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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 FINAL RESULTS
FOR THE YEAR ENDED 31 MARCH 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 audited consolidated final results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2021, together with the comparative figures for the corresponding period of the previous year, are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2021

		Year ended 31 March	
		2021	2020
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Revenue	4, 5	155,503	163,614
Other income	5	3,902	725
Other gain	5	–	14,164
Fair value losses on revaluation of investment properties		(990)	(7,340)
Reversal of/(provision for) impairment and write-off of loans receivable, net	6	2,394	(19,158)
Administrative expenses	7	(47,338)	(50,641)
Operating profit		113,471	101,364
Finance costs	8	(25,676)	(35,146)
Profit before income tax		87,795	66,218
Income tax expense	9	(14,577)	(10,723)
Profit and total comprehensive income for the year attributable to owners of the Company		73,218	55,495
Earnings per share for profit attributable to owners of the Company			
— Basic (<i>HK cents</i>)	10(a)	17.6	13.4
— Diluted (<i>HK cents</i>)	10(b)	17.6	13.4
Dividends	11	10,790	10,790

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

		As at 31 March	
	Note	2021	2020
		HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		74,105	75,140
Investment properties		76,350	77,340
Financial asset at fair value through profit or loss		800	800
Loans receivable	12	264,241	197,889
Other assets		–	1,054
Deferred income tax assets		749	791
		<hr/>	<hr/>
Total non-current assets		416,245	353,014
Current assets			
Loans receivable	12	553,312	737,896
Interest receivables	13	16,981	19,840
Repossessed assets		33,557	34,511
Prepayments, deposits and other receivables		1,873	17,356
Tax recoverable		–	424
Cash and cash equivalents		80,023	15,279
		<hr/>	<hr/>
Total current assets		685,746	825,306
		<hr/>	<hr/>
Total assets		1,101,991	1,178,320
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,150	4,150
Reserves		672,710	610,282
		<hr/>	<hr/>
Total equity		676,860	614,432
		<hr/>	<hr/>

		As at 31 March	
		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Bonds	<i>15</i>	22,954	99,513
Deferred income tax liabilities		3,168	2,902
Total non-current liabilities		26,122	102,415
Current liabilities			
Other payables and accruals		7,006	5,550
Amount due to a fellow subsidiary	<i>17(b)</i>	128,840	126,246
Tax payable		8,248	6,474
Bank and other borrowings	<i>14</i>	177,058	323,203
Bonds	<i>15</i>	77,857	–
Total current liabilities		399,009	461,473
Total liabilities		425,131	563,888
Total equity and liabilities		1,101,991	1,178,320
Net current assets		286,737	363,833
Total assets less current liabilities		702,982	716,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (the “**Group**”) are principally engaged in the money lending business of providing property mortgage loans and personal loans in Hong Kong.

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

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

These consolidated financial statements are presented in thousands of Hong Kong dollars (the “**HK\$’000**”), unless otherwise stated. These consolidated financial statements were approved by the board of directors of the Company for issue on 24 June 2021.

2 BASIC OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the disclosure requirements of the Companies Ordinance (Cap. 622) for this financial year and the comparative year.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

(a) Amended standards effective in 2021 but not relevant to the Group

The Group has applied the following amendments to standards for the first time for its annual reporting period commencing 1 April 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of material
HKFRS 16 (Amendment)	COVID-19-related rent concessions
HKAS39, HKFRS 7 and HKFRS 9 (Amendments)	Interest rate benchmark reform
HKFRS 3 (Amendment)	Definition of a business
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting

The Group has adopted these new standards, amendments of standards and interpretations and the adoption of these new standards, amendments of standards and interpretations do not have significant impacts on the Group’s consolidated financial statements.

- (b) The following new and amended standards have been issued but are not effective for the financial year beginning on 1 April 2020 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
HKFRSs (Amendments)	Annual improvements 2018–2020 cycle	1 April 2022
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow — scope amendments	1 April 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination	1 April 2022
HKFRS 17	Insurance contracts and the related amendments	1 April 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 April 2023
HK(IFRIC) — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 April 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The above new and amended standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4 SEGMENT INFORMATION

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

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

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

There were no sales between the operating segments in the year ended 31 March 2021 (2020: There were sales between operating segments).

