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Hong Kong Finance

**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 2021**

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 2021, 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 2021*

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Note</i>	<b>2021</b>	2020
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	4, 5	<b>74,902</b>	77,139
Other income and gains	5	<b>302</b>	3,210
Fair value gains/(losses) on revaluation of investment properties		<b>3,760</b>	(3,030)
Provision for impairment and write-off of loans receivable and repossessed assets, net	6	<b>(3,280)</b>	(611)
Administrative expenses	7	<b>(22,890)</b>	(22,165)
<b>Operating profit</b>		<b>52,794</b>	54,543
Finance costs	8	<b>(10,837)</b>	(13,506)
<b>Profit before income tax</b>		<b>41,957</b>	41,037
Income tax expense	9	<b>(6,442)</b>	(6,873)
<b>Profit and total comprehensive income for the period attributable to owners of the Company</b>		<b>35,515</b>	34,164
<b>Earnings per share for profit attributable to owners of the Company</b>			
— Basic ( <i>HK cents</i> )	10(a)	<b>8.56</b>	8.23
— Diluted ( <i>HK cents</i> )	10(b)	<b>8.56</b>	8.23
Dividends	11	<b>5,395</b>	5,395

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*As at 30 September 2021*

		<b>As at 30 September 2021</b>	As at 31 March 2021
	<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>73,429</b>	74,105
Investment properties		<b>80,110</b>	76,350
Financial asset at fair value through profit or loss		<b>800</b>	800
Loans receivable	<i>12</i>	<b>283,003</b>	264,241
Deferred income tax assets		<b>972</b>	749
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>438,314</b>	416,245
<b>Current assets</b>			
Loans receivable	<i>12</i>	<b>605,076</b>	553,312
Interest receivables	<i>13</i>	<b>17,365</b>	16,981
Repossessed assets		<b>31,000</b>	33,557
Prepayments, deposits and other receivables		<b>2,081</b>	1,873
Cash and cash equivalents		<b>35,359</b>	80,023
		<hr/>	<hr/>
<b>Total current assets</b>		<b>690,881</b>	685,746
		<hr/>	<hr/>
<b>Total assets</b>		<b>1,129,195</b>	1,101,991
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital		<b>4,150</b>	4,150
Reserves		<b>702,830</b>	672,710
		<hr/>	<hr/>
<b>Total equity</b>		<b>706,980</b>	676,860
		<hr/>	<hr/>

		As at <b>30 September 2021</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 March 2021 <i>HK\$'000</i> <b>(Audited)</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accruals		<b>7,954</b>	7,006
Amount due to an entity commonly controlled by the shareholder	<i>17(b)</i>	<b>110,521</b>	128,840
Tax payable		<b>14,721</b>	8,248
Dividend payable	<i>11</i>	<b>5,395</b>	–
Bank and other borrowings	<i>14</i>	<b>178,497</b>	177,058
Bonds	<i>15</i>	<b>101,425</b>	77,857
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>418,513</b>	399,009
<b>Non-current liabilities</b>			
Bank and other borrowings	<i>14</i>	<b>342</b>	–
Bonds	<i>15</i>	–	22,954
Deferred income tax liabilities		<b>3,360</b>	3,168
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>3,702</b>	26,122
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>422,215</b>	425,131
		<hr/> <hr/>	<hr/> <hr/>
<b>Total equity and liabilities</b>		<b>1,129,195</b>	1,101,991
		<hr/> <hr/>	<hr/> <hr/>
<b>Net current assets</b>		<b>272,368</b>	286,737
		<hr/> <hr/>	<hr/> <hr/>
<b>Total assets less current liabilities</b>		<b>710,682</b>	702,982
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (the “**Group**”) are principally engaged in 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 is listed on The Stock Exchange of Hong Kong Limited.

These interim condensed consolidated financial statements of the Group are presented in thousands of Hong Kong dollars (the “**HK\$’000**”), unless otherwise stated. These interim condensed consolidated financial statements were approved by the board of directors of the Company for issue on 25 November 2021.

