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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 2020**

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 2020, 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 2020*

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Note</i>	<b>2020</b>	<b>2019</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	4, 5	77,139	82,591
Other income and gains	5	3,210	360
Fair value losses on revaluation of investment properties		<b>(3,030)</b>	–
Provision for impairment and write-off of loans receivable and repossessed assets, net	6	<b>(611)</b>	<b>(3,683)</b>
Administrative expenses	7	<b>(22,165)</b>	<b>(23,644)</b>
<b>Operating profit</b>		<b>54,543</b>	55,624
Finance costs	8	<b>(13,506)</b>	<b>(17,269)</b>
<b>Profit before income tax</b>		<b>41,037</b>	38,355
Income tax expense	9	<b>(6,873)</b>	<b>(6,401)</b>
<b>Profit and total comprehensive income for the period attributable to owners of the Company</b>		<b>34,164</b>	31,954
<b>Earnings per share for profit attributable to owners of the Company</b>			
— Basic ( <i>HK cents</i> )	10(a)	<b>8.23</b>	7.70
— Diluted ( <i>HK cents</i> )	10(b)	<b>8.23</b>	7.70
Dividends	11	<b>5,395</b>	5,395

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*As at 30 September 2020*

		<b>As at 30 September 2020</b>	As at 31 March 2020
	<i>Note</i>	<i>HK\$'000</i> <b>(Unaudited)</b>	<i>HK\$'000</i> <b>(Audited)</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>74,295</b>	75,140
Investment properties		<b>74,310</b>	77,340
Financial asset at fair value through profit or loss		<b>800</b>	800
Loans receivable	<i>12</i>	<b>207,392</b>	197,889
Other asset		<b>917</b>	1,054
Deferred income tax assets		<b>706</b>	791
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>358,420</b>	353,014
		<hr/>	<hr/>
<b>Current assets</b>			
Loans receivable	<i>12</i>	<b>647,456</b>	737,896
Interest receivables	<i>13</i>	<b>14,857</b>	19,840
Repossessed assets	<i>14</i>	<b>32,000</b>	34,511
Prepayments, deposits and other receivables	<i>15</i>	<b>5,574</b>	17,356
Tax recoverable		<b>229</b>	424
Cash and cash equivalents		<b>14,696</b>	15,279
		<hr/>	<hr/>
<b>Total current assets</b>		<b>714,812</b>	825,306
		<hr/>	<hr/>
<b>Total assets</b>		<b>1,073,232</b>	1,178,320
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital		<b>4,150</b>	4,150
Reserves		<b>639,051</b>	610,282
		<hr/>	<hr/>
<b>Total equity</b>		<b>643,201</b>	614,432
		<hr/>	<hr/>

		As at <b>30 September</b> <b>2020</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 March 2020 <i>HK\$'000</i> <b>(Audited)</b>
	<i>Note</i>		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bonds	<i>17</i>	<b>100,128</b>	99,513
Deferred income tax liabilities		<b>3,095</b>	2,902
<b>Total non-current liabilities</b>		<b>103,223</b>	102,415
<b>Current liabilities</b>			
Other payables and accruals		<b>6,603</b>	5,550
Amount due to an entity commonly controlled by the shareholder	<i>19(b)</i>	<b>54,904</b>	126,246
Tax payable		<b>12,434</b>	6,474
Dividend payable	<i>11</i>	<b>5,395</b>	–
Bank and other borrowings	<i>16</i>	<b>247,472</b>	323,203
<b>Total current liabilities</b>		<b>326,808</b>	461,473
<b>Total liabilities</b>		<b>430,031</b>	563,888
<b>Total equity and liabilities</b>		<b>1,073,232</b>	1,178,320
<b>Net current assets</b>		<b>388,004</b>	363,833
<b>Total assets less current liabilities</b>		<b>746,424</b>	716,847

# 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 the 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.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

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 directors of the Company for issue on 26 November 2020.

