)	1,911	397
Write-off of loans receivable (Note 14)	801	1,211	1,274	3,286
	<u>(319)</u>	<u>817</u>	<u>3,185</u>	<u>3,683</u>
	Six months ended 30 September 2018			Total HK\$'000
	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Write-off of loan receivable HK\$'000	
Net provision for impairment on loans receivable	<u>3,484</u>	<u>1,763</u>	<u>2,868</u>	<u>8,115</u>

9 ADMINISTRATIVE EXPENSES

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Employee benefit expenses (including directors' emoluments)	9,705	10,893
Advertising and marketing expenses	5,294	5,505
Legal and professional fees	1,269	1,118
Referral fees	1,278	813
Valuation and search fees	705	808
Depreciation of property, plant and equipment	1,516	1,465
Other expenses	3,877	5,091
	<u>23,644</u>	<u>25,693</u>

10 FINANCE COSTS

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest on secured bank loans	8,325	7,532
Interest on bank overdrafts	130	199
Interest on amount due to a fellow subsidiary (Note 20(a))	3,152	3,622
Interest on bonds	3,583	3,612
Interest on other borrowings	2,079	2,008
	<u>17,269</u>	<u>16,973</u>

11 INCOME TAX EXPENSE

Hong Kong profits tax for the six months ended 30 September 2019 has been provided for the rate of 8.25% for the first HK\$2,000,000 estimated assessable profits and 16.5% for estimated assessable profits above HK\$2,000,000 for the group entity qualified for the two-tiered profits tax rates regime introduced pursuant to the Inland Revenue (Amendment) (No.7) Bill 2017. For group entities not qualifying for the two-tiered profits tax rates regime, Hong Kong profits tax has been provided for at a flat rate of 16.5%. The provision for Hong Kong profits tax for the six months ended 30 September 2018 was provided for at the rate of 16.5%.

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

	Six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Hong Kong profits tax		
— Current period	5,876	4,583
— Under/(over) provision in prior periods	82	(773)
Deferred income tax	443	1,076
	<u>6,401</u>	<u>4,886</u>

12 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\$31,954,000 (2018: HK\$24,388,000) by the weighted average number of 415,000,000 (2018: 415,000,000) ordinary shares in issue during the six months ended 30 September 2019.

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>HK\$'000</i>)	31,954	24,388
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>)	7.70	5.88

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 September 2019 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	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>HK\$'000</i>)	31,954	24,388
Weighted average number of ordinary shares in issue for diluted earnings per share (<i>'000</i>)	415,000	415,000
Diluted earnings per share (<i>HK cents</i>)	7.70	5.88

The calculation of diluted earnings per share of the six months ended 30 September 2019 does not assume the exercise of the Company's share options as the exercise prices of the outstanding share options were higher than the average market price of the shares of the Company during the period.

13 DIVIDENDS

At the date of this announcement, the Board declared an interim dividend of HK1.3 cents (2018: HK1.2 cents) per share. The interim dividend amounting to HK\$5,395,000 have not been recognised as a liability for the six months ended 30 September 2019. It will be recognised in shareholders' equity in the year ending 31 March 2020.

A final dividend of HK1.3 cents per share relating to the year ended 31 March 2019, amounting to HK\$5,395,000, was declared and approved in September 2019.

14 LOANS RECEIVABLE

	As at 30 September 2019 <i>HK\$'000</i> (Unaudited)	As at 31 March 2019 <i>HK\$'000</i> (Audited)
Gross loans receivable — property mortgage loans	822,645	779,842
Gross loans receivable — personal loans	<u>151,216</u>	<u>134,323</u>
Total gross loans receivable	973,861	914,165
Less: Provision for impairment		
— Stage 1	(3,324)	(4,444)
— Stage 2	(303)	(697)
— Stage 3	(21,805)	(19,894)
Loans receivable directly written-off	<u>(3,286)</u>	<u>(7,831)</u>
Loans receivable, net of provision	945,143	881,299
Less: non-current portion	<u>(188,747)</u>	<u>(138,153)</u>
Current portion	<u><u>756,396</u></u>	<u><u>743,146</u></u>

The Group's loans receivable, which arise from the money lending business of providing property mortgage loans and personal loans in Hong Kong, are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

Except for personal loans receivable of HK\$151,216,000 (31 March 2019: HK\$134,323,000) which are unsecured, loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the customers.

