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LFG Investment Holdings Limited

LFG 投資控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3938)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

The board (the “Board”) of directors (the “Directors”) of LFG Investment Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2021 (the “Period”), together with comparative figures for the six months ended 30 September 2020, as follows:

FINANCIAL SUMMARY

- The Group’s total revenue decreased by approximately 17.7% to approximately HK\$50.7 million for the Period from approximately HK\$61.6 million for the six months ended 30 September 2020.
- Revenue generated from corporate finance advisory services for the Period amounted to approximately HK\$41.8 million (2020: approximately HK\$20.5 million), accounting for approximately 82.5% of the Group’s total revenue (2020: approximately 33.3%).
- Revenue generated from securities and underwriting services for the Period amounted to approximately HK\$8.6 million (2020: approximately HK\$17.3 million), accounting for approximately 17.0% of the Group’s total revenue (2020: approximately 28.1%).
- For the Period, the Group recorded profit after income tax of approximately HK\$8.7 million (2020: approximately HK\$12.2 million).
- For the Period, the Group recorded basic earnings per share of approximately 2.1 HK cents (2020: approximately 3.0 HK cents) and diluted earnings per share of approximately 2.1 HK cents (2020: approximately 2.9 HK cents).

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 September 2021

		Six months ended	
		30 September	
	<i>Notes</i>	2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4		
Corporate finance advisory services		41,847	20,517
Securities and underwriting services		8,613	17,312
Interest income from margin financing services		3,989	3,642
Asset management services		–	30
Investment fund		(3,740)	20,129
		<hr/>	<hr/>
Total revenue		50,709	61,630
Other income and gains or losses, net	5	6,392	(7,586)
Staff costs		(27,250)	(25,117)
Administrative and other expenses		(17,767)	(10,940)
Bad debt expenses		(781)	–
Expected credit loss on accounts receivable		–	(3,378)
Finance costs	6	(385)	(332)
		<hr/>	<hr/>
Profit before income tax expenses	7	10,918	14,277
Income tax expenses	8	(2,249)	(2,118)
		<hr/>	<hr/>
Profit for the period		8,669	12,159
		<hr/>	<hr/>
Other comprehensive income for the period:			
Item that may not be reclassified subsequently to profit or loss:			
— Net change in financial assets at fair value through other comprehensive income		(571)	31
		<hr/>	<hr/>
Other comprehensive income for the period		(571)	31
		<hr/>	<hr/>
Total comprehensive income for the period		8,098	12,190
		<hr/> <hr/>	<hr/> <hr/>

	Six months ended	
	30 September	
	2021	2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to:		
Owners of the Company	8,674	12,309
Non-controlling interests	(5)	(150)
	<u>8,669</u>	<u>12,159</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	8,103	12,340
Non-controlling interests	(5)	(150)
	<u>8,098</u>	<u>12,190</u>
Earnings per share from profit for the period attributable to owners of the Company:		
Basic	2.1 HK cents	3.0 HK cents
Diluted	2.1 HK cents	2.9 HK cents

10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

		30 September 2021	31 March 2021
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		3,266	3,430
Intangible asset		500	500
Deposits		1,733	1,049
Right-of-use assets		13,600	9,159
Financial assets at fair value through other comprehensive income		–	571
		19,099	14,709
Current assets			
Financial assets at fair value through profit or loss		97,943	94,844
Accounts receivable	<i>11</i>	150,983	131,187
Other receivables, deposits and prepayments		5,717	2,615
Tax recoverable		–	507
Pledged bank deposit		5,000	5,000
Cash and bank balances — held on behalf of customers		47,443	56,909
Cash and bank balances		45,310	38,095
		352,396	329,157
Current liabilities			
Accounts payable	<i>12</i>	94,956	96,623
Accruals and other payables		8,791	7,436
Other financial liabilities		40,591	45,161
Lease liabilities		5,371	3,455
Convertible bonds		1,170	1,170
Deferred revenue	<i>4</i>	8,743	5,629
Bank borrowings		20,000	5,000
Tax payables		1,203	–
		180,825	164,474
Net current assets		171,571	164,683
Total assets less current liabilities		190,670	179,392

		30 September 2021	31 March 2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Lease liabilities		<u>7,955</u>	<u>5,741</u>
Net assets		<u>182,715</u>	<u>173,651</u>
Equity			
Share capital	<i>13</i>	4,060	4,060
Share premium		110,371	110,371
Reserves		<u>66,893</u>	<u>57,824</u>
Equity attributable to owners of the Company		181,324	172,255
Non-controlling interests		<u>1,391</u>	<u>1,396</u>
Total equity		<u>182,715</u>	<u>173,651</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2021

1. GENERAL INFORMATION

LFG Investment Holdings Limited (the “Company”) is an exempted company with limited liability incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business in Hong Kong is located at Room 1601, 16th Floor, China Building, 29 Queen’s Road Central, Hong Kong. The Company is an investment holding company and, together with its subsidiaries (collectively referred to as the “Group”), are principally engaged in corporate finance advisory services, securities and financing services and asset management services.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2020/2021 annual report.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has applied the same accounting policies and methods of computation in its condensed consolidated interim financial statements as in its 2020/2021 annual consolidated financial statements.

