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Fu Shek Financial Holdings Limited

富石金融控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2263)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020

The board (the “**Board**”) of directors (the “**Director(s)**”) of Fu Shek Financial Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2020 together with the comparative figures for the year ended 31 March 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong Dollars (HK\$))

	NOTES	2020 HK\$'000	2019 HK\$'000
Revenue			
Fee and commission income	3	44,289	51,905
Interest income	3	17,214	13,370
		61,503	65,275
Other losses		(565)	(172)
Other income		1,082	643
Staff costs	5	(7,118)	(5,268)
Finance costs	6	(1,365)	(372)
Impairment loss, net of reversal		(821)	365
Commission expenses		(2,736)	(5,994)
Listing expenses		(20,367)	(1,891)
Other expenses		–	(1,289)
Depreciation of property and equipment		(1,785)	(1,774)
Other operating expenses		(7,413)	(3,933)
Profit before taxation		20,415	45,590
Taxation	7	(6,812)	(7,809)
Profit and total comprehensive income for the year		13,603	37,781
Earnings per share			
Basic (HK cents per share)	8	1.75	5.04
Diluted (HK cents per share)	8	1.75	N/A

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2020**

(Expressed in Hong Kong Dollars (HK\$))

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property and equipment		3,439	1,583
Intangible asset		2,735	2,735
Other assets		789	200
Deposits		512	–
		<u>7,475</u>	<u>4,518</u>
Current assets			
Accounts receivable	<i>10</i>	219,290	204,687
Deposits, other receivable and prepayments		10,097	1,713
Bank balances – trust and segregated accounts		111,352	137,608
Bank balances – general accounts and cash		149,531	30,227
		<u>490,270</u>	<u>374,235</u>
Non-current liabilities			
Lease liabilities		1,515	–
Current liabilities			
Accounts payable	<i>11</i>	156,420	154,173
Other payables and accrued charges		3,714	4,010
Bank borrowings		10,000	30,000
Tax payable		7,893	1,081
Lease liabilities		1,737	1,445
		<u>179,764</u>	<u>190,709</u>
Net current assets		<u>310,506</u>	<u>183,526</u>
Net assets		<u>316,466</u>	<u>188,044</u>
Capital and reserves			
Share capital		10,000	80,000
Reserves		306,466	108,044
Total capital and reserves		<u>316,466</u>	<u>188,044</u>

NOTES

1. GENERAL

The financial results have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations (“**INT**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and the Hong Kong Companies Ordinance. The financial results also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”).

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁵
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 June 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the Group’s financial position and financial performance in the foreseeable future.

3. REVENUE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fee and commission income		
Commission and brokerage income on securities dealing in:		
– Market in Hong Kong	21,370	21,258
– Market outside Hong Kong	183	67
Placing and underwriting services income	21,736	28,826
Handling and other fee income	1,000	1,512
Investment advisory services fee income	–	242
	<u>44,289</u>	<u>51,905</u>
Interest income		
Interest income from:		
– Margin clients	16,996	12,826
– Cash clients	218	544
	<u>17,214</u>	<u>13,370</u>
	<u>61,503</u>	<u>65,275</u>

Disaggregation of fee and commission income from contracts with customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Timing of revenue recognition		
A point in time	44,032	51,421
Over time	257	484
	<u>44,289</u>	<u>51,905</u>

4. SEGMENT INFORMATION

The Group's operating segment is determined based on information reported to the executive directors, being the chief operating decision makers ("CODM"), for the purpose of resource allocation and assessment of segment performance.

The Group's reportable and operating segments under HKFRS 8 are as follows:

- (a) the brokerage services segment comprises the provision of brokerage services in securities traded in Hong Kong and overseas markets;
- (b) the margin financing services segment comprises the provision of financing services to margin and cash clients;

- (c) the placing and underwriting services segment comprises the provision of underwriting, sub-underwriting and placing services; and
- (d) the investment advisory services segment comprises the provision of investment advisory services.

Segment profit represents the profit earned by each segment without allocation of other income, other losses, certain staff costs, certain impairment loss, certain finance costs, depreciation, listing expenses, other expenses and certain other operating expenses. No inter-segment revenues are charged among segments.