## 2 BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group for the six months ended 30 September 2021 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 statements should be read in conjunction with the consolidated financial statements for the year ended 31 March 2021 of the Group, 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 consolidated financial statements for the year ended 31 March 2021, 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 2022.

### (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 statements.

### (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.

There are no sales between the operating segments during the six months ended 30 September 2021 (30 September 2020: Nil).

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 2021 and 2020.

The Group’s operating segments operate solely in Hong Kong, therefore geographical segment information is not presented.

#### 4 SEGMENT INFORMATION (CONTINUED)

For the period ended 30 September 2021

	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	48,295	26,607	–	74,902
Other income and gains	40	–	262	302
Fair value gains on revaluation of investment properties	–	–	3,760	3,760
Provision for impairment and write-off of loans receivable and repossessed assets, net	(1,854)	(1,426)	–	(3,280)
Administrative expenses	(14,168)	(7,690)	(1,032)	(22,890)
Operating profit	32,313	17,491	2,990	52,794
Finance costs	(7,173)	(8)	(3,656)	(10,837)
Profit/(loss) before income tax	25,140	17,483	(666)	41,957
Income tax expense	(3,428)	(2,266)	(748)	(6,442)
Profit/(loss) and total comprehensive income/(loss) for the period attributable to owners of the Company	<u>21,712</u>	<u>15,217</u>	<u>(1,414)</u>	<u>35,515</u>
Other information:				
Depreciation expense	(310)	(270)	(969)	(1,549)
Reversal of/(provision for) impairment of loans receivable:				
— Stage 1	1,116	(16)	–	1,100
— Stage 2	(1,387)	90	–	(1,297)
— Stage 3	404	(807)	–	(403)
Loans receivable written-off	–	(693)	–	(693)
Provision for impairment of repossessed assets	(1,987)	–	–	(1,987)

As at 30 September 2021

	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>816,911</u>	<u>228,979</u>	<u>83,305</u>	<u>1,129,195</u>
Segment liabilities	<u>(295,220)</u>	<u>(8,944)</u>	<u>(118,051)</u>	<u>(422,215)</u>

#### 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 of loans receivable:				
— 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 31 March 2021

	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>755,857</u>	<u>201,940</u>	<u>144,194</u>	<u>1,101,991</u>
Segment liabilities	<u>(307,643)</u>	<u>(6,009)</u>	<u>(111,479)</u>	<u>(425,131)</u>

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

## 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>2021</b>	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Revenue		
Interest income — property mortgage loans	<b>48,295</b>	55,550
Interest income — personal loans	<b>26,607</b>	21,589
	<hr/>	<hr/>
Total revenue	<b>74,902</b>	77,139
	<hr/> <hr/>	<hr/> <hr/>
Other income and gains		
Government grant	–	1,779
Management service fee income	–	1,259
Rental income	<b>262</b>	171
Others	<b>40</b>	1
	<hr/>	<hr/>
Total other income and gains	<b>302</b>	3,210
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Six months ended 30 September 2021</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>
(Reversal of)/provision for impairment of loans receivable	<b>(1,100)</b>	<b>1,297</b>	<b>403</b>	<b>600</b>
Write-off of loans receivable	–	–	<b>693</b>	<b>693</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>(1,100)</b>	<b>1,297</b>	<b>1,096</b>	<b>1,293</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Provision for impairment of repossessed assets				<b>1,987</b>
				<hr/>
Total provision for impairment and write-off of loans receivable and repossessed assets, net				<b>3,280</b>
				<hr/> <hr/>



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

	Six months ended 30 September 2020			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	
Provision for/(reversal of) impairment of loans receivable	1,326	308	(3,127)	(1,493)
Write-off of loans receivable	–	–	96	96
	<u>1,326</u>	<u>308</u>	<u>(3,031)</u>	<u>(1,397)</u>
Provision for impairment of repossessed assets				<u>2,008</u>
Total provision for impairment and write-off of loans receivable and repossessed assets, net				<u>611</u>