Use of estimates and judgements

There have been no material revisions to the nature and amount of estimates of amounts reported in prior periods.

Impact of accounting standards to be applied in future periods

There are a number of standards and interpretations which have been issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for periods beginning subsequent to 31 March 2022 (the date on which the Company’s next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The Group does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable by the Group from external customers.

Information reported to the executive directors, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on revenue for each type of services provided. The CODM considers the business from service perspectives whereby assesses the performance of the services based on revenue generated in the course of the ordinary activities of a recurring nature of the Group.

The CODM considers the businesses of the Group as a whole is engaged in corporate finance advisory services. Therefore the management of the Group considers that the Group only has one single operating segment. As no discrete financial information is available for identifying operating segments among different services, no further analysis of segment information is presented.

(a) Nature of services

Services	Nature, timing of satisfaction of performance obligation and significant payment terms
(i) Corporate finance advisory services	<p>Acting as a sponsor to companies seeking to list in Hong Kong advising and guiding them and their directors throughout the listing process. Sponsor fee income are recognised over time during the initial public offering (“IPO”) process;</p> <p>Acting as a financial adviser to listed companies in Hong Kong as well as their shareholders and investors advising them on transactions involving the Listing Rules, GEM Listing Rules or Takeovers Code. Financial advisory fee income are recognised over time during the service period;</p> <p>Acting as an independent financial adviser to independent board committees and independent shareholders of listed companies in Hong Kong rendering recommendations and opinions. Independent financial advisory fee income are recognised over time during the service period; and</p> <p>Acting as a compliance adviser to listed companies in Hong Kong advising them on post-listing matter. Compliance consultancy fee income are recognised over time during the service period.</p>

Services	Nature, timing of satisfaction of performance obligation and significant payment terms
(ii) Securities and underwriting services	
(1) Placing and underwriting services	Acting as a global coordinator, a bookrunner, a lead manager or an underwriter for listing applicants in IPOs and acting as an underwriter or a placing agent for secondary market transactions. Income is recognised at point in time and billed while the services are performed.
(2) Securities dealing and brokerage services	Providing (i) securities dealing and brokerage services for trading in securities on the Stock Exchange (including equities, exchange traded products, derivative warrants, callable bull/bear contracts, real estate investment trusts and debt securities) and securities on the major exchanges in the United States; (ii) other services including script handling and settlement services, account maintenance services and nominee, corporate action, investor relations and related services. Commission income is recognised as income on a trade date basis when the services are rendered. Service fee is billed while the services are performed.
(3) Securities financing services	Providing margin financing for securities purchases on the secondary market and IPO financing for new share subscriptions in IPOs. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.
(iii) Asset management services	Providing investment advisory and asset management services. The asset management income is charged at a fixed percentage per annum of the asset value of the funds under management of the Group. The Group is also entitled to a performance fee for certain accounts when pre-set performance target for the relevant performance period is met. The performance fee is recognised when it is highly probable that a significant reversal in the revenue recognised will not occur when the performance target is evaluated on an annual basis for each of the account.
(iv) Investment fund	Trading of listed securities through recognised stock exchanges. Investment income from trading of listed securities through recognised stock market is recognised on a trade date basis. Dividend income from listed securities is recognised when the Group's right to receive dividend payment is established. Interest income from listed bonds is recognised on an accrual basis using the effective interest method.

(b) Disaggregation of revenue from contracts with customers

The Group's revenue recognised during the period is as follows:

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
By major service type:		
Corporate finance advisory services		
Sponsor fee income	6,560	7,468
Advisory fee income		
— financial and independent financial advisory	32,662	9,253
— compliance advisory	2,625	3,796
	41,847	20,517
Securities and underwriting services	8,613	17,312
Interest income from margin financing services	3,989	3,642
Asset management services	–	30
Investment fund	(3,740)	20,129
Total	50,709	61,630
Revenue from contracts with customers:		
Corporate finance advisory services	41,847	20,517
Securities and underwriting services	8,613	17,312
Asset management services	–	30
	50,460	37,859
Revenue from other sources:		
Interest income from margin financing services	3,989	3,642
Interest income from listed bonds	2,505	1,657
Dividend income from listed securities	472	454
Net change in financial assets at fair value through profit or loss	(6,717)	18,018
	50,709	61,630
Timing of revenue recognition from contracts with customers:		
Services transferred at a point in time	8,613	17,312
Services transferred over time	41,847	20,547
	50,460	37,859

(c) **Contract balances**

The following table provides information about contract liabilities from contracts with customers at the end of the period/year:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Deferred revenue	<u>8,743</u>	<u>5,629</u>
Movements in deferred revenue:		
Balance at the beginning of the period/year	5,629	8,509
Decrease in deferred revenue as a result of recognising revenue during the period/year that was included in deferred revenue at the beginning of the period/year	(3,590)	(5,946)
Increase in deferred revenue as a result of billing in advance of corporate finance advisory services	<u>6,704</u>	<u>3,066</u>
Balance at the end of the period/year	<u><u>8,743</u></u>	<u><u>5,629</u></u>

Sponsor fee income is generally received in advance prior to the beginning of each project and is initially recorded as deferred revenue in the condensed consolidated statement of financial position. The portion of income received from customers but not yet earned is recorded as deferred revenue in the condensed consolidated statement of financial position and be reflected as a current liability if such amount represents revenue that the Group expects to recognise within one year from each reporting date.