Year ended 31 March 2020

	Brokerage services HK\$'000	Margin financing services HK\$'000	Placing and underwriting services HK\$'000	Investment advisory services HK\$'000	Total HK\$'000
Segment revenue	22,553	17,214	21,736	–	61,503
Segment profit	20,069	15,912	18,491	–	54,472
Other income and (losses), net					517
Certain staff costs					(5,896)
Certain impairment loss					(60)
Certain finance costs					(63)
Depreciation					(1,785)
Listing expenses					(20,367)
Certain other operating expenses					(6,403)
Profit before taxation					<u>20,415</u>
Other segment information:					
Interest income from clients	–	17,214	–	–	17,214
Interest on bank borrowings	–	(1,302)	–	–	(1,302)
Commission expenses	(632)	–	(2,104)	–	(2,736)
Impairment loss except for certain unallocated impairment loss	–	–	(761)	–	(761)

Year ended 31 March 2019

	Brokerage services <i>HK\$'000</i>	Margin financing services <i>HK\$'000</i>	Placing and underwriting services <i>HK\$'000</i>	Investment advisory services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>22,837</u>	<u>13,370</u>	<u>28,826</u>	<u>242</u>	<u>65,275</u>
Segment profit	<u>19,686</u>	<u>13,118</u>	<u>24,264</u>	<u>(4)</u>	<u>57,064</u>
Other income and (losses), net					471
Certain staff costs					(3,959)
Certain finance costs					(120)
Depreciation					(1,774)
Listing expenses					(1,891)
Other expenses					(1,289)
Certain other operating expenses					<u>(2,912)</u>
Profit before taxation					<u><u>45,590</u></u>
Other segment information:					
Interest income from clients	<u>–</u>	<u>13,370</u>	<u>–</u>	<u>–</u>	<u>13,370</u>
Interest on bank borrowings	<u>–</u>	<u>(252)</u>	<u>–</u>	<u>–</u>	<u>(252)</u>
Commission expenses	<u>(1,427)</u>	<u>–</u>	<u>(4,567)</u>	<u>–</u>	<u>(5,994)</u>
Reversal of impairment loss	<u>–</u>	<u>–</u>	<u>365</u>	<u>–</u>	<u>365</u>

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment.

Geographical information

The Group's operations are principally located in the Hong Kong and all of the Group's revenue and non-current assets are derived from Hong Kong.

Information about major customers

Revenue from major customers contributing over 10% of the total revenue of the Group are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A ¹	N/A	8,568

¹ Revenue from placing and underwriting services income

Other than as disclosed above, no single and other single customer contributed 10% or more to the Group's revenue during the years ended 31 March 2020 and 2019 respectively.

5. STAFF COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Directors' remuneration		
– fees	82	–
– salaries, discretionary bonus and other benefits	1,841	881
– contributions to the retirement benefit scheme	36	32
Salaries, discretionary bonus and other benefits	4,993	4,193
Contributions to the retirement benefit scheme	166	162
	<u>7,118</u>	<u>5,268</u>

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank borrowings	1,302	252
Interest on lease liabilities	63	120
	<u>1,365</u>	<u>372</u>

7. TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong Profits Tax:		
Current tax	6,821	7,800
(Over) underprovision in prior year	(9)	9
	<u>6,812</u>	<u>7,809</u>

Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

The taxation for the year is reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before taxation	<u>20,415</u>	<u>45,590</u>
Tax at income tax rate of 16.5%	3,368	7,522
Tax effect of expenses not deductible for tax purpose	3,730	527
Tax effect of income not taxable for tax purpose	(106)	(95)
(Over) underprovision in prior year	(9)	9
Tax effect of profit under tax concessions	(185)	(185)
Others	<u>14</u>	<u>31</u>
Taxation for the year	<u>6,812</u>	<u>7,809</u>

As at 31 March 2020 and 2019, the Group has no unused tax losses available for offset against future profits.

8. EARNINGS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share (2019: basic earnings per share) calculation	<u>13,603</u>	<u>37,781</u>
	Number of shares	
	2020	2019
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings per share (2019: basic earnings per share) calculation (<i>'000</i>)	<u>778,689</u>	<u>750,000</u>

Note: The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the reorganisation and capitalisation issue on 22 January and 19 February 2020 respectively.