**7 ADMINISTRATIVE EXPENSES**

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Employee benefit expenses (including directors' emoluments)	10,473	9,324
Advertising and marketing expenses	3,637	5,670
Legal and professional fees	2,202	1,786
Referral fees	1,233	764
Valuation and search fees	579	342
Depreciation of property, plant and equipment	1,549	1,450
Other expenses	3,217	2,829
Total administrative expenses	<u>22,890</u>	<u>22,165</u>

**8 FINANCE COSTS**

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest on secured bank loans	3,674	5,964
Interest on bonds	3,583	3,583
Interest on amount due to an entity commonly controlled by the shareholder	3,093	2,844
Interest on other borrowings	487	915
Interest on bank overdrafts	–	200
Total finance costs	<u>10,837</u>	<u>13,506</u>

## 9 INCOME TAX EXPENSE

Hong Kong profits tax for the six months ended 30 September 2021 and 2020 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 an entity of the Group 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 statements of comprehensive income represents:

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
— Current period	6,473	6,616
— Over provision in prior periods	—	(20)
Deferred income tax (credit)/expense	(31)	277
	<u>6,442</u>	<u>6,873</u>

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

	Six months ended 30 September	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	35,515	34,164
Weighted average number of ordinary shares in issue ('000)	415,000	415,000
Basic earnings per share (HK cents)	<u>8.56</u>	<u>8.23</u>

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2021.

### (b) Diluted earnings per share

For the six months ended 30 September 2021 and 2020, diluted earnings per share presented is the same as the basic earnings per share as there was no potentially diluted ordinary share outstanding.

## 11 DIVIDENDS

A final dividend of HK1.3 cents per share relating to the year ended 31 March 2021, amounting to HK\$5,395,000, was declared and approved in September 2021. As at 30 September 2021, the dividend was not yet paid.

At the date of this announcement, the Board declared an interim dividend of HK1.3 cents (2020: HK1.3 cents) per share. The interim dividend amounting to HK\$5,395,000 was not recognised as a liability for the six months ended 30 September 2021.

## 12 LOANS RECEIVABLE

	As at 30 September 2021 <i>HK\$'000</i> (Unaudited)	As at 31 March 2021 <i>HK\$'000</i> (Audited)
Gross loans receivable — property mortgage loans	715,813	650,438
Gross loans receivable — personal loans	<u>194,286</u>	<u>188,535</u>
Total gross loans receivable	910,099	838,973
Less: Provision for impairment		
— Stage 1	(3,325)	(4,425)
— Stage 2	(1,624)	(327)
— Stage 3	<u>(17,071)</u>	<u>(16,668)</u>
Loans receivable, net of provision	888,079	817,553
Less: non-current portion	<u>(283,003)</u>	<u>(264,241)</u>
Current portion	<u><u>605,076</u></u>	<u><u>553,312</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\$194,286,000 (31 March 2021: HK\$188,535,000) which are unsecured, loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the customers.

During the period ended 30 September 2021, loans receivable amounted to HK\$693,000 (31 March 2021: HK\$2,671,000) 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 2021 <i>HK\$'000</i> (Unaudited)	As at 31 March 2021 <i>HK\$'000</i> (Audited)
Within 1 year	605,076	553,312
Between 1 to 5 years	68,821	61,744
Over 5 years	<u>214,182</u>	<u>202,497</u>
	<u><u>888,079</u></u>	<u><u>817,553</u></u>

As at 30 September 2021, 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. See Note 14(iii) for details.