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

## 2 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Company for the six months ended 30 September 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The interim condensed consolidated financial information should be read in conjunction with the 2020 annual report of the Company, which has 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 2020, 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 2021.

### (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 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/expenses. 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 during the period ended 30 September 2020.

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 2020 and 2019.

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

#### 4 SEGMENT INFORMATION (CONTINUED)

For the period ended 30 September 2020

	Property mortgage loans <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	55,550	21,589	–	77,139
Other income and gains	2,424	649	137	3,210
Fair value losses on revaluation of investment properties	–	–	(3,030)	(3,030)
(Provision for)/reversal of impairment and write-off of loans receivable and repossessed assets, net	(689)	78	–	(611)
Administrative expenses	(13,787)	(6,407)	(1,971)	(22,165)
Operating profit/(loss)	43,498	15,909	(4,864)	54,543
Finance costs	(9,835)	(17)	(3,654)	(13,506)
Profit/(loss) before income tax	33,663	15,892	(8,518)	41,037
Income tax expense	(4,473)	(1,822)	(578)	(6,873)
Profit/(loss) and total comprehensive income/(loss) for the period attributable to owners of the Company	<u>29,190</u>	<u>14,070</u>	<u>(9,096)</u>	<u>34,164</u>
Other information:				
Depreciation expense	(211)	(271)	(968)	(1,450)
(Provision for)/reversal of impairment and write-off of loans receivable, net:				
— Stage 1	(1,328)	2	–	(1,326)
— Stage 2	(439)	131	–	(308)
— Stage 3	3,086*	41	–	3,127
Loans receivable written-off	–	(96)	–	(96)
Provision for impairment of repossessed assets	(2,008)	–	–	(2,008)

As at 30 September 2020

	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>802,931</u>	<u>194,735</u>	<u>75,566</u>	<u>1,073,232</u>
Segment liabilities	<u>(307,264)</u>	<u>(6,432)</u>	<u>(116,335)</u>	<u>(430,031)</u>

\* The amount mainly represents a reversal of provision of HK\$3,766,000 previously made as at 31 March 2020.

#### 4 SEGMENT INFORMATION (CONTINUED)

For the period ended 30 September 2019

	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	58,525	24,310	–	82,835
Inter-segment revenue	–	(244)	–	(244)
Revenue from external customers	58,525	24,066	–	82,591
Other income and gains	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 loan 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 31 March 2020

	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>865,279</u>	<u>150,243</u>	<u>162,798</u>	<u>1,178,320</u>
Segment liabilities	<u>(448,181)</u>	<u>(5,311)</u>	<u>(110,396)</u>	<u>(563,888)</u>

## 5 REVENUE AND OTHER INCOME AND GAINS

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 gains recognised during the period are as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Revenue:		
Interest income — property mortgage loans	<b>55,550</b>	58,525
Interest income — personal loans	<b>21,589</b>	24,066
Total revenue	<b><u>77,139</u></b>	<u>82,591</u>
Other income and gains:		
Government grant	<b>1,779</b>	–
Management service fee income	<b>1,259</b>	–
Rental income	<b>171</b>	352
Others	<b>1</b>	8
Total other income and gains	<b><u>3,210</u></b>	<u>360</u>

## 6 PROVISION FOR IMPAIRMENT AND WRITE-OFF OF LOANS RECEIVABLE AND REPOSSESSED ASSETS, NET

	<b>Six months ended 30 September 2020</b>			<b>Total</b>
	<b>12 months</b>	<b>Lifetime</b>	<b>Lifetime</b>	
	<b>expected</b>	<b>expected</b>	<b>expected</b>	
	<b>credit loss</b>	<b>credit loss</b>	<b>credit loss</b>	
	<b>(Stage 1)</b>	<b>(Stage 2)</b>	<b>(Stage 3)</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provisions for impairment of loans receivable ( <i>Note 12</i> )	<b>1,328</b>	<b>439</b>	<b>2,553</b>	<b>4,320</b>
Reversal of impairment of loans receivable ( <i>Note 12</i> )	<b>(2)</b>	<b>(131)</b>	<b>(5,680)</b>	<b>(5,813)</b>
Write-off of loans receivable ( <i>Note 12</i> )	<b>–</b>	<b>–</b>	<b>96</b>	<b>96</b>
	<b><u>1,326</u></b>	<b><u>308</u></b>	<b><u>(3,031)</u></b>	<b><u>(1,397)</u></b>
Provision for impairment of repossessed assets ( <i>Note 14</i> )				<b><u>2,008</u></b>