The computation of diluted earnings per share for the year ended 31 March 2020 does not assume the exercise of the Company's over-allotment options because the exercise price of those options was higher than the average market price for shares for the relevant period.

No diluted earnings per share is presented for the year ended 31 March 2019 as there were no potential dilutive shares.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 March 2020, nor has any dividend been proposed since the end of the reporting period (2019: HK\$nil).

10. ACCOUNTS RECEIVABLE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Accounts receivable arising from the business of dealing in securities (<i>Note a</i>)		
– HKSCC	47,707	7,058
– Cash clients	1,613	9,476
– Margin clients	169,133	184,914
– Brokers	–	823
Accounts receivable arising from placing and underwriting services (<i>Note b</i>)	1,598	2,416
	220,051	204,687
Less: allowance for impairment loss		
– accounts receivable arising from placing and underwriting services	(761)	–
	219,290	204,687

Notes:

- (a) The normal settlement terms of accounts receivable from cash clients and securities clearing house are two days after trade date. In respect of accounts receivable from cash clients which are past due at the end of the reporting period, the ageing analysis (from settlement date) is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 30 days	–	7,905
31 – 60 days	9	448
61 – 90 days	93	1
Over 90 days	–	108
	102	8,462

Accounts receivable of securities margin clients are secured by clients' pledged securities with fair value of HK\$868,968,000 (2019: HK\$821,256,000). All of the pledged securities are equity and debt securities listed in Hong Kong and overseas. The accounts receivable of securities margin clients are repayable on demand subsequent to settlement date and carrying interest typically at Hong Kong Prime rate +2% per annum as at 31 March 2020 and 2019 (and in some cases the rate may go up to 14.4% (2019: 14.4%) per annum). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collaterals are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collaterals held can be replighted and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

The Group has concentration of credit risk as 57% (2019: 63%) of the total accounts receivable from securities margin clients was due from the Group's ten largest securities margin clients. The balance includes an aggregate amount of HK\$96,366,000 (2019: HK\$116,889,000), which is not past due, of which the whole amount is secured by clients' pledged securities with an aggregate fair value of HK\$458,360,000 (2019: HK\$586,385,000). The directors of the Company believe that the amount is considered recoverable given the collateral is sufficient to cover the entire balance on individual basis. No ageing analysis is disclosed, as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

- (b) No credit period is granted for accounts receivable arising from placing and underwriting services. The ageing analysis (based on the revenue recognition date) is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 30 days	245	–
31 – 90 days	228	510
91 – 120 days	700	1,906
121 – 180 days	425	–
	<u>1,598</u>	<u>2,416</u>

Impairment allowance of HK\$761,000 (2019: HK\$nil) have been made for accounts receivable from placing and underwriting services. The directors of the Company have individually evaluated the accounts receivable for impairment after taking into account the credit quality of the individual customers.

11. ACCOUNTS PAYABLE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash clients	75,971	119,629
Margin clients	80,449	34,544
	<u>156,420</u>	<u>154,173</u>

The normal settlement terms of accounts payable to clients are two days after trade date.

Accounts payable to margin clients and cash clients are repayable on demand after settlement date. No ageing analysis is disclosed as in the opinion of directors of the Company, the ageing analysis does not give additional value in view of the nature of this business.

The accounts payable amounting to HK\$111,352,000 (2019: HK\$137,608,000) were payable to clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

12. SUBSEQUENT EVENTS

Since January 2020, the outbreak of coronavirus disease (“**Covid-19**”) has impacted the global business environment, series of precautionary and control measures have been implemented globally. Travel between countries has been severely restricted and the annual economic forecasts in terms of Gross Domestic Product for countries worldwide have been downward adjusted significantly. The outlook for the Hong Kong and the global economy and financial market remain uncertain and subject to both systematic and systemic risks.