### 13 INTEREST RECEIVABLES

	<b>As at 30 September 2021 HK\$'000 (Unaudited)</b>	As at 31 March 2021 HK\$'000 (Audited)
Interest receivables	<b>17,365</b>	16,981

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\$9,245,000 (31 March 2021: HK\$7,755,000) 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 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	<b>As at 30 September 2021 HK\$'000 (Unaudited)</b>	As at 31 March 2021 HK\$'000 (Audited)
Bank loans	<b>160,490</b>	152,058
Other borrowings	<b>18,349</b>	25,000
Total bank and other borrowings	<b>178,839</b>	177,058
Less: non-current portion	<b>(342)</b>	–
Current portion	<b>178,497</b>	177,058

The weighted average effective interest rate on bank loans during the six months ended 30 September 2021 was 5.1% (31 March 2021: 5.3%) per annum.

The other borrowings of HK\$18,349,000 (31 March 2021: HK\$25,000,000) are unsecured, interest bearing at rates ranged from 4.0% to 28.2% (31 March 2021: rates ranged from 4.0% to 5.3%) per annum and repayable within one year to ten years.

At 30 September 2021 and 31 March 2021, all bank and other borrowings are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

As at 30 September 2021, the bank loans utilised by the Group amounted to HK\$160,490,000 (31 March 2021: HK\$152,058,000). The Group's unutilised banking facilities as at the same date amounted to HK\$214,398,000 (31 March 2021: HK\$222,983,000). These banking facilities were secured by the following:

- (i) investment properties held by the Group with net book value of HK\$80,110,000 (31 March 2021: HK\$76,350,000);

- (ii) land and buildings held by the Group with net book value of HK\$70,920,000 (31 March 2021: HK\$71,890,000);
- (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\$158,700,000 (31 March 2021: HK\$237,300,000); and
- (iv) corporate guarantee of the Company.

## 15 BONDS

	<b>As at 30 September 2021 HK\$'000 (Unaudited)</b>	As at 31 March 2021 HK\$'000 (Audited)
Bonds	<b>101,425</b>	100,811
Less: current portion	<b>(101,425)</b>	(77,857)
Non-current portion	<u>–</u>	<u>22,954</u>

As at 30 September 2021, 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 2021: HK\$84,000,000 and HK\$18,000,000), before placing commission, respectively with coupon rates at 6.0% (31 March 2021: 6.0%) and 4.5% (31 March 2021: 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\$101,425,000 as at 30 September 2021 (31 March 2021: HK\$100,811,000), 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.

## 16 OPERATING LEASE COMMITMENTS — AS LESSOR

The Group leases out its investment properties to independent third parties under non-cancellable operating lease agreements. The lease terms ranges from 1 to 2 years (31 March 2021: within 1 year).

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 2021 HK\$'000 (Unaudited)</b>	As at 31 March 2021 HK\$'000 (Audited)
Within 1 year	<b>1,270</b>	262
Within 2–5 years	<b>972</b>	–
	<u><b>2,242</b></u>	<u>262</u>

The Group did not have any significant commitments as at 30 September 2021 (31 March 2021: Nil).

## 17 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 2021 and 2020, and balances arising from related party transactions as at 30 September 2021 and 31 March 2021.

### (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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses paid to an entity commonly controlled by the shareholder		
— Tin Ching Industrial Company Limited (“ <b>Tin Ching Industrial</b> ”)	<u>3,093</u>	<u>2,844</u>

Interest expenses on an amount due to an entity commonly controlled by the shareholder was charged at an effective interest rate of 5.8% (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 2021: HK\$200,000,000), of which the Group utilised an amount of HK\$110,521,000 as at 30 September 2021 (31 March 2021: HK\$128,840,000).

The carrying amount was unsecured, interest bearing at an effective interest rate of 5.8% (31 March 2021: 5.8%) per annum on the outstanding amount, repayable on demand and is denominated in Hong Kong dollars.

