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## **Hong Kong Finance Group Limited**

**香港信貸集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1273)**

### **ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2014**

#### **Financial Highlights**

|   | <b>Year ended 31 March</b> |                     | <b>Change</b> |
|---|----------------------------|---------------------|---------------|
|   | <b>2014</b>                | <b>2013</b>         |               |
|   | <b>HK\$'million</b>        | <b>HK\$'million</b> |               |
| Revenue   | <b>81.2</b>                | 66.4                | 22.3%         |
| Profit and total comprehensive income<br>for the year attributable to owners<br>of the Company  | <b>40.5</b>                | 35.8                | 13.1%         |
| Profit and total comprehensive income<br>for the year attributable to owners<br>of the Company<br>(excluding non-operating items) <i>(note)</i> | <b>43.2</b>                | 33.4                | 29.3%         |
| Net profit margin<br>(excluding non-operating items) <i>(note)</i>  | <b>53.2%</b>               | 50.3%               | 2.9% points   |
| Net interest margin   | <b>19.8%</b>               | 19.6%               |               |
| Basic and diluted earnings per share<br>(HK cents)  | <b>11.4</b>                | 11.9                | (4.2)%        |
| Proposed final dividends per share<br>(HK cents)  | <b>2.8</b>                 | –                   | 100%          |

|                  | <b>As at<br/>31 March<br/>2014<br/><i>HK\$'million</i></b> | <b>As at<br/>31 March<br/>2013<br/><i>HK\$'million</i></b> | <b>Change</b> |
|------------------|--|--|---------------|
| Loans receivable | <b>467.7</b>   | 316.8  | 47.6%         |
| Total assets     | <b>621.1</b>   | 463.4  | 34.0%         |
| Total equity     | <b>393.7</b>   | 245.4  | 60.4%         |

*Note:* Non-operating items include fair values gains on revaluation of investment properties and listing expenses.

## **ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2014**

The board of directors (the “Board” or “Directors”) of Hong Kong Finance Group Limited (the “Company”) is pleased to announce the audited final results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2014, together with the comparative figures for the corresponding year in 2013.

### **CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*For the year ended 31 March 2014*

|   |             | <b>Year ended 31 March</b> |                 |
|---|-------------|----------------------------|-----------------|
|   |             | <b>2014</b>                | 2013            |
|   | <i>Note</i> | <b><i>HK\$'000</i></b>     | <i>HK\$'000</i> |
| Revenue   | 4, 5        | <b>81,209</b>              | 66,420          |
| Other income  | 5           | <b>2,211</b>               | 2,032           |
| Fair value gains on revaluation of investment properties  |             | <b>2,320</b>               | 7,950           |
| Administrative expenses   | 6           | <b>(31,808)</b>            | (24,567)        |
| <b>Operating profit</b>   |             | <b>53,932</b>              | 51,835          |
| Finance costs   | 7           | <b>(6,177)</b>             | (9,469)         |
| <b>Profit before income tax</b>   |             | <b>47,755</b>              | 42,366          |
| Income tax expense  | 8           | <b>(7,223)</b>             | (6,552)         |
| <b>Profit and total comprehensive income for the year attributable to owners of the Company</b> |             | <b>40,532</b>              | 35,814          |

|  |             | <b>Year ended 31 March</b> |                 |
|--|-------------|----------------------------|-----------------|
|  |             | <b>2014</b>                | 2013            |
|  | <i>Note</i> | <b>HK\$'000</b>            | <b>HK\$'000</b> |
| <b>Earnings per share for profit attributable to owners of the Company</b> |             |                            |                 |
| – Basic and diluted ( <i>HK cents</i> )                                    | 9           | <u><b>11.4</b></u>         | <u>11.9</u>     |

Details of dividends payable to owners of the Company attributable to the profit for the year are set out in note 10.