Deferred revenue mainly relates to advance consideration received from customers. Approximately HK\$3,590,000 and HK\$5,946,000 of deferred revenue as of 1 April 2021 and 2020 had been recognised as revenue for the period/year ended 30 September 2021 and 31 March 2021, respectively.

(d) **Transaction price allocated to the remaining performance obligations**

As at 30 September 2021, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts was approximately HK\$51,663,000 (30 September 2020: HK\$62,807,000). This amount represents revenue expected to be recognised in the future from partially completed long-term service contracts. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 1 to 36 months (30 September 2020: 1 to 36 months).

Geographical information

No geographical segment information is presented as the Group's revenue are all derived from Hong Kong based on the location of services delivered and the Group's non-current assets (excluding financial assets) are all located in Hong Kong.

Information about major customers

During the period, revenue from major customer who contributed over 10% of the total revenue of the Group are as follows:

	<i>Notes</i>	Six months ended	
		30 September	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Customer A	(i)	19,706	–
Customer B	(ii)	–	7,534
Customer C	(iii)	–	8,559

Notes:

- (i) Revenue from corporate finance advisory services for the six months ended 30 September 2021.
- (ii) Revenue from securities and underwriting services for the six months ended 30 September 2020.
- (iii) Revenue from corporate finance advisory and securities and underwriting services for the six months ended 30 September 2020.

5. OTHER INCOME AND GAINS OR LOSSES, NET

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	2	129
Exchange (loss)/gain, net	(184)	22
Share of results of consolidated investment fund attributable to other redeemable participating shareholders	6,031	(7,786)
Gain on disposal of financial assets at fair value through other comprehensive income	540	–
Other income	3	49
	6,392	(7,586)

6. FINANCE COSTS

The Group's finance costs recognised are as follows:

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	171	–
Interest on margin financing	117	117
Interest on lease liabilities	97	215
	<u>385</u>	<u>332</u>

7. PROFIT BEFORE INCOME TAX EXPENSES

The Group's profit before income tax expenses is arrived at after charging:

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Auditor's remuneration	519	561
Depreciation of		
— Property, plant and equipment	503	415
— Right-of-use assets	2,554	3,180
Expected credit loss on accounts receivable	–	3,378
Bad debt expenses	781	–
Low value assets lease expenses	47	47
Staff costs (including directors' remuneration):		
— Salaries, allowances and other benefits	25,919	23,537
— Equity settled share-based payment expenses	966	1,218
— Contributions to retirement benefits schemes	365	362
Total staff costs	<u>27,250</u>	<u>25,117</u>

8. INCOME TAX EXPENSES

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax — Hong Kong profits tax		
— Charge for the period	2,234	2,118
— Over-provision in respect of prior period	(6)	—
	<u>2,228</u>	<u>2,118</u>
Withholding tax on dividend income	21	—
	<u>21</u>	<u>—</u>
Income tax expenses	<u>2,249</u>	<u>2,118</u>

The provision of Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2020: 16.5%) to the six months ended 30 September 2021, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For that subsidiary, the first HK\$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for that subsidiary was calculated at the same basis to the six months ended 30 September 2020.

Dividend income received from listed securities in the United States is subject to withholding tax imposed in the country of origin. The withholding tax rate was ranged from 14% to 30% during the six months ended 30 September 2021.

9. DIVIDEND

During the six months ended 30 September 2021, no dividend (2020: HK\$19,892,000) was paid to the then shareholders respectively, which was in compliance with the applicable laws.

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2021 (2020: nil).

10. EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company	<u>8,674</u>	<u>12,309</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	405,962,965	405,962,965
Effect of dilutive potential ordinary shares in respect of the Company's share option schemes (<i>notes (ii) & (iii)</i>)	<u>381,879</u>	<u>24,446,140</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>406,344,844</u>	<u>430,409,105</u>

Notes:

- (i) Basic earnings per share is calculated by dividing profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue of the Company during the period.
- (ii) The calculation of diluted earnings per share is based on profit for the period attributable to owners of the Company and the weighted average number of ordinary shares after adjustment for the effect of the exercise of the Company's outstanding share options under Pre-IPO share option scheme and Share Option Scheme, and assuming the exercise is made at no consideration at the beginning of the period.