The Directors will monitor the developments of Covid-19 situation closely, assess and react proactively to its impacts on the financial position and operating results of the Group. A prolonged Covid-19 crisis may have a material effect on our financial results for the year ending 31 March 2021. Given the dynamic nature of these circumstances, the related impact on the Group’s consolidated statements of profit or loss and other comprehensive income, financial position and cash flows could not be reasonably estimated at this stage and any impact will be reflected in the Group’s financial statements for the year ending 31 March 2021 and beyond depending on how the situation evolves.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

During the year ended 31 March 2020 (the “**Review Year**”), there was a downward pressure in Hong Kong’s overall market performance against the backdrop of a turbulent global stock market amid external volatility. As a gateway for foreign and China investment, Hong Kong’s stock market was affected by the global recession, which was reflected in the fluctuation of the Hang Seng Index (HSI) during the Review Year.

Despite the economic stagnation and months of local social unrest in Hong Kong, The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) continues to be a top initial public offering (IPO) destination, in 2019, with the crown taken as the world’s largest IPO market. During 2019, the Main Board of the Stock Exchange attracted 148 companies, which raised a total of US\$40 billion in terms of IPO proceeds. Many companies that have already listed in the United States (the “**US**”) would consider having secondary listing on the Stock Exchange, as it is considered as a route to enter Asian market, including China’s.

The outbreak of the coronavirus disease (the “**COVID-19**”) was the watershed for the industry performance over the Review Year. The COVID-19 pandemic and its uncertainties have hampered China’s economy on account of factory shutdowns and other lockdown measures. A long lower shadow has occurred in the HSI since the fourth quarter of 2019. Such declining index level implies the inactive trading activities of the capital market due to pessimistic business sentiment, hindering the development of the financial services industry in Hong Kong.

In addition, the total fund raised by IPOs in the first quarter of 2020 has been significantly decreased by 33.5%. The drop in fundraising activities also implies that the outbreak of COVID-19 has reduced the investors’ motivation to subscribe for securities of new issuers in the Hong Kong’s capital market as they tend to be more prudent in such volatile environment.

BUSINESS REVIEW

The Group has an operating history of over a decade. The Group primarily provides financial services based in Hong Kong, with a majority of local clients and clients from the Mainland China. The Group has developed experience and capability to provide comprehensive financial and securities services, which incorporates (i) securities trading services including brokerage services and margin financing services, (ii) placing and underwriting services, and (iii) investment advisory service. Sinomax Securities Limited, being the principal operating subsidiary of the Company, is licensed with the Securities and Futures Commission to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities in Hong Kong.

The shares of the Company (the “**Shares**”) were listed (the “**Listing**”) on the Main Board of the Stock Exchange on 19 February 2020 (the “**Listing Date**”). The Listing involved the share offer (the “**Share Offer**”) of 250,000,000 offer shares of HK\$0.01 each at an offer price of HK\$0.50 per share to the public and successfully raised a total of net cash proceeds of approximately HK\$90.6 million (after deduction of related expenses). The capital raised through the Listing has fuelled the Group’s momentum in future business development and growth, in regards to resources allocation of the Group and its establishment of a reliable image and publicity in the market. The proceeds received from the share offer have strengthened the Group’s cash flow and the Group will implement its future plans as set out in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated 31 January 2020 (the “**Prospectus**”).

During the Review Year, the Group recorded 5.8% decrease of total revenue as compared to the year ended 31 March 2019 (“**Last Year**”), which was approximately HK\$61.5 million. The decrease was mainly attributable to the decrease in placing and underwriting services income due to the delay and loss of certain unsecured placing and underwriting projects in light of the uncertain economic outlook and volatility in the stock market. Meanwhile, the net profit attributable to owners of the Company decreased to approximately HK\$13.6 million during the Review Year, which was mainly due to (i) decrease in placing and underwriting services income, (ii) the inclusion of non-recurring listing expenses and (iii) increase in operating expenses as compared to the year ended 31 March 2019 mainly due to the one-off charity donation and the increase in audit fee.