## **CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*As at 31 March 2014*

|   |             | <b>As at<br/>31 March<br/>2014</b> | As at<br>31 March<br>2013 |
|---|-------------|------------------------------------|---------------------------|
|   | <i>Note</i> | <b>HK\$'000</b>                    | <b>HK\$'000</b>           |
| <b>ASSETS</b>                               |             |                                    |                           |
| <b>Non-current assets</b>                   |             |                                    |                           |
| Property, plant and equipment               |             | <b>66,405</b>                      | 66,165                    |
| Investment properties                       |             | <b>73,090</b>                      | 70,770                    |
| Loans receivable                            | <i>11</i>   | <u><b>33,143</b></u>               | <u>16,653</u>             |
| <b>Total non-current assets</b>             |             | <u><b>172,638</b></u>              | <u>153,588</u>            |
| <b>Current assets</b>                       |             |                                    |                           |
| Loans receivable                            | <i>11</i>   | <b>434,565</b>                     | 300,135                   |
| Interest receivables                        | <i>12</i>   | <b>10,640</b>                      | 6,315                     |
| Prepayments, deposits and other receivables |             | <b>2,355</b>                       | 781                       |
| Cash and cash equivalents                   |             | <u><b>863</b></u>                  | <u>2,551</u>              |
| <b>Total current assets</b>                 |             | <u><b>448,423</b></u>              | <u>309,782</u>            |
| <b>Total assets</b>                         |             | <u><b>621,061</b></u>              | <u>463,370</u>            |

|   |              | As at<br>31 March<br>2014<br><i>HK\$'000</i> | As at<br>31 March<br>2013<br><i>HK\$'000</i> |
|---|--------------|--|--|
|   | <i>Note</i>  |  |  |
| <b>EQUITY</b>   |              |  |  |
| <b>Equity attributable to the owners<br/>of the Company</b> |              |  |  |
| Share capital   | <i>14</i>    | <b>4,150</b>                                 | –  |
| Reserves  |              | <b>377,930</b>                               | 245,373                                      |
| Proposed final dividend                                     |              | <b>11,620</b>                                | –  |
| <b>Total equity</b>   |              | <b>393,700</b>                               | 245,373                                      |
| <b>LIABILITIES</b>  |              |  |  |
| <b>Current liabilities</b>                                  |              |  |  |
| Trade and other payables                                    |              | <b>3,029</b>                                 | 12,053                                       |
| Amount due to a fellow subsidiary                           | <i>16(b)</i> | <b>39,000</b>                                | 15,699                                       |
| Tax payable   |              | <b>2,141</b>                                 | 2,575  |
| Bank borrowings   | <i>13</i>    | <b>179,136</b>                               | 183,838                                      |
| <b>Total current liabilities</b>                            |              | <b>223,306</b>                               | 214,165                                      |
| <b>Non-current liabilities</b>                              |              |  |  |
| Deferred income tax liabilities                             |              | <b>4,055</b>                                 | 3,832  |
| <b>Total non-current liabilities</b>                        |              | <b>4,055</b>                                 | 3,832  |
| <b>Total liabilities</b>                                    |              | <b>227,361</b>                               | 217,997                                      |
| <b>Total equity and liabilities</b>                         |              | <b>621,061</b>                               | 463,370                                      |
| <b>Net current assets</b>                                   |              | <b>225,117</b>                               | 95,617                                       |
| <b>Total assets less current liabilities</b>                |              | <b>397,755</b>                               | 249,205                                      |

# 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 money lending business of providing property mortgage loans in Hong Kong.

The directors regard Tin Ching Holdings Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

The Company has been successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 2 October 2013.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. These consolidated financial statements were approved by the Board for issue on 6 June 2014.

### Key events

Pursuant to a group reorganisation as set out under the section headed “Corporate structure and corporate reorganisation” in the prospectus of the Company dated 17 September 2013 (the “Prospectus”), which was completed on 9 September 2013 (the “Reorganisation”), the Company became the holding company of the subsidiaries now comprising the Group. The Reorganisation is merely a reorganisation of the Group’s business with no change in management of such business and the ultimate holding company remains the same. Accordingly, the consolidated financial statements of the Group have been prepared as if the Group had always been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies.

## 2 BASIC OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) 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 investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS 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 ACCOUNTING POLICIES

- (a) The following Standard and amendments to existing Standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2013:

Amendment to HKAS 1, “Financial statement presentation” regarding other comprehensive income is effective for annual periods beginning on or after 1st July 2012. The main change resulting from this amendment is a requirement for entities to group items presented in “other comprehensive income” on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This amendment did not have any material impact on the Group’s consolidated financial statements.

HKFRS 10, “Consolidated financial statements” is effective for annual periods beginning on or after 1 January 2013. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 April 2013) in respect of the Group’s control in its investees under the new definition in HKFRS 10 and concluded that the application of the new standard did not result in any change in the consolidation status of its subsidiaries.

HKFRS 13, “Fair value measurement” is effective for annual periods beginning on or after 1 January 2013. It aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. Other than the additional disclosures as presented, the application of HKFRS 13 did not have any material impact on the amounts recognised in the Group’s consolidated financial statements.