The Company's share options outstanding as at 30 September 2021 and 2020 had dilutive effect to the earnings per share because the sum of exercise price and option value of the Company's share options were lower than the average market price of the Company's shares for the six months ended 30 September 2021 and 2020.

- (iii) The effect of convertible bonds issued by a subsidiary is not considered for the calculation of diluted earnings per share as it increases profit for the period attributable to owners of the Company.

11. ACCOUNTS RECEIVABLE

	<i>Notes</i>	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Accounts receivable arising from			
— Securities margin financing services	<i>(i)</i>	129,277	97,016
— Securities dealing and brokerage services from the clearing house	<i>(ii)</i>	–	8,924
— Securities dealing and brokerage services from cash clients	<i>(iii)</i>	360	–
— Corporate advisory and other services	<i>(iv)</i>	20,015	23,078
Accounts receivable from brokers	<i>(v)</i>	1,331	2,169
		150,983	131,187

Notes:

- (i) Advances to margin clients in margin financing are repayable on demand and carry interest at Hong Kong Dollar Prime Rate plus a spread. Credit facility limits for margin clients are determined by discounted market value of securities collateral accepted by the Group. Fair values of these securities at 30 September 2021 and 31 March 2021 were approximately HK\$501,231,000 and HK\$822,241,000, respectively. Based on agreement terms with margin clients, the Group is permitted to sell or repledge securities in securities account in the absence of default by margin clients.

No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value to users of this announcement in view of the business nature of securities margin financing services.

The Group evaluates the collectability of loans based on management's judgement regarding the change in credit quality, collateral value and past collection history of each margin client. At 30 September 2021 and 31 March 2021, the Group had a concentration of credit risk on accounts receivable arising from margin clients. The top five accounts receivable of the Group from margin clients constituted approximately 40.3% of total accounts receivable from margin clients at 30 September 2021 (31 March 2021: 34.3%).

The Group has no credit terms for its margin clients.

Details of margin loan granted to Mr. Mui Ho Cheung Gary ("Mr. Mui"), a director of the Company, are as follows:

Name of the director	Outstanding balance at the beginning of the period/year HK\$'000	Outstanding balance at the end of the period/year HK\$'000	Maximum outstanding balance during the period/year HK\$'000	Margin finance facilities approved HK\$'000
At 30 September 2021 (Unaudited)				
Mr. Mui	1,197	1,247	1,247	3,000
At 31 March 2021 (Audited)				
Mr. Mui	1,226	1,197	1,226	3,000

The margin finance facilities granted to Mr. Mui were secured by securities, bearing interest at Hong Kong Dollar Prime Rate plus a spread and repayable on demand.

- (ii) The settlement terms of accounts receivable from the clearing house arising from the ordinary course of business of securities dealing and brokerage services are two business days after the trade date. The balance is neither past due nor impaired.
- (iii) Accounts receivable from securities dealing and brokerage services from cash clients represented unsettled client trades on various securities exchanges transacted at the last two to three business days prior to the end of the reporting period.

No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value to users of this announcement in view of the nature of these accounts receivable.

- (iv) In respect of accounts receivable arising from corporate advisory and other services, the ageing analysis based on invoice date (net of impairment loss) is as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Less than 30 days	5,603	6,439
31–90 days	984	4,035
91–365 days	7,747	4,564
Over 365 days	5,681	8,040
	<u>20,015</u>	<u>23,078</u>

- (v) Accounts receivable represent margin accounts, cash collateral for borrowed securities and sales transactions awaiting settlement.

Movements in the provision for impairment of accounts receivable are as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Opening balance	5,108	2,476
Impairment loss recognised	–	2,632
Closing balance	<u>5,108</u>	<u>5,108</u>

12. ACCOUNTS PAYABLE

	30 September 2021	31 March 2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Accounts payable arising from the ordinary course of business of securities dealing and brokerage services	(i)	
— Cash clients	19,512	43,760
— Margin clients	42,527	34,471
— Securities dealing and brokerage services from the clearing house	2,140	–
Amounts due to broker	(ii) 30,777	18,392
	<u>94,956</u>	<u>96,623</u>

Notes:

- (i) The settlement terms of accounts payable attributable to dealing in securities are two business days after the trade date.

No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value to users of this announcement in view of the business nature of securities dealing and brokerage services.

As at 30 September 2021, included in accounts payable arising from the ordinary course of business of securities dealing and brokerage services was an amount of approximately HK\$47,443,000 (31 March 2021: HK\$56,909,000) payable to clients in respect of segregated account balances received and held for clients in the course of the conduct of regulated activities.

- (ii) As at 30 September 2021, amounts due to broker are secured by securities of the Group with amount of approximately HK\$65,361,000 (31 March 2021: HK\$60,022,000) which are now or which shall at any time hereafter be deposited with, transferred to or held by the brokers for the Group's obligations under the relevant agreements.

The Group had unutilised credit limit of approximately HK\$38,290,000 from margin financing facilities as at 30 September 2021 (31 March 2021: HK\$42,107,000).

13. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
At 1 April 2020, 31 March 2021, 1 April 2021 and 30 September 2021	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2020, 31 March 2021, 1 April 2021 and 30 September 2021	<u>405,962,965</u>	<u>4,060</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is an active financial services provider in Hong Kong licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”). The Group principally engages in the provision of (i) corporate finance advisory services; (ii) securities and financing services; and (iii) asset management services through its main operating subsidiaries, namely Lego Corporate Finance Limited, Lego Securities Limited and Lego Asset Management Limited.

The shares of the Company (the “Shares”, each a “Share”) were listed on the Main Board of the Stock Exchange on 30 September 2019 (the “Listing”) by way of share offer with net proceeds of approximately HK\$99.1 million. The net proceeds from the Listing strengthen the Group’s financial position and enable the Group to pursue its business strategies to continue to grow and develop its businesses.

Following the Listing, the Group aims to utilise its established integrated financial service platform for providing a wide range of financial and securities services to its clients. The Group provides corporate finance advisory services including (i) acting as sponsor to companies seeking to list on the Main Board or GEM of the Stock Exchange; (ii) acting as financial adviser and independent financial adviser; and (iii) acting as compliance adviser. On the other hand, the Group also provides placing and underwriting services, securities dealing and brokerage services, securities financing services as well as asset management services to its clients.

Corporate finance advisory business remains the key business driver and the Group intends to leverage its ability to continually provide high-quality corporate finance advisory services to its clients. During the Period, the corporate finance advisory services have contributed a majority of the revenue of the Group.

Supported by the foundation built by the corporate finance advisory services, the Group continues to develop the securities and financing services and asset management services. During the Period, the Group has completed two transactions as the underwriter and/or placing agent for secondary market fundraising exercise. As at 30 September 2021, the asset under management amounted to approximately US\$9.3 million (equivalent to approximately HK\$72 million).

The Group has invested in Lego Vision Fund SP which is a segregated portfolio under Lego Funds SPC Limited launched on 1 April 2019. Lego Vision Fund SP is set up and managed by the respective investment manager who has the power and authority to manage and make decisions for the investment. The Group made the investment with primary objectives for capital appreciation, investment gains and selling in the future for profit.

REVIEW

Market Review

The global economy continued on the road of recovery since the outbreak of the novel coronavirus (COVID-19) in 2020. While certain countries have loosened travel restrictions with the implementation of the COVID-19 vaccine, other parts of the world continued to impose stringent travel restrictions which limit the ability to travel and conduct in-person meetings and economic activities. Global and Asia economy slowly recovers from standstill since COVID-19 was declared by World Health Organisation as a global pandemic on 11 March 2020. Despite the recovery of financial markets with most of the stock indices recouping their earlier losses in June 2020, Hong Kong's capital market activities remained weak and have yet to recover to the pre-pandemic level.

Global capital markets have reacted positively to the approval and wide acceptance of the vaccination programmes since December 2020. However, the initial benefit of the surge in fair value of its investments from the news have been reduced by the recent volatility of the market. Infections surged in a certain part of the world earlier this year and sparked renewed lockdowns and loomed over the prospect of recovery. The continual stringent regulatory environment and the uncertainties in the PRC property corporations further drive volatility in the capital market. The pace of the recovery on economic activities to pre-pandemic level remains to be seen.

The Group strives to maintain its profitability by prudent cost and capital management approach, and its comprehensive and diversified services offered to clients. The Group's strategy is well positioned to benefit from the recovery and its project pipeline remains resilient despite these challenges and was able to offset the slower economic activities with growth in corporate finance advisory services' income despite the setback in the investment fund. The Group's strong reputation for an excellent and high-performing team continues to provide support for recurring customers and auxiliary business. The Group also maintains sufficient financial resources and a strong balance sheet to fund its ongoing business requirements, operational and financial obligations. While the demand for corporate finance advisory and underwriting services in the industry and its business, which is dependable on the market conditions, was impacted by the uncertainties described above, the Group was still able to maintain its momentum and deal flow.

Business Review

Looking back on the past six months, the Group has achieved satisfactory results. During the Period, the Group was able to maintain its profitability while facing a challenging business environment and high market volatility. The Group leveraged its reputation and comprehensive range of service coverage and continues to diversify its income source and maintain a prudent cost and capital management strategy.

The Group continued to derive its revenue mainly from its corporate finance advisory services and securities and underwriting services during the Period, which accounted for approximately 82.5% and 17.0% (2020: approximately 33.3% and 28.1%) of the Group's total revenue, respectively. The Group's other businesses, namely (i) margin financing services; and (ii) asset management services and investment fund, accounted for approximately 7.9% and negative 7.4% (2020: approximately 5.9% and 32.7%) of its total revenue respectively during the Period.

Corporate Finance Advisory Services

The Group's corporate finance advisory services include (i) IPO sponsorship services; (ii) financial and independent financial advisory services; and (iii) compliance advisory services.