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

	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Current	756,396	743,146
2–5 years	44,046	52,484
Over 5 years	144,701	85,669
	<u>945,143</u>	<u>881,299</u>

As at 30 September 2019, certain properties mortgaged to the subsidiary of the Company for loans granted to its respective customers were pledged to independent third party to secure bank and other borrowings granted (*Note 17(iii)*).

15 INTEREST RECEIVABLES

	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Interest receivables	<u>17,104</u>	<u>22,075</u>

The Group's interest receivables, which arise from the money lending business of providing property mortgage loans and personal loans in Hong Kong, are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

Except for interest receivables of HK\$3,345,000 (31 March 2019: HK\$2,944,000) which are unsecured, interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with customers. The maximum exposure to credit risk at the end of each reporting period is the carrying value of the receivables mentioned above.

16 REPOSSESSED ASSETS

The nature and carrying value of these assets held as at 30 September are summarised as follows:

	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Reposessed assets — a mix of commercial and residential property	<u>35,859</u>	<u>35,859</u>

The estimated market value of the reposessed assets held by the Group as at 30 September 2019 was HK\$43,600,000 (31 March 2019: HK\$44,400,000). It comprises property in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the properties concerned) for release in full or in part of the obligations of the borrower.

17 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Bank loans	284,430	217,771
Bank overdrafts	–	21,112
Other borrowings	61,750	122,000
	<hr/>	<hr/>
Total bank and other borrowings	346,180	360,883
	<hr/> <hr/>	<hr/> <hr/>

The weighted average effective interest rate on bank loans and bank overdrafts during the six months ended 30 September 2019 was 4.4% (31 March 2019: 5.0%) per annum.

The other borrowings of HK\$61,750,000 (31 March 2019: HK\$122,000,000) are unsecured, bear interest at rates ranging from 4.5% to 6.5% per annum (31 March 2019: ranging from 4.5% to 24.0%) and repayable within one year.

At 30 September 2019 and 31 March 2019, all bank and other borrowings are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

As at 30 September 2019, the bank loans and overdrafts utilised by the Group amounted to HK\$277,311,000 (31 March 2019: HK\$238,883,000). Unutilised banking facilities as at the same date amounted to HK\$82,841,000 (31 March 2019: HK\$133,199,000). These banking facilities were secured by the followings:

- (i) investment properties held by the Group amounting to HK\$84,680,000 (31 March 2019: HK\$84,680,000);
- (ii) land and buildings held by the Group with net book value of HK\$74,796,000 (31 March 2019: HK\$75,764,000);
- (iii) pledge of certain properties mortgaged to a subsidiary of the Company for loans granted to its respective customers. The fair value of these properties were approximately HK\$480,520,000 (31 March 2019: HK\$479,220,000); and
- (iv) corporate guarantee of the Company.

18 BONDS

As at 30 September 2019, 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\$18,000,000 (31 March 2019: HK\$84,000,000 and HK\$18,000,000), before placing commission, respectively with coupon rates at 6.0% (31 March 2019: 6.0%) and 4.5% (31 March 2019: 4.5%) per annum, respectively, repayable in 7 years from the respective issue dates and the maturity dates ranging from 9 October 2021 to 27 August 2022. 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\$98,867,000 as at 30 September 2019 (31 March 2019: HK\$98,216,000), and 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.

19 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 2 years, and the lease agreements are renewable at the end of the lease periods 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 2019 HK\$’000 (Unaudited)	As at 31 March 2019 HK\$’000 (Audited)
Within 1 year	818	547
Within 2–5 years	58	238
	876	785

The Group did not have any significant commitments as at 30 September 2019 (31 March 2019: Nil).