- (b) The following new and amended standards and interpretation have been published and are mandatory for the Group’s accounting periods beginning on or after 1 April 2013, but are not currently relevant to the Group.

|   |  | <b>Effective for<br/>accounting periods<br/>beginning on or after</b> |
|---|--|---|
| HKAS 19 (Amendments)                            | Employee benefits  | 1 January 2013  |
| HKAS 27 (Revised)                               | Separate financial statements  | 1 January 2013  |
| HKAS 28 (Revised)                               | Investments in associates and joint ventures   | 1 January 2013  |
| HKFRS 1 (Amendment)                             | Government loans   | 1 January 2013  |
| HKFRS 7 (Amendment)                             | Financial instruments:<br>Disclosures – Offsetting financial assets<br>and financial liabilities                               | 1 January 2013  |
| HKFRS 10, HKFRS 11 and<br>HKFRS 12 (Amendments) | Consolidated financial statements, joint<br>arrangements and disclosure of interests<br>in other entities: Transition guidance | 1 January 2013  |

|                    |   | <b>Effective for<br/>accounting periods<br/>beginning on or after</b> |
|--------------------|---|---|
| HKFRS 11           | Joint arrangements  | 1 January 2013  |
| HKFRS 12           | Disclosures of interests in other entities                | 1 January 2013  |
| HKFRSs (Amendment) | Annual improvements 2009-2011 cycle                       | 1 January 2013  |
| HK(IFRIC) – Int 20 | Stripping costs in the production phase of a surface mine | 1 January 2013  |

- (c) The following Standard, amendments and interpretation to existing Standards have been issued but are not effective for the financial year beginning 1 April 2013 and have not been early adopted:

|   |   | <b>Effective for<br/>accounting periods<br/>beginning on or after</b> |
|---|---|---|
| HKAS 19 (Amendments)                        | Defined Benefit Plans: Employee Contributions   | 1 July 2014   |
| HKAS 32 (Amendment)                         | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities                       | 1 January 2014  |
| HKAS 36 (Amendment)                         | Recoverable Amount Disclosures for Non-financial Assets   | 1 January 2014  |
| HKAS 39 (Amendment)                         | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting | 1 January 2014  |
| HKFRS 7 and 9 (Amendment)                   | Mandatory Effective Date and Transition Disclosures   | 1 January 2015  |
| HKFRS 9                                     | Financial Instruments   | Not yet established by HKICPA   |
| HKFRS 10, 12 and HKAS 27 (2011) (Amendment) | Investment Entities   | 1 January 2014  |
| HKFRS 14                                    | Regulatory Deferral Accounts  | 1 January 2016  |
| HK(IFRIC) – Int 21                          | Levies  | 1 January 2014  |
| HKFRSs (Amendment)                          | Annual Improvements 2010-2012 Cycle   | 1 July 2014   |
| HKFRSs (Amendment)                          | Annual Improvements 2011-2013 Cycle   | 1 July 2014   |

The Group has already commenced an assessment of the related impact of adopting the above Standard, amendments and interpretation to existing Standards to the Group. The Group is not yet in a position to state whether these will result in substantial changes to the Group's accounting policies and presentation of the financial statements.

#### 4 SEGMENT INFORMATION

During the years ended 31 March 2014 and 2013, all of the Group's revenue were generated from the money lending business of providing property mortgage loans in Hong Kong. Revenue represents interest income earned from loans offered to the Group's customers. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and assessment of the Group's performance, is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis or information about the Group's products and services is presented.

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 2014 and 2013.

#### 5 REVENUE AND OTHER INCOME

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

|                 | Year ended 31 March |               |
|-----------------|---------------------|---------------|
|                 | 2014                | 2013          |
|                 | HK\$'000            | HK\$'000      |
| Revenue         |                     |               |
| Interest income | <u>81,209</u>       | <u>66,420</u> |
| Other income    |                     |               |
| Rental income   | 2,203               | 2,017         |
| Sundry income   | <u>8</u>            | <u>15</u>     |
|                 | <u>2,211</u>        | <u>2,032</u>  |