The Group's corporate finance advisory business recognised a significant increase in revenue of approximately 103.9%, from approximately HK\$20.5 million for the six months ended 30 September 2020 to approximately HK\$41.8 million during the Period. Such increase was mainly due to the contribution from a major customer of approximately HK\$19.7 million in relation to a general offer-related transaction.

During the Period, the Group was engaged in a total of 98 corporate finance advisory projects, which included 11 IPO sponsorship projects, 74 financial and independent financial advisory projects, and 13 compliance advisory projects, while we were engaged in a total of 116 corporate finance advisory projects, which included 15 IPO sponsorship projects, 82 financial and independent financial advisory projects and 19 compliance advisory projects during the six months ended 30 September 2020.

(i) IPO sponsorship services

During the Period, the Group was engaged in 11 IPO sponsorship projects (2020: 15 projects).

Revenue generated from IPO sponsorship services was approximately HK\$6.6 million during the Period (2020: approximately HK\$7.5 million).

(ii) Financial and independent financial advisory service

The Group acts as (i) financial advisers to clients to advise them on the terms and structures of the proposed transactions, and the relevant implications and compliance matters under the Hong Kong regulatory framework including, among others, the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC (the "Takeovers Code"); or (ii) independent financial advisers to independent board committees and/or independent shareholders of listed companies in Hong Kong rendering recommendations and opinions.

Revenue generated from financial and independent financial advisory services was approximately HK\$32.7 million during the Period (2020: approximately HK\$9.3 million). During the Period, the Group was engaged in 49 financial advisory projects and 25 independent financial advisory projects (2020: 51 and 31, respectively).

(iii) Compliance advisory services

The Group acts as compliance advisers to listed companies in Hong Kong advising them on post-listing compliance matters in return for an advisory fee.

Revenue generated from compliance advisory services was approximately HK\$2.6 million during the Period (2020: approximately HK\$3.8 million). During the Period, the Group was engaged in 13 compliance advisory projects (2020: 19 projects).

Securities, Underwriting and Financing Services

The Group provides (i) placing and underwriting services by acting as global coordinator, bookrunner, lead manager, or underwriter for listing applicants in IPOs and underwriter or placing agent for secondary market transactions, in return for placing and/or underwriting commission income; (ii) securities dealing and brokerage services for trading in securities on the Stock Exchange and in other overseas markets; and (iii) securities financing services to its clients by providing margin financing for securities purchases on the secondary market and IPO financing for new share subscriptions in IPOs.

During the Period, the Group recorded revenue from securities and underwriting business of approximately HK\$8.6 million (2020: approximately HK\$17.3 million). Such decrease was mainly due to decrease in placing and underwriting projects during the Period offset by increase in securities dealing and brokerage services. The Group did not complete any transaction as underwriter for IPOs and completed two transactions as the underwriter and/or placing agents for secondary market fundraising exercise (2020: four and nil, respectively). The revenue generated from securities dealing and brokerage was approximately HK\$7.7 million during the Period (2020: approximately HK\$2.3 million) as the securities trading activities by our clients increased during the Period.

As at 30 September 2021, the total outstanding balance of margin loans amounted to approximately HK\$129.3 million (31 March 2021: approximately HK\$97.0 million) and the interest income generated from margin financing services was approximately HK\$4.0 million during the Period (2020: approximately HK\$3.6 million).

Asset Management Services and Investment Fund

The Group provides fund management services to its clients.

As at 30 September 2021, the asset under management by the Group was approximately US\$9.3 million (equivalent to approximately HK\$72 million) (31 March 2021: approximately US\$9.9 million, or equivalent to approximately HK\$77 million). The revenue generated from asset management services was nil during the Period (2020: HK\$30,000).

The fund under management generated revenue of approximately negative HK\$3.7 million during the Period (2020: approximately HK\$20.1 million) arising from interest income from listed bonds, dividend income from listed securities and offset by net decrease in financial assets at fair value through profit or loss. Such decrease was mainly due to the market volatility during the Period which affected the performance of the fund under management.

Financial Review

Revenue

The total revenue of the Group decreased from approximately HK\$61.6 million for the six months ended 30 September 2020 to approximately HK\$50.7 million for the Period, representing a decrease of approximately 17.7%, mainly as a result of decrease in revenue from securities and underwriting services and investment fund, which was partly offset by increase in revenue of the corporate finance advisory services.

Other Income and Gains or Losses, Net

Other income and gains or losses, net increased to approximately HK\$6.4 million during the Period (2020: approximately negative HK\$7.6 million). Other income and gains or losses, net mainly includes interest income from bank deposits, foreign currency translation differences and share of results of consolidated investment fund attributable to other redeemable participating shareholders and gain on disposal of financial assets at fair value through other comprehensive income. The increase in other income and gains or losses, net was mainly due to the share of investment loss of consolidated investment fund by other redeemable participating shareholders of approximately HK\$6.0 million during the Period.