All of the Group's revenue from external customers and assets were generated from and located in Hong Kong during the years ended 31 March 2021 and 2020.

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

For the year ended 31 March 2021

	Property mortgage loans HK\$'000	Personal loans HK\$'000	Unallocated HK\$'000	Total HK\$'000
Revenue from external customers	109,735	45,768	–	155,503
Other income and gain	2,641	987	274	3,902
Fair value losses on revaluation of investment properties	–	–	(990)	(990)
Reversal of impairment and write-off of loans receivable, net	2,215	179	–	2,394
Administrative expenses	(29,397)	(13,905)	(4,036)	(47,338)
Operating profit/(loss)	85,194	33,029	(4,752)	113,471
Finance costs	(18,361)	–	(7,315)	(25,676)
Profit/(loss) before income tax	66,833	33,029	(12,067)	87,795
Income tax expense	(9,441)	(3,809)	(1,327)	(14,577)
Profit/(loss) and total comprehensive income/(loss) for the year attributable to owners of the Company	<u>57,392</u>	<u>29,220</u>	<u>(13,394)</u>	<u>73,218</u>

As at 31 March 2021

	Property mortgage loans HK\$'000	Personal loans HK\$'000	Unallocated HK\$'000	Total HK\$'000
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>
Other information:				
Depreciation expense	(562)	(511)	(1,941)	(3,014)
(Provision for)/reversal of impairment:				
— Stage 1	(2,823)	213	–	(2,610)
— Stage 2	223	399	–	622
— Stage 3	7,368	(315)	–	7,053
Loans and interest receivables written off	<u>(2,553)</u>	<u>(118)</u>	<u>–</u>	<u>(2,671)</u>

For the year ended 31 March 2020

	Property mortgage loans <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Total segment revenue	114,627	49,268	–	163,895
Inter-segment revenue	–	(281)	–	(281)
Revenue from external customers	114,627	48,987	–	163,614
Other income and gain	346	(120)	14,663	14,889
Fair value losses on revaluation of investment properties	–	–	(7,340)	(7,340)
Provision for impairment and write-off of loans receivable, net	(7,584)	(11,574)	–	(19,158)
Administrative expenses	(31,981)	(18,446)	(214)	(50,641)
Operating profit	75,408	18,847	7,109	101,364
Finance costs	(27,799)	–	(7,347)	(35,146)
Profit/(loss) before income tax	47,609	18,847	(238)	66,218
Income tax expense	(6,371)	(3,314)	(1,038)	(10,723)
Profit/(loss) and total comprehensive income/(loss) for the year attributable to owners of the Company	<u>41,238</u>	<u>15,533</u>	<u>(1,276)</u>	<u>55,495</u>
As at 31 March 2020				
	Property mortgage loans <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>865,279</u>	<u>150,243</u>	<u>162,798</u>	<u>1,178,320</u>
Segment liabilities	<u>(448,181)</u>	<u>(5,311)</u>	<u>(110,396)</u>	<u>(563,888)</u>
Other information:				
Depreciation expense	(417)	(670)	(1,937)	(3,024)
(Provision for)/reversal of impairment:				
— Stage 1	(706)	(1,564)	–	(2,270)
— Stage 2	207	(789)	–	(582)
— Stage 3	(7,086)	(1,821)	–	(8,907)
Loans and interest receivables written-off	<u>–</u>	<u>(7,399)</u>	<u>–</u>	<u>(7,399)</u>

5 REVENUE AND OTHER INCOME AND GAIN

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

	Year ended 31 March	
	2021	2020
	HK\$'000	HK\$'000
Revenue:		
Interest income — property mortgage loans	109,735	114,627
Interest income — personal loans	45,768	48,987
Total revenue	<u>155,503</u>	<u>163,614</u>
Other income:		
Rental income	343	440
Sundry income	8	15
Management service fee income	1,742	270
Government grant	1,809	–
Total other income	<u>3,902</u>	<u>725</u>
Other gain:		
Gain on disposal of a subsidiary	–	14,164
Total other gain	<u>–</u>	<u>14,164</u>