#### 6 EXPENSES BY NATURE

|   | Year ended 31 March |               |
|---|---------------------|---------------|
|   | 2014                | 2013          |
|   | HK\$'000            | HK\$'000      |
| Employee benefit expenses (including directors' emoluments) | 9,042               | 6,727         |
| Advertising and marketing expenses                          | 9,704               | 6,206         |
| Depreciation of property, plant and equipment               | 2,753               | 2,319         |
| Listing expenses  | 4,966               | 5,500         |
| Other expenses  | <u>5,343</u>        | <u>3,815</u>  |
|   | <u>31,808</u>       | <u>24,567</u> |



## 7 FINANCE COSTS

|   | Year ended 31 March |              |
|---|---------------------|--------------|
|   | 2014                | 2013         |
|   | HK\$'000            | HK\$'000     |
| Interest on bank borrowings wholly repayable within 5 years | 3,698               | 5,074        |
| Interest on bank overdrafts                                 | 1,459               | 1,187        |
| Interest on amount due to a fellow subsidiary               | 1,020               | 2,837        |
| Other loan interest   | –                   | 371          |
|   | <u>6,177</u>        | <u>9,469</u> |

## 8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit during the years ended 31 March 2014 and 2013.

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

|                                 | Year ended 31 March |              |
|---------------------------------|---------------------|--------------|
|                                 | 2014                | 2013         |
|                                 | HK\$'000            | HK\$'000     |
| Hong Kong profits tax           |                     |              |
| – Current year                  | 7,165               | 6,723        |
| – Over provision in prior years | (165)               | (88)         |
| Deferred income tax             | 223                 | (83)         |
|                                 | <u>7,223</u>        | <u>6,552</u> |

## 9 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\$40,532,000 (2013: HK\$35,814,000) by the weighted average number of ordinary shares in issue during the year of 357,027,000 (2013: 300,000,000). In determining the weighted average number of ordinary shares in issue during the years ended 31 March 2014 and 2013, the 300,000,000 shares issued and allotted through capitalisation of the share premium account arose from the listing of the Company on 2 October 2013 have been regarded as if these shares were in issue since 1 April 2012.

|   | Year ended 31 March |             |
|---|---------------------|-------------|
|   | 2014                | 2013        |
|   |                     |             |
| Profit attributable to the owners of the Company (HK\$'000)                             | 40,532              | 35,814      |
| Weighted average number of ordinary shares in issue for basic earnings per share ('000) | 357,027             | 300,000     |
| Basic earnings per share (HK cents)   | <u>11.4</u>         | <u>11.9</u> |

**(b) Diluted earnings per share**

There were no potential dilutive ordinary shares outstanding during the years ended 31 March 2014 and 2013 and hence the diluted earnings per share is the same as basic earnings per share.

**10 DIVIDENDS**

A dividend in respect of the year ended 31 March 2014 of HK2.8 cents per share, amounting to a total dividend of HK\$11,620,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable.

During the year ended 31 March 2013, a subsidiary of the Company declared and paid an interim dividend of HK9.0 cents per share, totalling HK\$9,000,000 to its then owners.

**11 LOANS RECEIVABLE**

|                           | <b>As at<br/>31 March<br/>2014<br/>HK\$'000</b> | As at<br>31 March<br>2013<br>HK\$'000 |
|---------------------------|---|---------------------------------------|
| Loans receivable          | <b>467,708</b>                                  | 316,788                               |
| Less: non-current portion | <u><b>(33,143)</b></u>                          | <u>(16,653)</u>                       |
| Current portion           | <u><b>434,565</b></u>                           | <u>300,135</u>                        |

The Group's loans receivable, which arise from the money lending business of providing property mortgage loans in Hong Kong, are denominated in Hong Kong dollar.

Loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

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

|              | <b>As at<br/>31 March<br/>2014<br/>HK\$'000</b> | As at<br>31 March<br>2013<br>HK\$'000 |
|--------------|---|---------------------------------------|
| Current      | <b>434,565</b>                                  | 300,135                               |
| 2 to 5 years | <b>9,971</b>                                    | 13,290                                |
| Over 5 years | <u><b>23,172</b></u>                            | <u>3,363</u>                          |
|              | <u><b>467,708</b></u>                           | <u>316,788</u>                        |

## 12 INTEREST RECEIVABLES

The Group's Interest receivables, which arises from the money lending business of providing property mortgage loans in Hong Kong, are denominated in Hong Kong dollar.

Interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables.