20 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 2019 and 2018, and balances arising from related party transactions as at 30 September 2019 and 31 March 2019.

(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	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses paid to a fellow subsidiary — Tin Ching Industrial Company Limited (“ Tin Ching Industrial ”) (<i>Note 10</i>)	<u>3,152</u>	<u>3,622</u>

Interest expenses on an amount due to a fellow subsidiary was charged at an interest rate of 6.5% (2018: 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\$200,000,000 (31 March 2019: HK\$200,000,000), of which the Group utilised an amount of HK\$124,006,000 as at 30 September 2019 (31 March 2019: HK\$106,524,000).

The amount was unsecured, interest bearing at interest rate of 6.25% (31 March 2019: 6.25%) 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 and approximate to its fair value.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Our Group is principally engaged in the money lending business specialising in providing property mortgage loans in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). Mortgage loan business is still our core business under our well-known and highly recognised brand name “*Hong Kong Finance*”. We also provide personal loan products so as to diversify ourselves in different money lending market segments and to enhance our overall interest margin.

Mortgage loan business remained as the major source of the Group’s revenue, contributing about 70.0% to the Group’s revenue during the six months ended 30 September 2019 (“**interim period 2019**”). Interest income generated from mortgage loan business remained stable and increased by 4.1% to HK\$58.5 million during the interim period 2019. Gross mortgage loan portfolio grew by 5.5% to HK\$822.6 million as compared to that as at 31 March 2019. As for our personal loan business, the interest income produced steady growth which increased by 1.7% to HK\$24.1 million, contributing about 30.0% to the Group’s revenue during the interim period 2019. Gross personal loan portfolio grew by 12.6% to HK\$151.2 million as compared to that as at 31 March 2019.

During the interim period 2019, the on-going Sino-US trade tension and Brexit (i.e. Britain exiting from the European Union) continued to create economic uncertainty and great challenges to our loan business. Even though the property market in Hong Kong experienced “Indian summer” momentum after the Lunar Chinese New Year, the local political tensions since June 2019 have reduced consumer and investor sentiments during the third quarter of 2019. We continued to adopt prudent and cautious approaches such as stringent credit policy, strict control on loan-to-value ratio, etc. which persistently supported our Group to maintain stable growth in our loan portfolio and to generate stable growth of interest income during the interim period 2019.

Financial review

Revenue

Our interest income from money lending business of providing property mortgage loans and personal loans in Hong Kong slightly increased by HK\$2.7 million or 3.4% from HK\$79.9 million for the last period to HK\$82.6 million for the current period. Interest income from both of our mortgage loan business and personal loan business remained stable. The former increased by HK\$2.3 million or 4.1% from HK\$56.2 million for the last period to HK\$58.5 million for the current period, whereas the latter increased by HK\$0.4 million or 1.7% from HK\$23.7 million for the last period to HK\$24.1 million for the current period.

Fair value losses on revaluation of investment properties

During the interim period 2019, our Group did not record any losses on revaluation of our investment properties, whereas our Group recorded a fair value loss of HK\$1.1 million on revaluation of investment properties during the last period.

Provision for impairment and write-off of loans receivable, net

We have recorded the provision for impairment and write-off of loans receivable of HK\$3.7 million for the interim period 2019 (2018: HK\$8.1 million).

Below is the breakdown of provision for impairment and write-off of loans receivable incurred from property mortgage loans and personal loans during the current period and the last period:

	Property mortgage loans		Personal loans	
	Six months ended		Six months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for/(reversal of)				
impairment	1.0	0.6	(0.6)	4.6
Loans receivable written-off	–	–	3.3	2.9
	1.0	0.6	2.7	7.5

The write-off of loans receivable represented the write-off of personal loans receivable in which we considered them as uncollectible either due to (i) the long overdue payments; (ii) bankruptcy of the customers; or (iii) death of the customers.