**6 PROVISION FOR IMPAIRMENT AND WRITE-OFF OF LOANS RECEIVABLE AND REPOSSESSED ASSETS, NET (CONTINUED)**

	Six months ended 30 September 2019			Total <i>HK\$'000</i>
	12 months expected credit loss <i>HK\$'000</i>	Lifetime expected credit loss not credit impaired <i>HK\$'000</i>	Lifetime expected credit loss credit impaired <i>HK\$'000</i>	
(Reversal of)/provisions for impairment of loans receivable ( <i>Note 12</i> )	(1,120)	(394)	1,911	397
Write-off of loans receivable ( <i>Note 12</i> )	801	1,211	1,274	3,286
	<u>(319)</u>	<u>817</u>	<u>3,185</u>	<u>3,683</u>

**7 ADMINISTRATIVE EXPENSES**

	Six months ended 30 September	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Employee benefit expenses (including directors' emoluments)	9,324	9,705
Advertising and marketing expenses	5,670	5,294
Legal and professional fees	1,786	1,269
Referral fees	764	1,278
Valuation and search fee	342	705
Depreciation of property, plant and equipment	1,450	1,516
Other expenses	2,829	3,877
Total administrative expenses	<u>22,165</u>	<u>23,644</u>

**8 FINANCE COSTS**

	Six months ended 30 September	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Interest on secured bank loans	5,964	8,325
Interest on bank overdrafts	200	130
Interest on amount due to an entity commonly controlled by the shareholder ( <i>Note 19(a)</i> )	2,844	3,152
Interest on bonds	3,583	3,583
Interest on other borrowings	915	2,079
Total finance costs	<u>13,506</u>	<u>17,269</u>

## 9 INCOME TAX EXPENSE

Hong Kong profits tax for the six months ended 30 September 2020 and 2019 have 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 entities 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 amount of income tax charged to the interim condensed consolidated information of comprehensive income represents:

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
— Current period	6,616	5,876
— (Over)/under provision in prior periods	(20)	82
Deferred income tax	277	443
	<u>6,873</u>	<u>6,401</u>

## 10 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\$34,164,000 (2019: HK\$31,954,000) by the weighted average number of 415,000,000 (2019: 415,000,000) ordinary shares in issue during the six months ended 30 September 2020.

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	34,164	31,954
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	415,000	415,000
Basic earnings per share (HK cents)	<u>8.23</u>	<u>7.70</u>

## 10 EARNINGS PER SHARE (CONTINUED)

### (b) Diluted earnings per share

For the six months ended 30 September 2020, diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding (all share options were expired as at 31 March 2020).

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

The calculation of diluted earnings per share for 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.

## 11 DIVIDENDS

At the date of this announcement, the Board declared an interim dividend of HK1.3 cents (2019: HK1.3 cents) per share. The interim dividend amounting to HK\$5,395,000 has not been recognised as a liability for the six months ended 30 September 2020. It will be recognised in shareholders' equity in the year ending 31 March 2021.

A final dividend of HK1.3 cents per share relating to the year ended 31 March 2020, amounting to HK\$5,395,000, was declared and approved in September 2020.