The ageing analysis of interest receivables by past due date is as follows:

|              | <b>As at<br/>31 March<br/>2014<br/>HK\$'000</b> | As at<br>31 March<br>2013<br>HK\$'000 |
|--------------|---|---------------------------------------|
| Current      | <b>4,035</b>                                    | 3,220                                 |
| 0 – 30 days  | <b>2,705</b>                                    | 1,937                                 |
| 31 – 60 days | <b>2,627</b>                                    | 262                                   |
| Over 60 days | <b>1,273</b>                                    | 896                                   |
|              | <b><u>10,640</u></b>                            | <u>6,315</u>                          |

## 13 BANK BORROWINGS

Borrowings are analysed as follows:

|                       | <b>As at<br/>31 March<br/>2014<br/>HK\$'000</b> | As at<br>31 March<br>2013<br>HK\$'000 |
|-----------------------|---|---------------------------------------|
| Bank loans            | <b>146,281</b>                                  | 147,559                               |
| Bank overdrafts       | <b>32,855</b>                                   | 36,279                                |
| Total bank borrowings | <b><u>179,136</u></b>                           | <u>183,838</u>                        |

The weighted average effective interest rate on bank loans and bank overdrafts during the year ended 31 March 2014 was 3.1% (2013: 3.8%) per annum.

At 31 March 2014 and 2013, all bank borrowings are denominated in Hong Kong dollar.

As at 31 March 2014, the bank loans and overdrafts utilised by the Group amounted to HK\$179,136,000 are secured by the investment properties and land and buildings of the Group, as well as a corporate guarantee from the Company.

As at 31 March 2013, the bank loans and overdrafts utilised by the Group amounted to HK\$183,838,000 were secured by the investment properties and land and buildings of the Group, certain properties held by the fellow subsidiaries of the Group, certain properties held by a director of the Company and a relative of a director of the Company, personal guarantees from the directors of the subsidiaries of the Company, and corporate guarantee from a fellow subsidiary.

## 14 SHARE CAPITAL

### Company:

#### Authorised share capital

|   | Number of<br>ordinary shares | Nominal value<br>of ordinary<br>shares<br>HK\$ | Equivalent<br>nominal value<br>of ordinary<br>shares<br>HK\$ |
|---|------------------------------|--|--|
| At 6 February 2013 (Date of incorporation),<br>31 March 2013 and 1 April 2013 | 38,000,000                   | 0.01   | 380,000  |
| Increase in authorised share capital  | 9,962,000,000                | 0.01   | 99,620,000   |
| <b>At 31 March 2014</b>   | <b>10,000,000,000</b>        | <b>0.01</b>                                    | <b>100,000,000</b>   |

#### Issued share capital

|  | Number of<br>issued shares | Amount<br>HK\$'000 |
|--|----------------------------|--------------------|
| At 6 February 2013 (Date of incorporation) (Note (a))      | 1                          | –                  |
| Allotted and issued (Notes (a), (b))                       | 999,999                    | –                  |
| At 31 March 2013   | 1,000,000                  | –                  |
| Issue of new shares (Note (b))                             | 1,000,000                  | 20                 |
| Capitalisation of shares (Note (c))                        | 298,000,000                | 2,980              |
| Issue of new shares pursuant to the share offer (Note (d)) | 115,000,000                | 1,150              |
| <b>At 31 March 2014</b>                                    | <b>415,000,000</b>         | <b>4,150</b>       |

#### Notes:

- (a) The Company was incorporated in the Cayman Islands on 6 February 2013 with an authorised share capital of HK\$380,000, divided into 38,000,000 shares of HK\$0.01 each. On incorporation date, 1 nil-paid share was issued to Codan Trust Company (Cayman) Limited, which, on the same date, transferred the said 1 share to Tin Ching Holdings Limited (“Tin Ching Holdings”). On 12 March 2013, 999,999 new shares of HK\$0.01 each were allotted and issued at nil paid to Tin Ching Holdings.

- (b) On 9 September 2013, the Company acquired the entire equity interest in HKF Overseas Limited by (a) issuing and allotting 1,000,000 new shares of HK\$0.01 each to Tin Ching Holdings credited as fully paid; and (b) crediting as fully paid at par the 1,000,000 nil-paid shares, as mentioned above, to Tin Ching Holdings.
- (c) Pursuant to the shareholders' resolutions passed on 4 September 2013, an aggregate of 298,000,000 shares of HK\$0.01 each in the Company were allotted and issued, credited as fully paid at par, by way of capitalisation of the sum of HK\$2,980,000 from the share premium account, to the then existing shareholders of the Company, whose names appeared in the register of the Company on 4 September 2013, in proportion to their respectively shareholdings, such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (d) below. Upon the listing of the Company's shares on the Stock Exchange on 2 October 2013, 298,000,000 shares of HK\$0.01 each were issued under the capitalisation issue.
- (d) In connection with the Company's initial public offering, 115,000,000 shares of HK\$0.01 each were issued at a price of HK\$1.03 per share for a total cash consideration, before listing expenses, of HK\$118,450,000, resulting in an increase in the issued share capital of the Company by HK\$1,150,000 and the share premium by HK\$117,300,000.