## 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) (the “MLO”). Mortgage loan business is our core business under our well-known and highly recognised brand name “*Hong Kong Finance*”. We also provide personal loan products to property owners 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 approximately 64.5% to the Group’s revenue during the current period. Interest income generated from the mortgage loan business decreased by 13.0% to HK\$48.3 million during the current period. The gross mortgage loan portfolio was maintained at HK\$715.8 million as at 30 September 2021 amid the subdued economic environment during the current period. As for our personal loan business, the interest income increased by 23.1% to HK\$26.6 million, contributing to about 35.5% of our Group’s revenue for the current period. During the current period, we continued to rebalance our products-mix and increased our gross personal loan portfolio to HK\$194.3 million as at 30 September 2021.

The pandemic of Coronavirus Disease 2019 (“COVID-19”) and the political tension between China, U.S. and the western countries have persistently impacted the global and local economy during the current period. Coupled with the economic uncertainty and great challenges, we continued to adopt 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. We also rebalanced our product-mix into personal loan products so as to enhance our overall net interest margin 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\$2.2 million or 2.9% from HK\$77.1 million for the last period to HK\$74.9 million for the current period, and such decrease was mainly derived from the decrease in our interest income from our mortgage loan business.

Interest income from our mortgage loan business decreased by HK\$7.2 million or 13.0% from HK\$55.5 million for the last period to HK\$48.3 million for the current period, whereas the interest income from our personal loan business increased by HK\$5.0 million or 23.1% from HK\$21.6 million for the last period to HK\$26.6 million for the current period.

### *Other income and gains*

We have recorded other income and gains of HK\$0.3 million (2020: HK\$3.2 million) during the current period. Last period's other income and gains mainly comprised of government grant of HK\$1.8 million and the management service fee income of HK\$1.3 million and there were no such income during the current period.

### *Fair value gains/(losses) on revaluation of investment properties*

During the current period, our Group recorded a gain of HK\$3.8 million (2020: loss of HK\$3.0 million) on the revaluation of our investment properties, as the Group experienced a rebound in the Hong Kong property market during the current period.

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

We have recorded a provision for impairment and write-off of loans receivable and repossessed assets of HK\$3.3 million for the current period (2020: HK\$0.6 million).

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

	<b>Property mortgage loans</b>		<b>Personal loans</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
(Reversal of)/provision for impairment of loans receivable	<b>(132)</b>	<b>(1,319)</b>	<b>732</b>	<b>(174)</b>
Write-off of loans receivable	<b>–</b>	<b>–</b>	<b>693</b>	<b>96</b>
	<b><u>(132)</u></b>	<b><u>(1,319)</u></b>	<b><u>1,425</u></b>	<b><u>(78)</u></b>
			<b>Six months ended</b>	
			<b>30 September</b>	
			<b>2021</b>	<b>2020</b>
			<b>HK\$'000</b>	<b>HK\$'000</b>
Provision for impairment on repossessed assets			<b><u>1,987</u></b>	<b><u>2,008</u></b>



### *Administrative expenses*

We have incurred administrative expenses of HK\$22.9 million for the current period (2020: HK\$22.2 million), which mainly comprised of employee benefit expenses, advertising and marketing expenses, legal and professional fees referral fees, depreciation of property, plant and equipment and other miscellaneous expenses.

### *Finance costs*

We have incurred finance costs of HK\$10.8 million for the current period (2020: HK\$13.5 million), which mainly comprised of interest on interest bearing bank and other borrowings, amount due to an entity commonly controlled by the shareholder and issuance of bonds. The decrease in the finance costs by HK\$2.7 million or 20.0% was mainly attributable to the decrease in the utilisation of bank and other borrowings during the current period.

### *Net interest margin*

The net interest margin of our money lending business slightly increased from 14.7% for the last period to 14.8% for the current period, which was mainly attributed to the shift of our product-mix to personal loan product for property owners which generated relatively high interest margin.

### *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\$35.5 million for the current period as compared to HK\$34.2 million for the last period, representing an increase of 3.8%.

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

During the six months ended 30 September 2021, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from an entity commonly controlled by the shareholder, 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 2021.