6 (REVERSAL OF)/PROVISION FOR IMPAIRMENT AND WRITE-OFF OF LOANS RECEIVABLE, NET

	Year ended 31 March 2021			Total
	12 months expected credit loss (Stage 1)	Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Charge for/(reversal of) provisions for impairment on loans receivable	2,610	(622)	(7,053)	(5,065)
Write-off of loans receivable	118	–	2,553	2,671
	<u>2,728</u>	<u>(622)</u>	<u>(4,500)</u>	<u>(2,394)</u>

	Year ended 31 March 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	
Charge for provisions for impairment on loans receivable	2,270	582	8,907	11,759
Write-off of loans receivable	49	888	6,462	7,399
	<u>2,319</u>	<u>1,470</u>	<u>15,369</u>	<u>19,158</u>

7 ADMINISTRATIVE EXPENSES

	Year ended 31 March	
	2021 HK\$'000	2020 HK\$'000
Employee benefit expenses (excluding directors' emoluments)	15,985	16,807
Directors' emoluments	6,089	5,764
Advertising and marketing expenses	10,795	10,115
Legal and professional fees	3,107	3,551
Rent and rates	365	307
Auditor's remuneration		
— audit services	800	800
— non-audit services	250	250
Bank charges	400	410
Referral fees	1,352	2,035
Valuation and search fee	590	1,394
Depreciation of property, plant and equipment	3,014	3,024
Other expenses	4,591	6,184
Total administrative expenses	<u>47,338</u>	<u>50,641</u>

8 FINANCE COSTS

	Year ended 31 March	
	2021 HK\$'000	2020 HK\$'000
Interest on secured bank borrowings	10,186	17,556
Interest on bank overdrafts	385	265
Interest on amount due to a fellow subsidiary (Note 17(a))	5,926	7,016
Interest and other expenses on bonds	7,147	7,147
Interest on other borrowings	2,032	3,162
Total finance costs	<u>25,676</u>	<u>35,146</u>

9 INCOME TAX EXPENSE

Hong Kong profits tax for the years ended 31 March 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% (2020: 16.5%).

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Year ended 31 March	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong profits tax		
— Current year	14,504	10,999
— (Over)/under provision in prior years	(235)	22
Deferred income tax	308	(298)
	<u>14,577</u>	<u>10,723</u>

10 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of HK\$73,218,000 (2020: HK\$55,495,000) by the weighted average number of 415,000,000 (2020: 415,000,000) ordinary shares in issue during the year ended 31 March 2021.

	Year ended 31 March	
	2021	2020
Profit attributable to owners of the Company (HK\$'000)	73,218	55,495
Weighted average number of ordinary shares in issue		
for basic earnings per share ('000)	415,000	415,000
Basic earnings per share (HK cents)	<u>17.6</u>	<u>13.4</u>

(b) Diluted earnings per share

As at 31 March 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 in respect of the year ended 31 March 2021 of HK1.3 cents per share, totaling HK\$5,395,000, is scheduled to be declared at the forthcoming annual general meeting of the Company. These consolidated financial statements do not reflect this dividend payable.

	Year ended 31 March	
	2021	2020
	HK\$'000	HK\$'000
Interim dividend paid of HK1.3 cents (2020: HK1.3 cents) per share	5,395	5,395
Proposed final dividend of HK1.3 cents (2020: HK1.3 cents) per share	5,395	5,395
	<u>10,790</u>	<u>10,790</u>

12 LOANS RECEIVABLE

	As at 31 March	
	2021	2020
	HK\$'000	HK\$'000
Gross loans receivable — property mortgage loans	652,991	822,745
Gross loans receivable — personal loans	188,653	139,525
Total gross loans receivable	841,644	962,270
Less: Provision for impairment		
— Stage 1	(4,425)	(1,815)
— Stage 2	(327)	(949)
— Stage 3	(16,668)	(23,721)
Loans receivable directly written-off	(2,671)	—
Loans receivable, net of provision	817,553	935,785
Less: non-current portion	(264,241)	(197,889)
Current portion	<u>553,312</u>	<u>737,896</u>

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

Except for personal loans receivable of HK\$188,653,000 (2020: HK\$139,525,000) which are unsecured, loans receivable are secured by collateral provided by customers, bear interest and are repayable with fixed terms agreed with the customers.

As at 31 March 2021, loans receivable amounted to HK\$2,671,000 (2020: Nil) had been written-off. These relate to customers who are either (i) in financial difficulties; (ii) declared bankruptcy; or (iii) deceased and in the opinion of the directors, such loans receivable are uncollectible.