## 12 LOANS RECEIVABLE

	As at 30 September 2020 <i>HK\$'000</i> (Unaudited)	As at 31 March 2020 <i>HK\$'000</i> (Audited)
Gross loans receivable — property mortgage loans	717,585	822,745
Gross loans receivable — personal loans	<u>162,351</u>	<u>139,525</u>
Total gross loans receivable	<b>879,936</b>	962,270
Less: Provision for impairment		
— Stage 1	(3,141)	(1,815)
— Stage 2	(1,257)	(949)
— Stage 3	(20,594)	(23,721)
Loans receivable directly written-off	<u>(96)</u>	—
Loans receivable, net of provision	<b>854,848</b>	935,785
Less: non-current portion	<u>(207,392)</u>	<u>(197,889)</u>
Current portion	<u><b>647,456</b></u>	<u>737,896</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\$162,351,000 (31 March 2020: HK\$139,525,000) which are unsecured, loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the customers.

As at 30 September 2020, loans receivable amounted to HK\$96,000 (31 March 2020: Nil) had been written-off. These relate to customers who are either (i) in financial difficulties; (ii) declared bankruptcy; or (iii) deceased and in the opinion of the directors, such loans receivable are uncollectible.

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

	As at 30 September 2020 <i>HK\$'000</i> (Unaudited)	As at 31 March 2020 <i>HK\$'000</i> (Audited)
Current	647,456	737,896
2–5 years	53,968	42,824
Over 5 years	<u>153,424</u>	<u>155,065</u>
	<u><b>854,848</b></u>	<u>935,785</u>

As at 30 September 2020, 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 16(iii)).

### 13 INTEREST RECEIVABLES

	<b>As at 30 September 2020 HK\$'000 (Unaudited)</b>	As at 31 March 2020 HK\$'000 (Audited)
Interest receivables	<b>14,857</b>	19,840

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\$5,244,000 (31 March 2020: HK\$3,701,000) 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.

### 14 REPOSSESSED ASSETS

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

	<b>As at 30 September 2020 HK\$'000 (Unaudited)</b>	As at 31 March 2020 HK\$'000 (Audited)
Reposessed assets — a mix of commercial and residential properties	<b>34,008</b>	34,511
Less: Provision for impairment of reposessed assets	<b>(2,008)</b>	—
Reposessed assets, net of provision	<b>32,000</b>	34,511

It comprises properties 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 and are currently held for sale. An independent valuation of the Group's reposessed assets was performed by an independent professional valuer, Roma Appraisals Limited. The estimated forced sale value of the reposessed assets held by the Group as at 30 September 2020 was HK\$32,000,000 (31 March 2020: HK\$36,400,000). A provision for impairment of reposessed assets amounted to HK\$2,008,000 was made as at 30 September 2020 (31 March 2020: Nil).

## 15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Consideration receivable of HK\$14,737,000 was fully settled as at 30 September 2020.

## 16 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	<b>As at 30 September 2020 HK\$'000 (Unaudited)</b>	<b>As at 31 March 2020 HK\$'000 (Audited)</b>
Bank loans	<b>185,131</b>	283,203
Other borrowings	<b>40,000</b>	40,000
Bank overdrafts	<b>22,341</b>	–
	<hr/>	<hr/>
Total bank and other borrowings	<b><u>247,472</u></b>	<b><u>323,203</u></b>

The weighted average effective interest rate on bank loans and bank overdrafts during the six months ended 30 September 2020 was 4.5% (31 March 2020: 5.4%) per annum.

The other borrowings of HK\$40,000,000 (31 March 2020: HK\$40,000,000) are unsecured, bear interest at rates ranging from 4% to 5.25% per annum (31 March 2020: 5.25% per annum) and repayable within one year.

At 30 September 2020 and 31 March 2020, all bank and other borrowings are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

As at 30 September 2020, the bank loans and overdrafts utilised by the Group amounted to HK\$185,131,000 (31 March 2020: HK\$283,203,000). Unutilised banking facilities as at the same date amounted to HK\$183,385,000 (31 March 2020: HK\$85,313,000). These banking facilities were secured by the followings:

- (i) investment properties held by the Group amounting to HK\$74,310,000 (31 March 2020: HK\$77,340,000);
- (ii) land and buildings held by the Group with net book value of HK\$72,858,000 (31 March 2020: HK\$73,828,000);
- (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\$242,700,000 (31 March 2020: HK\$456,100,000); and
- (iv) corporate guarantee of the Company.