Securities Trading Services

Brokerage services

The Group provides securities dealing and brokerage services and ancillary service to clients who maintain a trading account. Commission income from the Group’s securities brokerage business and handling and other fee income for the Review Year decreased by 1.2% to approximately HK\$22.6 million as compared to that of Last Year (2019: approximately HK\$22.8 million) and accounted for 36.7% (2019: 35.0%) of the total revenue. The slight decrease in revenue from brokerage services was in-line with the decrease in total trading turnover of securities traded on the Stock Exchange. The segment profit from brokerage services increased by 1.9% to approximately HK\$20.1 million as compared to that of Last Year (2019: approximately HK\$19.7 million) as less commission expenses incurred during the Review Year.

Margin financing services

The Group provides financing services to facilitate its clients’ purchase of securities on a margin basis regarding subscription to IPOs and secondary offerings. Interest income from margin financing provided by the Group for the Review Year increased by 28.8% to approximately HK\$17.2 million as compared to that of Last Year (2019: approximately HK\$13.4 million) and accounted for 28.0% (2019: 20.4%) of the total revenue. The encouraging growth in interest income from margin financing was mainly due to an increase in interest income derived from our margin clients as the demand for our margin financing services increased generally during the Review Year. Utilizing the bank facilities during the Review Year further enhanced our capacity to extend the credit to our clients. The segment profit from margin financing services increased by 21.3% to approximately HK\$15.9 million as compared to that of Last Year (2019: approximately HK\$13.1 million). The segment profit increased at a lower rate than the segment revenue due to the increase in interest on bank borrowings generated from the bank facilities utilised.

Placing and Underwriting Services

The Group provides placing and underwriting services by acting as (i) bookrunner, lead manager or underwriter of listing applicants in IPOs; and (ii) placing agent of listed companies in connection with their issuance or sale of securities, in return for placing and/or underwriting commission income. The commissions from placing and underwriting engagements vary on a case-by-case basis, as they are charged either based on pre-determined fixed fee or a fee calculated as a percentage of the total price of shares underwritten. Commission income from the Group's placing and underwriting services for the Review Year decreased by 24.6% to approximately HK\$21.7 million as compared to that of Last Year (2019: approximately HK\$28.8 million) and accounted for 35.3% (2019: 44.2%) of the total revenue. The decrease in commissions from placing and underwriting services was mainly due to the outbreak of COVID-19 since the first quarter of 2020 has reduced the investors' motivation to subscribe for securities of new issuers in the Hong Kong's capital market as they tend to be more prudent in such volatile environment and hence recorded a significant drop in fundraising activities. The segment profit from placing and underwriting services decreased by 23.8% to approximately HK\$18.5 million as compared to that of Last Year (2019: approximately HK\$24.3 million). The segment profit decreased at a slightly lower rate than the segment revenue as less commission expenses incurred during the Review Year.

Investment Advisory Services

The Group offers investment advisory services to clients, covering (i) chargeless investment advice incidental to the securities trading services, and (ii) investment consultancy services and monthly research reports in return for a fee. During the Review Year, there was no service fee generated due to the termination of investment advisory contracts with clients (2019: HK\$242,000).

FINANCIAL REVIEW

Revenue

During the Review Year, the Group recorded a revenue of approximately HK\$61.5 million (2019: approximately HK\$65.3 million), representing an decrease of 5.8% compared to that of Last Year. The overall decrease was due to decrease in placing and underwriting services income during the Review Year. There were delay and loss of certain unsecured placing and underwriting projects in light of the uncertain economic outlook and volatility in the stock market.

Other operating expenses

For the Review Year, the other operating expenses increased 88.5% to approximately HK\$7.4 million as compared to Last Year (2019: approximately HK\$3.9 million). The increase was primarily due to the one-off charity donation and the increase in audit fee compared to Last Year.

Listing expenses

For the Review Year, the listing expenses amounted to approximately HK\$20.4 million (2019: approximately HK\$1.9 million), which are non-recurring in nature.

Profit for the year

For the Review Year, the Group's net profit was approximately HK\$13.6 million, which was a decrease of 64.0% compared to approximately HK\$37.8 million from Last Year. By excluding the listing expenses and other expenses related to earlier attempt to apply for a listing, the Group's adjusted net profit was approximately HK\$34.0 million, which was a decrease of 17.1% compared to approximately HK\$41.0 million from Last Year. Such change was mainly due to (i) decrease in placing and underwriting services income and (ii) increase in operating expenses as compared to Last Year mainly due to the one-off charity donation and the increase in audit fee.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Shares were successfully listed on the Main Board of the Stock Exchange on 19 February 2020.