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

	As at 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	553,312	737,896
2–5 years	61,744	42,824
Over 5 years	202,497	155,065
	<u>817,553</u>	<u>935,785</u>

As at 31 March 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 (Note 14(iii)).

13 INTEREST RECEIVABLES

	As at 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest receivables	<u>16,981</u>	<u>19,840</u>

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

Except for interest receivables of HK\$7,755,000 (2020: HK\$3,701,000) which are unsecured, interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with the customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

14 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	152,058	283,203
Other borrowings	25,000	40,000
Total bank and other borrowings	<u>177,058</u>	<u>323,203</u>

The weighted average effective interest rate on bank loans during the year ended 31 March 2021 was 5.3% (2020: 5.4%) per annum.

Other borrowings of HK\$25,000,000 (2020: HK\$40,000,000) are unsecured, interest bearing at rates ranging from 4% to 5.25% (2020: 5.25%) per annum and repayable within one year.

At 31 March 2021 and 2020, all bank borrowings are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

As at 31 March 2021, the bank loans and overdrafts utilised by the Group amounted to HK\$152,058,000 (2020: HK\$283,203,000). The Group's unutilised banking facilities as at the same date amounted to HK\$222,983,000 (2020: HK\$85,313,000). These banking facilities were secured by the following:

- (i) investment properties held by the Group with a net book value of to HK\$76,350,000 (2020: HK\$77,340,000);
- (ii) land and buildings held by the Group with a net book value of HK\$71,890,000 (2020: HK\$73,828,000);
- (iii) pledge of certain properties mortgaged to a subsidiary of the Company for loans granted to its respective customers. The fair value of these properties were approximately HK\$237,300,000 (2020: HK\$456,100,000); and
- (iv) corporate guarantee of the Company.

15 BONDS

	As at 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bonds	100,811	99,513
Less: current portion	<u>(77,857)</u>	<u>–</u>
Non-current portion	<u>22,954</u>	<u>99,513</u>

As at 31 March 2021, the Company had 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 (2020: HK\$84,000,000 and HK\$18,000,000), before placing commission, respectively, with coupon rates at 6.0% (2020: 6.0%) and 4.5% (2020: 4.5%) per annum, respectively, repayable in 7 years from the respective issue dates and the maturity dates ranging from 9 October 2021 to 27 August 2022. Bond II carries an option by the bondholder to redeem Bond II three years after the date of issuance.

The aggregate carrying amounts of the Bonds are HK\$100,811,000 as at 31 March 2021 (2020: HK\$99,513,000), and approximate their fair values. The fair values are determined using the expected future payments discounted at effective interest rates prevailing at the year ended 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 COMMITMENTS

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 are within 1 year (2020: ranges from 1 to 2 years).

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

	As at 31 March	
	2021 HK\$'000	2020 HK\$'000
Within 1 year	262	279
Within 2–5 years	—	256
	<u>262</u>	<u>535</u>

The Group did not have any significant commitments at 31 March 2021 (2020: 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 years ended 31 March 2021 and 2020, and balances arising from related party transactions as at 31 March 2021 and 2020.

(a) Significant related party transactions

Saved as disclosed elsewhere in this announcement, the following significant transactions were undertaken by the Group with related parties.

	Year ended 31 March	
	2021 HK\$'000	2020 HK\$'000
Interest expenses paid to a fellow subsidiary — Tin Ching Industrial Company Limited (“Tin Ching Industrial”)	<u>5,926</u>	<u>7,016</u>

Interest expenses on an amount due to a fellow subsidiary was charged at an effective interest rate of 5.8% (2020: 5.5%) per annum.

(b) Amount due to a fellow subsidiary

Tin Ching Industrial, a fellow subsidiary, provided the Group with a loan facility with a limit of HK\$200,000,000 (2020: HK\$200,000,000), of which the Group utilised an amount of HK\$128,840,000 (2020: HK\$126,246,000) as at 31 March 2021.