## 17 BONDS

As at 30 September 2020, 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 2020: HK\$84,000,000 and HK\$18,000,000), before placing commission, respectively with coupon rates at 6% (31 March 2020: 6%) and 4.5% (31 March 2020: 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\$100,128,000 as at 30 September 2020 (31 March 2020 HK\$99,513,000), 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.

## 18 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.

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

	<b>As at 30 September 2020 <i>HK\$’000</i> (Unaudited)</b>	As at 31 March 2020 <i>HK\$’000</i> (Audited)
Within 1 year	<b>313</b>	279
Within 2–5 years	<b>124</b>	256
	<b>437</b>	535

The Group did not have any significant commitments as at 30 September 2020 (31 March 2020: Nil).

## 19 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 2020 and 2019, and balances arising from related party transactions as at 30 September 2020 and 31 March 2020.

### (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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses paid to an entity commonly controlled by the shareholder — Tin Ching Industrial Company Limited (“Tin Ching Industrial”) (Note 8)	<u>2,844</u>	<u>3,152</u>

Interest expenses on an amount due to an entity commonly controlled by the shareholder was charged at an interest rate of 5.5% (2020: 5.5%) per annum.

### (b) Amount due to an entity commonly controlled by the shareholder

Tin Ching Industrial, an entity commonly controlled by the shareholder, provided the Group with a loan facility with a limit of HK\$200,000,000 (31 March 2020: HK\$200,000,000), of which the Group utilised an amount of HK\$54,904,000 as at 30 September 2020 (31 March 2020: HK\$126,246,000).

The amount was unsecured, interest bearing at interest rate of 5.5% (31 March 2020: 5.5%) per annum on the outstanding amount, and repayable on demand. The carrying amount of the amount due to an entity commonly controlled by the shareholder is denominated in Hong Kong dollars and approximate to its fair value.

## 20 EVENT AFTER THE REPORTING PERIOD

Following the outbreak of the Coronavirus Disease 2019 (“COVID-19”) in early 2020, the pandemic continues to evolve subsequent to period end and a series of precautionary and control measures have been and continued to be adopted by the Group. The Group applies the fair value model to measure its investment properties. Also, the Group assesses the provision for impairment of loans and interest receivables under the expected credit loss model, which is negatively correlated with the value of collaterals provided by customers to the mortgage loans granted. Due to uncertainties of new developments regarding the COVID-19, the fair value of investment properties may be subject to fluctuation subsequent to period end. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by the COVID-19 and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the development of COVID-19, the Group’s financial results may be affected, the extent of which could not be estimated as of the date of this announcement.



## 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 remains as our core business under our well-known and highly recognised brand name “*Hong Kong Finance*”. We also provide unsecured personal loan products to property owners so as to diversify ourselves in different money lending market segments and 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 year. Interest income generated from the mortgage loan business remained stable and reached HK\$55.5 million during the current period. The gross mortgage loan portfolio was reduced to HK\$717.6 million as at 30 September 2020 amid the subdued economic environment during the current period. As for our unsecured personal loan business, the interest income decreased by 10.4% to HK\$21.6 million, contributing to about 30.0% of our Group’s revenue for the current year. During the current period, we have rebalanced our products-mix and increased our gross personal loan portfolio to HK\$162.4 million as at 30 September 2020.

The outbreak of the pandemic of Coronavirus Disease 2019 (“**COVID-19**”) and the prolonged Sino-US trade war and political tension have persistently and severely impacted the global and local economy during the current period. Coupled with the economic uncertainty and great challenges, we have experienced dampening demand in our loan products. We have adopted prudent and cautious approaches such as implementing stringent credit policy, having strict control on loan-to-value ratio, etc. which persistently supported our Group in maintaining our loan portfolio, and to generate stable interest income during the current period.