The Group maintained a strong cash position with total bank deposits, and financed its operations by cash mainly generated from operations and borrowings, as well as proceeds raised from issuance of bonds. As at 31 March 2020, the Group had total bank balances for general accounts and cash of approximately HK\$149.5 million (2019: approximately HK\$30.2 million). As at 31 March 2020, the Group had net current assets of approximately HK\$310.5 million, representing an increase of approximately HK\$127.0 million as compared to that of approximately HK\$183.5 million as at 31 March 2019. The increase was mainly due to funds raised by the Share Offer.

The Group's gearing ratio was approximately 0.03 as at 31 March 2020 (2019: 0.16).

Gearing ratio is calculated based on total debts which represent bank borrowings only, divided by net assets as at the end of the year.

The Group utilised bank facilities of HK\$30 million to fulfil the demand in margin loans from our clients as at 31 March 2019. Bank borrowings of HK\$20 million were repaid in view of less demand in margin loans from our clients as at 31 March 2020.

Borrowings

The major source of debt financing of the Group was mainly from banks. As at 31 March 2020, the Group had bank borrowings of HK\$10.0 million (2019: HK\$30.0 million). All of the bank borrowings were with a repayment on demand clause. All of the bank borrowings were at floating rate of 2.25% p.a. over 1-month Hong Kong Inter-bank Offered Rate.

Pledge of Assets

As at 31 March 2020, the Group did not have any pledged assets (2019: Nil).

Foreign Currency Exposure

As the Group only operates in Hong Kong and the majority of the revenue and transactions arising from its operations were settled in Hong Kong dollar, the Directors are of the view that the Group's foreign exchange rate risks are insignificant. Thus, the Group has not entered into any derivative contracts to hedge against the foreign exchange rate risk for the Review Year.

Capital Commitments and Contingent Liabilities

As at 31 March 2020, the Group did not have any significant capital commitment and contingent liabilities (2019: Nil).

Employees and Remuneration Policies

As at 31 March 2020, the Group employed 16 staff (2019: 17). The employees' remuneration was determined based on factors such as qualification, duty, contributions and years of experience. Employee benefit expenses primarily consist of salaries, bonus and allowance as well as contributions to the mandatory provident fund for the Directors and employees of the Group. Employee benefits expenses was approximately HK\$7.1 million during the Review Year (2019: HK\$5.3 million), representing an increase of approximately HK\$1.8 million.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Review Year, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

Significant Investments Held by the Group

As at 31 March 2020, the Group did not make any significant investments (2019: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group did not have other future plans for material investments or capital assets as at the date of this announcement.

USE OF PROCEEDS

The net proceeds received by the Group, after deducting related expenses, were approximately HK\$90.6 million. These proceeds are intended to be applied in accordance with the proposed application set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus. Such uses include: (i) expansion of placing and underwriting business; (ii) funding for margin financing business; (iii) establishment and renovation of a new office; (iv) expansion of workforce; (v) enhancement of IT systems; (vi) promotion and marketing; and (vii) working capital.

Business strategies	Net proceeds as allocated in accordance with the Prospectus HK\$'000	Actual use of net proceeds up to 31 March 2020 HK\$'000	Unutilised use of net proceeds up to 31 March 2020 HK\$'000
Expansion of placing and underwriting business	27,000	27,000	–
Funding for margin financing business	10,200	10,200	–
Establishment and renovation of a new office	15,700	–	15,700
Expansion of workforce	12,900	–	12,900
Enhancement of IT systems	9,000	–	9,000
Promotion and marketing	7,200	–	7,200
Working capital	8,600	962	7,638
Total	90,600	38,162	52,438

As at 31 March 2020 and the date of this announcement, the unutilised proceeds were placed with licensed banks in Hong Kong. During the Review Year, the Group has applied the net proceeds according to the disclosure in the Prospectus gradually for expansion of placing and underwriting business and funding for margin financing business.