The amount was unsecured, interest bearing at an effective interest rate of 5.8% (2020: 5.5%) per annum on the outstanding amount, and repayable on demand. The carrying amount of the amount due to a fellow subsidiary is denominated in Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and Industry Overview

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 unsecured 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 70.0% to the Group’s revenue during the current year. Interest income generated from the mortgage loan business slightly decreased by 4.3% to HK\$109.7 million during the current year. The gross mortgage loan portfolio was reduced to HK\$653.0 million as at 31 March 2021 amid the subdued economic environment during the current year. As for our unsecured personal loan business, the interest income decreased by 6.5% to HK\$45.8 million, contributing to about 30.0% of our Group’s revenue for the current year. During the current year, we have rebalanced our products-mix and increased our gross personal loan portfolio to HK\$188.7 million as at 31 March 2021.

The pandemic of Coronavirus Disease 2019 (“COVID-19”) and the political tension between China, U.S. and the western countries have persistently and severely impacted the global and local economy during the current year. Coupled with the economic uncertainty and great challenges, we have experienced dampening demand in our loan products and dipping in our loan portfolio. We have adopted prudent and cautious approaches such as implementing stringent credit policy, having strict control on loan-to-value ratio, etc. which persistently supported our Group in maintaining our loan portfolio, and to generate stable interest income during the year. Further, in response to the market downturn and the challenges from the sluggish business environment, we have put significant effort on our debts recovery and successfully recovered the specific provision of doubtful debts of HK\$5.7 million during the current year.

Financial review

Revenue

Our interest income from money lending business of providing property mortgage loans and personal loans in Hong Kong decreased by HK\$8.1 million or 5.0% from HK\$163.6 million for the last year to HK\$155.5 million for the current year. Interest income for the last year included the interest income of HK\$18.6 million generated from unsecured personal loan products to individual borrowers (other than those of property owners) and such business of unsecured personal loan products has been disposed of in February 2020 (“**interest income from disposed business**”). Further details of such disposal has been set out in the Company’s circular dated 26 March 2020.

Should this interest income from disposed business be excluded for the last year, for comparison purpose, the interest income of the Group for the current year would have increased by 7.2% as compared to the last year, and such increase was mainly derived from the rebalancing of our products-mix to increase our gross personal loan portfolio from property owners which overall increased our interest income in this sector.

Interest income from our mortgage loan business decreased by HK\$4.9 million or 4.3% from HK\$114.6 million for the last year to HK\$109.7 million for the current year, whereas the interest income from our personal loan business increased by HK\$15.4 million or 50.7% from HK\$30.4 million (excluding interest income from disposed business of HK\$18.6 million, as for comparison purpose) for the last year to HK\$45.8 million for the current year.

Other income

We have recorded other income of HK\$3.9 million (2020: HK\$0.7 million) during the current year, mainly representing the government grant of HK\$1.8 million and the management service fee income of HK\$1.7 million received from provision of various management and administrative services to a disposed subsidiary.

Other gain

We have recorded other gain of HK\$14.2 million during the last year, which represented the gain arising from the disposal of our subsidiary engaging in providing unsecured personal loan products to individual borrowers (other than those of property owners). Further details of such disposal have been set out in the Company's circular dated 26 March 2020. There was no such gain on disposal for the current year.

Fair value losses on revaluation of investment properties

During the current year, our Group recorded a loss of HK\$1.0 million (2020: HK\$7.3 million) on the revaluation of our investment properties, as the Group experienced a correction in the Hong Kong property market as a result from those unfavourable factors as mentioned above, during the current year.

(Reversal of)/provision for impairment and write-off of loans receivable, net

We have recorded a reversal of the provision for impairment and write-off of loans and interest receivables of HK\$2.4 million for the year (2020: a provision of HK\$19.2 million).

Below is the breakdown of (reversal of)/provision for impairment and write-off of loans receivable incurred from property mortgage loans and personal loans during the year and the prior year:

	Property mortgage loans		Personal loans	
	Year ended 31 March		Year ended 31 March	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Reversal of)/provision for impairment on loans receivable	(4.8)	7.6	(0.3)	4.2
Write-off of loans receivable	2.6	–	0.1	7.4
	<u>(2.2)</u>	<u>7.6</u>	<u>(0.2)</u>	<u>11.6</u>

Administrative expenses

We have incurred administrative expenses of HK\$47.3 million for the current year (2020: HK\$50.6 million), which mainly comprised of employee benefit expenses, advertising and marketing expenses, referral fees, depreciation of property, plant and equipment and other miscellaneous expenses. The decrease in the administration expenses by HK\$3.3 million or 6.5% was mainly due to the various cost controls implemented on our administrative expenses during the current year.