### Financial review

#### *Revenue*

Our interest income from money lending business of providing property mortgage loans and personal loans in Hong Kong decreased by HK\$5.5 million or 6.7% from HK\$82.6 million for the last period to HK\$77.1 million for the current period. Interest income for the last period included the interest income for the amount of HK\$11.3 million generated from unsecured personal loan products to individual borrowers (other than those of property owners) and such business of unsecured personal loan products has been disposed of in February 2020 (“**interest income from disposed business**”). Further details of such disposal has been set out in the Company’s circular dated 26 March 2020.

Should this interest income from disposed business be excluded for the last period, for comparison purpose the interest income of the Group for the current period would have increased by 8.1% as compared to the last period.

Interest income from our mortgage loan business slightly decreased by HK\$3.0 million or 5.1% from HK\$58.5 million for the last period to HK\$55.5 million for the current period, whereas the interest income from our personal business increased by HK\$8.8 million or 68.7% from HK\$12.8 million (excluding interest income from disposed business) for the last period to HK\$21.6 million for the current period.

*Other income*

We have recorded other income of HK\$3.2 million (2019: HK\$0.4 million) during the current period, mainly representing the government grant of HK\$1.8 million and the management fee income of HK\$1.3 million received from provision of various management and administrative services to a disposed subsidiary.

*Fair value losses on revaluation of investment properties*

During the current period, our Group recorded a loss of HK\$3.0 million (2019: Nil) on the revaluation of our investment properties, as the Group experienced a correction in the Hong Kong property market as a result from those unfavourable factors as mentioned above, during the current period.

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

We have recorded the provision for impairment and write-off of loans receivable and repossessed assets of HK\$0.6 million for the current period (2019: HK\$3.7 million).

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

	Property mortgage loans		Personal loans	
	Six months ended 30 September		Six months ended 30 September	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for impairment on loans receivables	1,768	1,379	–	936
Reversal of impairment of loans receivable	(3,087)	(431)	(174)	(1,487)
Write-off of loans receivable	–	–	96	3,286
	<u>(1,319)</u>	<u>948</u>	<u>(78)</u>	<u>2,735</u>
			<b>Six months ended 30 September 2020 HK\$'000</b>	
Provision for impairment of repossessed assets			<u><u>2,008</u></u>	

### *Administrative expenses*

We have incurred administrative expenses of HK\$22.2 million for the current period (2019: HK\$23.6 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\$1.4 million or 5.9% 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\$13.5 million for the current period (2019: HK\$17.3 million), which mainly comprised of interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary and issuance of bonds. The decrease in the finance costs by HK\$3.8 million or 22.0% was mainly attributable to the decrease in the utilisation of bank and other borrowings which were in line with the decrease in our loan portfolio during the current period.

### *Net interest margin*

The net interest margin of our money lending business slightly increased from 14.6% for the last period to 14.7% for the current period, which was mainly attributed to the decrease in our finance cost during the current period.

### *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\$34.2 million for the current period as compared to HK\$32.0 million for the last period, representing an increase of 6.9%.

## **LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES**

During the six months ended 30 September 2020, 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 2020.

The Group recorded net current assets of HK\$388.0 million as at 30 September 2020 while the net current assets as at 31 March 2020 was HK\$363.8 million.

As at 30 September 2020, cash and cash equivalents amounted to HK\$14.7 million (31 March 2020: HK\$15.3 million); amount due to an entity commonly controlled by the shareholder amounted to HK\$54.9 million (31 March 2020: HK\$126.2 million); interest bearing bank and other borrowings amounted to HK\$247.5 million (31 March 2020: HK\$323.2 million), and bonds amounted to HK\$100.1 million (31 March 2020: HK\$99.5 million).