The Group recorded net current assets of HK\$272.4 million as at 30 September 2021 while the net current assets as at 31 March 2021 was HK\$286.7 million.

As at 30 September 2021, cash and cash equivalents amounted to HK\$35.4 million (31 March 2021: HK\$80.0 million); amount due to an entity commonly controlled by the shareholder amounted to HK\$110.5 million (31 March 2021: HK\$128.8 million); interest bearing bank and other borrowings amounted to HK\$178.8 million (31 March 2021: HK\$177.1 million), and bonds amounted to HK\$101.4 million (31 March 2021: HK\$100.8 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 an entity commonly controlled by the shareholder was unsecured, interest bearing at a rate of 5.8% per annum and repayable on demand. 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 2021, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$214.4 million and HK\$89.5 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 2021 and 31 March 2021 respectively:

	<b>As at 30 September 2021</b>	As at 31 March 2021
Current ratio <sup>(1)</sup>	<b>1.65</b>	1.72
Gearing ratio <sup>(2)</sup>	<b>0.50</b>	0.48
	<b>For the six months ended 30 September 2021</b>	
	<b>2021</b>	2020
Net interest margin ratio <sup>(3)</sup>	<b>14.8%</b>	14.7%
Return on equity ratio <sup>(4)</sup>	<b>10.0%</b>	10.6%
Interest coverage ratio <sup>(5)</sup>	<b>4.5 times</b>	4.3 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 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 current period.

## **IMPORTANT EVENTS OCCURRED AFTER THE SIX MONTHS ENDED OF 30 SEPTEMBER 2021**

Subsequent to the six months ended 30 September 2021, the Group successfully won the bidding at the auction held on 20 October 2021 to acquire the properties, further details of which are set out in the Company's announcement dated 22 October 2021.

Other than set forth above, our Group did not have other important events affecting our Company and our subsidiaries since the six months ended 30 September 2021 and up to the date of this announcement.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2021 our Group employed 41 (31 March 2021: 35) full time employees. The total staff costs of our Group for the current period were HK\$10.5 million (2020: HK\$9.3 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 2021, respectively.

## **CHARGES ON GROUP ASSETS**

As at 30 September 2021, our land and buildings of HK\$70.9 million (31 March 2021: HK\$71.9 million), our investment properties of HK\$80.1 million (31 March 2021: HK\$76.4 million) and certain properties mortgaged to our subsidiary with aggregate fair values of these properties of approximately HK\$158.7 million (31 March 2021: HK\$237.3 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 2021, our Group had no material contingent liabilities (31 March 2021: Nil).

## **CAPITAL COMMITMENTS**

The Group did not have any capital commitments as at 30 September 2021 (31 March 2021: Nil).

## **OUTLOOK**

The second half of the financial year remains challenging. The persistent COVID-19 pandemic and the on-going political tension between countries continuously impacts on Hong Kong economy and her business environment. The beginning of tapering and the expected increase in Fed interest rate in U.S. may create further challenges in our money lending business. We expect these factors will continue to affect our loan product demand and our business operations for the coming financial periods. Although there was a general recovery of the economy, the Group still expected the global economy and the Hong Kong economic outlook will remain sluggish, which would certainly pose persistent challenges and uncertainty to both our mortgage loan and 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 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 auditors 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 (2020: 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, 7 January 2022. The interim dividend will be paid on Tuesday, 18 January 2022.

## **CLOSURES OF REGISTER OF MEMBERS**

The register of members of our Company will be closed from Wednesday, 5 January 2022 to Friday, 7 January 2022, 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, 4 January 2022.

## **PUBLICATION**

This announcement is published on the websites of our Company ([www.hkfinance.hk](http://www.hkfinance.hk)) and of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) respectively. The 2021 interim report for the six months ended 30 September 2021 of the Company will be despatched to the shareholders of our Company and published on the above websites in due course.

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

Hong Kong, 25 November 2021

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