Finance costs

We have incurred finance costs of HK\$25.7 million for the current year (2020: HK\$35.1 million), which mainly comprised of interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary and issuance of bonds. The decrease in the finance costs by HK\$9.4 million or 26.8% was mainly attributable to the decrease in the utilisation of bank and other borrowings which were in line with the decrease in our loan portfolio during the current year.

Net interest margin

The net interest margin of our money lending business increased from 13.8% for the last year to 14.9% for the current year, which was mainly attributed to the shift of our product-mix to unsecured 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\$73.2 million for the current year as compared to HK\$55.5 million for the last year, representing an increase of 31.9%.

LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES

During the current year, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from our fellow subsidiary, Tin Ching Industrial Company Limited, as well as banks and other borrowings, and proceeds from the issue of bonds. Based on our current and anticipated levels of operations, barring unforeseeable market conditions, our future operations and capital requirements will be financed through loans from banks or other financial institutions that are independent third parties, retained earnings, proceeds from the issue of the bonds and our share capital. We had no significant commitments for capital expenditure as at 31 March 2021.

The Group recorded net current assets of HK\$286.7 million as at 31 March 2021 (2020: HK\$363.8 million).

As at 31 March 2021, cash and cash equivalents amounted to HK\$80.0 million (2020: HK\$15.3 million); amount due to a fellow subsidiary amounted to HK\$128.8 million (2020: HK\$126.2 million); interest bearing bank and other borrowings amounted to HK\$177.1 million (2020: HK\$323.2 million), and bonds amounted to HK\$100.8 million (2020: HK\$99.5 million).

During the current year, 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 amounts due to a fellow subsidiary and other borrowings were unsecured, interest bearing at a rate ranging from 4.0% to 5.8% per annum with fixed term of repayment. The bonds were unsecured, interest bearing at their respective pre-determined interest rate ranging from 4.5% to 6.0% per annum, and were repayable upon seven years of their respective maturities.

During the current year, 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 31 March 2021, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$223.0 million and HK\$71.9 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 year, 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 years ended 31 March 2021 and 2020 respectively:

	As at 31 March	
	2021	2020
Current ratio ⁽¹⁾	1.72	1.79
Gearing ratio ⁽²⁾	<u>0.48</u>	<u>0.87</u>
	For the year ended	
	31 March	
	2021	2020
Net interest margin ratio ⁽³⁾	14.9%	13.8%
Return on equity ratio ⁽⁴⁾	10.8%	9.0%
Interest coverage ratio ⁽⁵⁾	<u>4.5 times</u>	<u>3.1 times</u>

Notes:

- (1) Current ratio was calculated by dividing current assets by current liabilities as at the respective year-end date.
- (2) Gearing ratio was calculated by dividing net debts (being the total interest bearing bank and other borrowings, amount due to a fellow subsidiary and the bonds, less cash and cash equivalents) by total equity as at the respective year-end date.
- (3) Net interest margin ratio was calculated by dividing net interest income (being the interest income net of finance costs) by the monthly average balance of loan receivables at the respective year-end date.
- (4) Return on equity ratio was calculated by dividing profit and total comprehensive income for year attributable to owners of the Company by the total equity as at the respective year-end date.
- (5) Interest coverage ratio was calculated by dividing profit before finance costs and income tax expenses (excluding fair value losses on revaluation of investment properties) by the finance costs for the corresponding year.

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 year.

IMPORTANT EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

Subsequent to the end of the year ended 31 March 2021 and up to the date of this announcement, there was no other significant or important event that affects the business of the Group.

COMPLIANCE WITH MONEY LENDERS ORDINANCE

Our Group is required to and has, at all times, strictly complied with all relevant laws and regulations. In the opinion of our Directors, in addition to the Rules Governing the Listing Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the MLO constituted a significant influence on our Group’s money lending business during the current year.

The MLO is the principal ordinance which governs the money lending business in Hong Kong. Our money lending business has been conducted through the subsidiaries of our Company. During the current year, we did not receive any objection from and was not investigated by the Registrar of Money Lenders nor the Commissioner of Police regarding the renewal of the money lenders licence.