Administrative and Other Expenses

The Group's administrative and other expenses increased by approximately 62.4% from approximately HK\$10.9 million for the six months ended 30 September 2020 to approximately HK\$17.8 million for the Period, primarily due to an increase in traveling and entertainment expenses due to lift of travel restriction from the pandemic and increase in commission and transactions cost for securities brokerage and other services.

Staff Costs

Staff costs increased slightly by approximately 8.5% from approximately HK\$25.1 million for the six months ended 30 September 2020 to approximately HK\$27.3 million for the Period primarily due to the government subsidies on staff costs granted during the six months ended 30 September 2020.

Finance Costs

Finance costs represented interest expense recognised on right-of-use assets and interest expense payable for bank borrowings and margin financing incurred by the fund under management by the Group. The Group recorded finance costs of approximately HK\$0.4 million during the Period (2020: approximately HK\$0.3 million).

Profit attributable to the owners of the Company

Profit for the Period attributable to the owners of the Company decreased to approximately HK\$8.7 million (2020: approximately HK\$12.3 million) primarily due to a decrease in revenue, and an increase in administrative and other expenses, partially offset by an increase in other income.

Liquidity, Financial Resources and Capital Structure

During the Period, the Group's working capital and other capital requirements were principally satisfied by cash generated from the Group's operations, bank borrowings and capital.

As of 30 September 2021, the Group's net current assets amounted to approximately HK\$171.6 million (31 March 2021: approximately HK\$164.7 million), and its liquidity as represented by the current ratio (current assets/current liabilities) was approximately 1.9 times (31 March 2021: approximately 2.0 times). Cash and bank balances amounted to approximately HK\$45.3 million (31 March 2021: approximately HK\$38.1 million). As of 30 September 2021, the Group has bank borrowings, amounts due to broker and convertible bonds of approximately HK\$20.0 million, HK\$30.8 million, and HK\$1.2 million, respectively (31 March 2021: approximately HK\$5.0 million, HK\$18.4 million and HK\$1.2 million, respectively). As of 30 September 2021, the Group's total debt incurred (including bank borrowings, amounts due to broker, convertible bonds, and lease liabilities) were approximately HK\$65.3 million (31 March 2021: approximately HK\$33.8 million), representing a gearing ratio of approximately 35.7% (31 March 2021: approximately 19.4%).

Gearing ratio is calculated based on total borrowings divided by the total equity as at the end of the Period.

Pledge of Assets

As of 30 September 2021, the Group had pledged a bank deposit of HK\$5 million (31 March 2021: HK\$5 million).

Foreign Currency Exposure

The majority of the Group's revenue is denominated in Hong Kong dollars and US dollars and the Group's accounts are prepared in Hong Kong dollars. Consequently, the exposure to the risk of foreign exchange rate fluctuations for the Group is immaterial.

Capital Commitments and Contingent Liabilities

As at 30 September 2021, the Group did not have any significant capital commitment and contingent liabilities (31 March 2021: nil).

Employees and Remuneration Policies

As at 30 September 2021, the Group employed 49 staff (including executive Directors) (31 March 2021: 53). The remuneration of the Group's employees generally consists of monthly salary, which is determined based on, among other things, the employees' experience, qualification, position and responsibilities and discretionary bonus which is determined at the management's sole discretion based on, among other things, the relevant employee's performance and the Group's financial performance. Moreover, the Group provides employees training programs or subsidies employees to attend various job-related training courses. Employee benefit expenses primarily consist of salaries, bonuses, and allowance as well as contributions to the mandatory provident fund for the executive Directors and employees of the Group.

Apart from basic remuneration, share options may be granted under the share option scheme of the Company to eligible employees by reference to the Group's performance as well as the individual's contribution. As disclosed in the prospectus of the Company dated 17 September 2019 (the "Prospectus"), the Company adopted the pre-IPO share option scheme on 6 March 2019 and a post-IPO share option scheme on 10 September 2019 to incentivise and retain staff members who have made contributions to the success of the Group. The Directors believe that the compensation packages offered by the Group to its staff are competitive in comparison with market standards and practices.

Significant Investments held by the Group

Up to 30 September 2021, the Group has invested US\$3 million (equivalent to approximately HK\$23.4 million) into Lego Vision Fund SP, a fund under management by the Group, as seed money. Lego Vision Fund SP focuses to invest in a portfolio consisting primarily of equities, bonds and other securities of companies in promising industries with excellent management, business model, products and sound financials for the long-term sustainable growth.