Administrative expenses

We have incurred administrative expenses of HK\$23.6 million for the interim period 2019 (2018: HK\$25.7 million), which mainly comprised of employee benefit expenses, advertising and marketing expenses, referral fees, depreciation of property, plant and equipment and other miscellaneous expenses. The decrease in the administration expenses by HK\$2.1 million or 8.2% was mainly due to the decrease in our staff costs and overall administrative expenses during the current period.

Finance costs

We have incurred finance costs of HK\$17.3 million for the interim period 2019 (2018: HK\$17.0 million), which mainly comprised of interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary and issuance of bonds. The slightly increase in the finance costs by HK\$0.3 million or 1.8% was mainly attributable to the increase in utilisation of bank and other borrowings during the current period.

Net interest margin

The net interest margin of our money lending business increased from 14.4% for the last period to 14.6% for the current period, which was mainly attributed to the contribution from our personal loan business which generally offered relatively higher interest rates to personal loan customers than to mortgage loan customers.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income attributable to owners of our Company achieved HK\$32.0 million for the interim period 2019 as compared to HK\$24.4 million for the last period, representing an increase of 31.1%.

LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES

During the interim period 2019, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from our fellow subsidiary, Tin Ching Industrial Company Limited, as well as banks and other borrowings, and 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 as at 30 September 2019.

The Group recorded net current assets of HK\$345.8 million as at 30 September 2019 while the net current assets as at 31 March 2019 was HK\$367.3 million.

As at 30 September 2019, cash and cash equivalents amounted to HK\$22.0 million (31 March 2019: HK\$37.3 million); amount due to a fellow subsidiary amounted to HK\$124.0 million (31 March 2019: HK\$106.5 million); interest bearing bank and other borrowings amounted to HK\$346.2 million (31 March 2019: HK\$360.9 million), and bonds amounted to HK\$98.9 million (31 March 2019: HK\$98.2 million).

During the interim period 2019, all interest bearing bank borrowings were repayable on demand and were secured by our Group's investment properties, land and buildings, certain properties mortgaged to our subsidiary and corporate guarantee of our Company. The amount due to a fellow subsidiary and other borrowings were unsecured, interest bearing at a rate ranging from 4.5% to 6.5% per annum 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 seven years of its maturity.

During the interim period 2019, 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 2019, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$82.8 million and HK\$76.0 million, respectively. It is our Group's policy to prioritise the utilisation of our available facilities which offer the lowest finance cost to our Group.

During the interim period 2019, 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 2019 and 2018, and as at 30 September 2019 and 31 March 2019 respectively:

	As at 30 September 2019	As at 31 March 2019
Current ratio ⁽¹⁾	1.71	1.77
Gearing ratio ⁽²⁾	0.92	0.93
	For the six months ended 30 September	
	2019	2018
Net interest margin ratio ⁽³⁾	14.6%	14.4%
Return on equity ratio ⁽⁴⁾	10.7%	8.8%
Interest coverage ratio ⁽⁵⁾	3.2 times	2.8 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 loans receivable at the respective period-end date.
- (4) Return on equity ratio was calculated by dividing annualised profit and total comprehensive income for period 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 2019.

IMPORTANT EVENTS OCCURRED AFTER THE SIX MONTHS ENDED OF 30 SEPTEMBER 2019

On 8 October 2019, a direct wholly-owned subsidiary of the Company (the “**Vendor**”) and a foreign financial institution (the “**Purchaser**”) entered into a non-legally binding letter of intent (the “**Letter of Intent**”) in relation to the potential disposal (the “**Potential Disposal**”) of the entire issued share capital (the “**Sale Shares**”) of an indirect wholly-owned subsidiary of the Company to the Purchaser. Pursuant to the Letter of Intent, the Potential Disposal is conditional on the entering into a formal sale and purchase agreement between the Vendor and the Purchaser in relation to the Potential Disposal. Further details of the Potential Disposal was set out in the Company’s announcement dated 8 October 2019.

As at the date of this announcement, the consideration of the Sale Shares under the Potential Disposal has not been determined, and is subject to an arm’s length negotiations between the Vendor and the Purchaser.