To the best of our knowledge, our Group has complied with the MLO in all material aspects, and that our Directors are not aware of any matters that might come to their attention that our money lenders licence would be suspended, terminated or would not be renewed in foreseeable future.

CUSTOMERS

During the current year, our customers comprised individuals and corporations in Hong Kong and were all independent third parties (within the meaning of Chapter 14A of the Listing Rules), and were not connected persons or senior management of our Group.

During the current year, our top five customers (as determined by interest income generated) accounted for approximately 9.6% (2020: 12.0%) of our total revenue, and our single largest customer accounted for approximately 2.2% (2020: 2.1%) of our total revenue.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2021, our Group employed 35 (2020: 33) full time employees. The total staff costs of our Group for the current year were HK\$22.1 million (2020: HK\$22.6 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 year end 31 March 2021.

CHARGES ON GROUP ASSETS

As at 31 March 2021, our land and buildings of HK\$71.9 million (2020: HK\$73.8 million), our investment properties of HK\$76.4 million (2020: HK\$77.3 million) and certain properties mortgaged to our subsidiary with aggregate fair values of these properties of approximately HK\$237.3 million (2020: HK\$456.1 million) were secured for the Group's bank borrowings.

FOREIGN EXCHANGE EXPOSURE

During the current year, the business activities of our Group were denominated in Hong Kong dollars. Our Directors do not consider that 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 31 March 2021, our Group had no material contingent liabilities (2020: Nil).

CAPITAL COMMITMENTS

The Group did not have any capital commitments as at 31 March 2021 (2020: Nil).

OUTLOOK

The coming financial years remains challenging and highly unpredictable. The persistent COVID-19 pandemic and the on-going political tension between countries continuously impacts on Hong Kong economy and her business environment. We expect these unfavourable factors will continue to affect our loan product demand and our business operations for the coming financial years. The recovery from the dip in our loan product demand and our loan portfolio largely depends on the effectiveness and the general acceptance of the COVID-19 vaccines. Although the Hong Kong Government has rolled out several relief measures and support schemes to back enterprises and to support employment, and has freely provided for and encouraged the general public to take the vaccines, it is expected the global economy and the Hong Kong economic outlook will remain sluggish during the year 2021, which would certainly pose persistent challenges and uncertainty to both our mortgage loan and unsecured personal loan products.

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

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

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

CORPORATE GOVERNANCE PRACTICES

Our Company has adopted and complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules during the year.

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 to 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 year under review.

REVIEW OF FINAL 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 discussed with the management of our Company the internal control and financial reporting matters including the accounting principles and practices related to the preparation of the consolidated financial statements for the year ended 31 March 2021. The Audit Committee has also reviewed the consolidated financial statements for the year with the management and the auditor of our Company and recommended them to the Board for approval.

ANNUAL GENERAL MEETING

The annual general meeting of our Company will be held on Thursday, 2 September 2021 (the “**AGM**”). The notice of AGM, which constitutes part of the circular to the shareholders, will be published on the websites of our Company and of the Stock Exchange, respectively and despatched to our shareholders together with our Company’s 2021 annual report in due course.

SCOPE OF WORK OF THE EXTERNAL AUDITOR

The figures in respect of this preliminary announcement of the Group's result for the year ended 31 March 2021 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK1.3 cents per share for the year ended 31 March 2021, subject to shareholders' approval at the AGM. The proposed final dividend will be paid on Friday, 8 October 2021.

CLOSURES OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods, and no transfers of shares of the Company will be effected during such periods:

- (i) from Monday, 30 August 2021 to Thursday, 2 September 2021, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, 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 (the "**Branch Share Registrar**"), 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 Friday, 27 August 2021; and
- (ii) from Thursday, 9 September 2021 to Monday, 13 September 2021, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend for the year ended 31 March 2021. In order to determine entitlements to the proposed final dividend, all transfers of ordinary shares of the Company, duly accompanied by the relevant share certificates, must be lodged with the Branch Share Registrar at the address set out above for registration no later than 4:00 p.m. on Wednesday, 8 September 2021.

PUBLICATION

This announcement is published on the aforesaid websites. The 2021 annual report 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, 24 June 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