As at 30 September 2021, the Group held 28,807 non-voting shares in Lego Vision Fund SP (which represented 43.9% of total non-voting shares of Lego Vision Fund SP) with aggregate value of approximately US\$4.1 million (equivalent to approximately HK\$32 million), which represented approximately 8.6% of the total assets of the Company. During the Period, the net asset value per share in respect of Lego Vision Fund SP held by the Group was decreased from US\$153.6 (equivalent to approximately HK\$1,198.1) on 1 April 2021 to approximately US\$141.6 (equivalent to approximately HK\$1,104.5) on 30 September 2021, representing a negative return of approximately 7.8% during the Period. In view of the concerns on economic and political conditions, it is expected that the market will be very volatile in the second half of the financial year. However, the portfolio of Lego Vision Fund SP is built according to the mandate for steady absolute return under a controlled standard deviation and the fund manager believes that the performance of Lego Vision Fund SP will recover in 2022. Accordingly, the Group intends to maintain its investment in Lego Vision Fund SP as a long-term investment.

Risk Management

The objective of the Group's risk management is to achieve an appropriate balance between risk and return, and reduce the negative impact on its operating results and maximise shareholder's value. The Group's risk management strategy is to identify and analyse the various risks faced by the Group, establish appropriate risk tolerance, and reliably measure and monitor the risks on a timely and effective manner to ensure the risks are controlled within the tolerance level.

Outlook and Prospect

Global and Asia economy continued to face significant uncertainties due to the global pandemic. Businesses around the world are also challenged in different aspects in the way of conducting business, keeping employees motivated while ensuring the safety of its employees and customers. Several factors, such as the progress of vaccination rollout and the Sino-US trade dispute will continue to hinder the recovery of the economic activities in most countries.

Any adverse market condition or market sentiment may affect clients' decision on the scale, timing and platform in respect of their fund raising needs, which may lead to lower demand for, delay to or termination of fund raising activities and the Group's services.

With the Group's diversified business portfolio which creates synergies between its business lines and the Group's experiences to advise on broad spectrum of corporate transactions which covers not only fund raising activities, but also resumption, restructuring and other corporate actions, the Group remains capable to secure new mandates and maintaining a healthy project pipeline. However, the Group's business and revenue may likely be adversely affected if the uncertainties continue to dampen the outlook of the market.

The Group was able to maintain its profitability under the shadow of market uncertainties during the Period. The Group will continue to equip itself for its long-term growth with steps to diversify its income sources and risk while allocating its resources as appropriate in response to the market changes.

Looking ahead, it is expected that the economy will resume gradually but maybe in a bumpy manner. The Company will continue to adhere to its strict and prudent risk management and compliance strategy, and take a prudent approach to its business development. The Group will aim to cement its strong reputation as an integrated platform for providing financial and securities services, and leverage its market position to diversify its income stream and expand its client base.

The Company will also capitalise on the advantages of being a fully licensed broker in Hong Kong to provide high-quality professional services on corporate finance advisory, securities and financing, and asset management for outstanding enterprises in Asia and around the world. The Group expects to weather the economic uncertainties and aims to create a long-term return to its shareholders and investors and endeavor to establish the Company as a leading comprehensive financial services institution in the region.

CORPORATE GOVERNANCE

Compliance with Corporate Governance Code

As of 30 September 2021, the Company has complied with all applicable code provisions under the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules and adopted most of the best practices set out therein except for the following provision.

Under code provision A.2.1 of the CG Code, which requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Mui Ho Cheung Gary currently holds both positions. Mr. Mui, an executive Director and controlling shareholder, has held key leadership position of the Group since March 2016 and has been responsible for overall strategic planning, management, operation and business development of the Group. The Directors (including the independent non-executive Directors) consider that Mr. Mui is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Group and its shareholders as a whole.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries with the Directors, all of the Directors confirmed that he/she has complied with the required standards as set out in the Model Code during the Period.

AUDIT COMMITTEE

The Board has established an audit committee (the “Audit Committee”), which comprises three independent non-executive Directors, namely, Ms. Lim Yan Xin Reina (Chairlady), Mr. Poon Lai Yin Michael and Dr. Wong Ho Ki. The Audit Committee has also adopted written terms of reference which clearly set out its duties and obligations (the terms of reference are available on the websites of the Company and Stock Exchange).

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of the Company for the six months ended 30 September 2021 have been reviewed by our auditor, BDO Limited, 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. The Audit Committee has also reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 September 2021 including the accounting principles and practices adopted by the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2021 (2020: nil).

IMPORTANT EVENTS AFTER THE END OF THE PERIOD

There is no material subsequent event undertaken by the Group after 30 September 2021 and up to the date of this announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE’S WEBSITE

The interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.legogroup.hk and the interim report of the Company for the six months ended 30 September 2021 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in accordance with the requirements under the Listing Rules.

By order of the Board
LFG Investment Holdings Limited
Mui Ho Cheung Gary

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 25 November 2021

As at the date of this announcement, the executive Directors are Mr. Mui Ho Cheung Gary, Mr. Liu Chi Wai, Mr. Ng Siu Hin Stanley, Ms. Ho Sze Man Kristie and Mr. Tang Chun Fai Billy; and the independent non-executive Directors are Ms. Lim Yan Xin Reina, Mr. Poon Lai Yin Michael and Dr. Wong Ho Ki.

This announcement has been issued in the English language with a separate Chinese language translation. If there is any conflict in the announcement between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.