In light of the prolonged COVID-19 crisis, uncertain economic outlook and volatility in the stock market, the Group believed that it would be more beneficial for the Company to adopt a conservative but flexible approach for utilizing the proceeds effectively and efficiently for the long term benefit and development of the Group. The Group therefore has slowed down the expansion plan for establishment and renovation of a new office and enhancement of IT systems during the Review Year.

The Directors regularly evaluate the Group’s business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. During the Review Year, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

DIVIDENDS

The Board does not recommend the declaration of final dividend for the Review Year (2019: Nil).

OUTLOOK AND PROSPECTS

Despite hopes for a possible economic recovery once the COVID-19 outbreak subsides, it is difficult for the Group to predict the degree of the impact on the global economy and the international supply chain, as well as how China-US relationship would evolve. Given the economic recession in the midst of rising uncertainties regarding Brexit and the escalating China-US trade dispute, China's economy has experienced the greatest slowdown ever since 1990, with its economic growth plunged to its slowest annual rate of 6.1% after three decades of rapid growth. Meanwhile, China's currency also fell to its 12-year low, which in turn triggers stock market fluctuation.

Apart from the global factors, the economic outlook of Hong Kong in 2020 would also depend on the local prevention and control measures to combat COVID-19, the government's plan to stimulate Hong Kong's economy and social stability in light of local political unrest.

Although the aforementioned factors could affect Hong Kong's stock market, the Group believes that the Hong Kong financial services industry, with its strengths of long development history, sound reputation, supportive policies and outstanding industry professionals, would remain in a top position worldwide. Many companies, who have listed in the US, are still looking for a secondary listing in Hong Kong to expand their market to Asia. The Group will continue to strengthen its market position and remain vigilant to challenges in the future and will closely monitor the COVID-19 pandemic and proactively respond to its impact on the Group's financial position and operating results.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, the COVID-19 has impacted the global business environment, series of precautionary and control measures have been implemented globally. Travel between countries has been severely restricted and the annual economic forecasts in terms of Gross Domestic Product for countries worldwide have been downward adjusted significantly. The outlook for the Hong Kong and the global economy and financial market remain uncertain and subject to both systematic and systemic risks.

The Directors will monitor the developments of COVID-19 situation closely, assess and react proactively to its impacts on the financial position and operating results of the Group. A prolonged COVID-19 crisis may have a material effect on our financial results for the year ending 31 March 2021. Given the dynamic nature of these circumstances, the related impact on the Group's consolidated statements of profit or loss and other comprehensive income, financial position and cash flows could not be reasonably estimated at this stage and any impact will be reflected in the Group's financial statements for the year ending 31 March 2021 and beyond depending on how the situation evolves.

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

Throughout the period from the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

On 19 February 2020, the Shares were listed on the Main Board of the Stock Exchange by way of Share Offer. The Company has applied the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices since the Listing Date.

The Board is of the view that the Company has complied with the CG Code throughout the period from the Listing Date and up to the date of this announcement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors.

The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standards as set out in the Model Code from the Listing Date to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the Group's consolidated financial statements for the year ended 31 March 2020, including the accounting principles adopted by the Group, with the Company's management.

The Audit Committee comprises three Directors, namely, Mr. Lai Man Sing, Dr. Yu Sun Say and Dr. Ho Chung Tai Raymond, all being independent non-executive Directors. Mr. Lai Man Sing, a Director with the appropriate professional qualifications, serves as the chairman of the Audit Committee.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 March 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("**Deloitte**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on the preliminary announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed percentage of public float under the Listing Rules.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement of the Company is published on the website of the Stock Exchange (www.hkex.com.hk) and on the website of the Company (www.hkfsfinance.com). The annual report of the Company for the year ended 31 March 2020 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Fu Shek Financial Holdings Limited
Sy Man Chiu
Executive Director

Hong Kong, 26 June 2020

As at the date of this announcement, the Board comprises Mr. Keng Stephen Lee as chairman and non-executive Director, Mr. Sy Man Chiu and Mr. Ng Sik Chiu as executive Directors, and Dr. Yu Sun Say, Mr. Lai Man Sing and Dr. Ho Chung Tai Raymond as independent non-executive Directors.