Other than set out above, our Group did not have other important events affecting our Company and our subsidiaries since the six months ended 30 September 2019 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2019 our Group employed 42 (2018: 47) full time employees. The total staff costs of our Group for the interim period 2019 were HK\$9.7 million (2018: HK\$10.9 million).

Our Group adopts a remuneration policy covering the position, duties and performance of our employees. The remuneration of our employees include salary, overtime allowance, bonus and various subsidies. We conduct performance appraisal on an annual basis. Our Company has also adopted a share option scheme since 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. No share option was granted during the interim period 2019. As at 30 September 2019, 18,800,000 share options were still outstanding, which represents approximately 4.5% of the issued ordinary shares of our Company.

CHARGES ON GROUP ASSETS

As at 30 September 2019, our land and buildings of HK\$74.8 million (31 March 2019: HK\$75.8 million), our investment properties of HK\$84.7 million (31 March 2019: HK\$84.7 million) and certain properties mortgaged to our subsidiary with aggregate fair values of these properties of approximately HK\$480.5 million (31 March 2019: HK\$479.2 million) were secured for the Group’s bank borrowings.

FOREIGN EXCHANGE EXPOSURE

During the interim period 2019, 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 2019, our Group had no material contingent liabilities (31 March 2019: Nil).

CAPITAL COMMITMENTS

The Group did not have any capital commitments as at 30 September 2019.

OUTLOOK

The second half of our financial year remains challenging and highly unpredictable. The ongoing Sino-US trade tension, Brexit, and escalated local political unrest have already impacted and will continue to adversely affect the Hong Kong economy for the coming financial period. Based on the current estimates by the Hong Kong Government, the Hong Kong economy will possibly deliver negative growth in a full-year context, even trailing the 0-1% target growth as revised down earlier, which is a matter of grave concern. Although the Hong Kong Government has been rolling out measures to back enterprises and bolster employment almost on a monthly basis since August 2019, it was expected the economic outlook in Hong Kong during the second half of our financial year remained sluggish which would definitely lower the demand of our mortgage loan products and of personal financing.

Despite the difficulties and challenges ahead, our Group will continue to leverage our professionalism and solid experience in our money lending business. We shall persistently implement cautious and prudent measures, instantly and effectively review and tighten our credit policy, and increase the proportion of our business with high net-worth customers. We shall also rebalance our product mix, especially in personal loan product where we may put more focus on personal loan with property owners. By leveraging on our professionalism, highly recognised brand name “*Hong Kong Finance*” and our profound experience in our money lending business, we are confident to put ourselves in a more stable and solid position in our money lending business, and we shall prepare ourselves to produce sound and fruitful operating and financial results again during the time when the economy rebounds.

PURCHASE, SALE, OR REDEMPTION OF OUR COMPANY’S LISTED SECURITIES

Neither our Company nor any of its subsidiaries purchased, sold or redeemed any of our Company’s listed securities during the interim period 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

Our Company has adopted and complied with the code provisions in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing Securities (the “**Listing Rules**”) on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) during the interim period 2019.

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 of 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 interim period 2019.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “**Audit Committee**”) consists of 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 interim condensed consolidated financial information and the interim report of the Company for the interim period 2019 in conjunction with the management of the Group. In addition, the independent auditors of our Company have reviewed the unaudited interim results for the interim period 2019 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 Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

The Board declared the payment of an interim dividend of HK1.3 cents per share for the interim period 2019 (2018: HK1.2 cents) and will be payable to the shareholders of our Company whose names appeared on the register of members of our Company on Friday, 3 January 2020. The interim dividend will be paid on Thursday, 16 January 2020.

CLOSURES OF REGISTER OF MEMBERS

The register of members of our Company will be closed on Thursday, 2 January 2020 and Friday, 3 January 2020, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of ordinary shares of the Company, duly accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 31 December 2019.

PUBLICATION

This announcement is published on the websites of our Company (www.hkfinance.hk) and of the Stock Exchange (www.hkexnews.hk) respectively. The 2019 interim report for the six months ended 30 September 2019 of the Company will be despatched 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, 28 November 2019

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