During the current period, 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 current period, 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 2020, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$183.4 million and HK\$145.1 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 current period, 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 current period and the last period, and as at 30 September 2020 and 31 March 2020 respectively:

	<b>As at 30 September 2020</b>	As at 31 March 2020
Current ratio <sup>(1)</sup>	<b>2.19</b>	1.79
Gearing ratio <sup>(2)</sup>	<b>0.60</b>	0.87
	<b>For the six months ended 30 September 2020</b>	
		2019
Net interest margin ratio <sup>(3)</sup>	<b>14.7%</b>	14.6%
Return on equity ratio <sup>(4)</sup>	<b>10.6%</b>	10.7%
Interest coverage ratio <sup>(5)</sup>	<b>4.3 times</b>	3.2 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 an entity commonly controlled by the shareholder 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 losses 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 current period.

## **IMPORTANT EVENTS OCCURRED AFTER THE SIX MONTHS ENDED OF 30 SEPTEMBER 2020**

Following the outbreak of the COVID-19 in early 2020, the pandemic continues to evolve subsequent to period end and a series of precautionary and control measures have been and continued to be adopted by the Group. The Group applies the fair value model to measure its investment properties. Also, the Group assesses the provision for impairment of loans and interest receivables under the expected credit loss model, which is negatively correlated with the value of collaterals provided by customers to the mortgage loans granted. Due to uncertainties of new developments regarding the COVID-19, the fair value of investment properties may be subject to fluctuation subsequent to period end. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by the COVID-19 and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the development of COVID-19, the Group's financial results may be affected, the extent of which could not be estimated as of the date of this announcement.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2020 our Group employed 35 (31 March 2020: 33) full time employees. The total staff costs of our Group for the current period were HK\$9.3 million (2019: HK\$9.7 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 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. No share options were granted and outstanding during the current period and at 30 September 2020, respectively.

## **CHARGES ON GROUP ASSETS**

As at 30 September 2020, our land and buildings of HK\$72.9 million (31 March 2020: HK\$73.8 million), our investment properties of HK\$74.3 million (31 March 2020: HK\$77.3 million) and certain properties mortgaged to our subsidiary with aggregate fair values of these properties of approximately HK\$242.7 million (31 March 2020: HK\$456.1 million) were secured for the Group's bank borrowings.

## **FOREIGN EXCHANGE EXPOSURE**

During the current period, 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 2020, our Group had no material contingent liabilities (31 March 2020: Nil).

## **CAPITAL COMMITMENTS**

The Group did not have any capital commitments as at 30 September 2020 (31 March 2020: Nil).

## **OUTLOOK**

The second half of the current financial year remains challenging and highly unpredictable. The COVID-19 pandemic continuously impacts on Hong Kong economy and her business environment. It is also expected that the Sino-US trade war and political tension will be ongoing after the final result of the U.S. presidential election. We expect these unfavourable factors will continue to affect our loan product demand and our business operations for the coming financial periods. Although the Hong Kong Government has rolled out several relief measures and support schemes to back enterprises and to support employment, it is expected the global economy and the Hong Kong economic outlook will remain sluggish during the second half of the current financial year, which would certainly pose persistent challenges and uncertainty to both our mortgage loan and unsecured personal loan products.

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 policies, and increase the proportion of our business with high net-worth customers. We shall also rebalance our product-mix, especially in our unsecured personal loan products where we shall put more focus on personal loans with property owners. By leveraging our professionalism, the 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 once 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 current period 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 current period.

## **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 current period.

## **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 current period in conjunction with the management of the Group. In addition, the independent auditor of our Company has reviewed the unaudited interim results for the current period 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 current period (2019: HK1.3 cents) and will be payable to the shareholders of our Company whose names appeared on the register of members of our Company on Friday, 8 January 2021. The interim dividend will be paid on Tuesday, 19 January 2021.

## **CLOSURES OF REGISTER OF MEMBERS**

The register of members of our Company will be closed from Wednesday, 6 January 2021 to Friday, 8 January 2021 (both days inclusive), 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, 5 January 2021.

## **PUBLICATION**

This announcement is published on the websites of our Company and of the Stock Exchange. The 2020 interim report for the six months ended 30 September 2020 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 to 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, 26 November 2020

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