## 15 COMMITMENTS

Operating lease commitments – Group as lessor

The Group leases out its investment properties to independent third parties under non-cancellable operating lease agreements. The lease term ranges from 1 to 3 years, and the lease agreements are renewable at the end of the lease period at market rate.

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

|                         | <b>Year ended<br/>31 March<br/>2014<br/>HK\$'000</b> | Year ended<br>31 March<br>2013<br>HK\$'000 |
|-------------------------|--|--|
| Not later than one year | <b><u>1,530</u></b>                                  | <u>1,359</u>                               |

The Company did not have any significant commitments at 31 March 2014 (2013: Nil).

## 16 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 2014 and 2013, and balances arising from related party transactions as at 31 March 2014 and 2013.

### (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 |              |
|---|---------------------|--------------|
|   | 2014                | 2013         |
|   | HK\$'000            | HK\$'000     |
| Interest expenses paid to a fellow subsidiary |                     |              |
| – Tin Ching Industrial Company Limited        | <u>1,020</u>        | <u>2,837</u> |

- (i) Interest expenses on an amount due to a fellow subsidiary were charged at weighted average effective interest rate of 4.2% (2013: 4.9%) per annum.

### (b) Amount due to a fellow subsidiary

Tin Ching Industrial Company Limited, a fellow subsidiary, provided the Group with a loan facility with a limit of HK\$80,000,000 (2013: Nil), of which the Group utilised an amount of HK\$39,000,000 as at 31 March 2014 (2013: Nil).

The amount is unsecured, interest bearing at the rate which is mutually agreed by both parties at weighted average effective interest rate of 4.2% (2013: 4.9%) per annum on the outstanding amount and repayable on demand. The amount due to a fellow subsidiary is denominated in Hong Kong dollar.

### (c) (i) Guarantees from related parties

As at 31 March 2013, the bank loans and bank overdrafts amounted to HK\$183,838,000 were secured by the personal guarantees from the directors of subsidiaries of the Company, as well as a corporate guarantee from a fellow subsidiary (Note 13).

### (ii) Guarantees to related parties

As at 31 March 2013, the Group has financial guarantees in respect of the corporate guarantee and the pledge of the Group's investment property and land and buildings as security for loans to certain fellow subsidiaries and a related company, of which the daughter of a director of the Company is the director.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Since the successful listing of our Company's shares on the Main Board of the Stock Exchange, our Group has been proactively expanding our money lending business in providing property mortgage loans in Hong Kong to our customers.

During the year ended 31 March 2014, our property mortgage loan portfolio continued to grow, due to the persisting high demand on mortgage loan products in the market, recording an increase of 47.6% from HK\$316.8 million as at 31 March 2013 to HK\$467.7 million as at 31 March 2014. Our interest income derived from our property mortgage loan portfolio also surged up to HK\$81.2 million for the year ended 31 March 2014, as compared to HK\$66.4 million for the corresponding year, representing an increase of 22.3%. During the years ended 31 March 2014 and 2013, we had no bad and doubtful debts from our loans receivable and interest receivables.

During the year ended 31 March 2014, we continued to put much effort and financial resources on our advertising and marketing campaigns, among which the most significant included the sponsorship of television drama and programmes during the television prime time, and the appointment of artistes to be the spokesman of our Company. We consider that these campaigns can efficiently promote our brand, our loan products and services to the public and increase our market share in the money lending business of providing property mortgage loans in Hong Kong. The effectiveness of our marketing campaigns has been reflected on the growth on our money lending business of providing property mortgage loans in Hong Kong.

### **FINANCIAL REVIEW**

#### **Revenue**

Our interest income from money lending business of providing property mortgage loans increased by HK\$14.8 million or 22.3% from HK\$66.4 million for the year ended 31 March 2013 to HK\$81.2 million for the year ended 31 March 2014. Such increase was primarily due to the increase in average month-end balance of mortgage loans receivable. As discussed above, due to the increasing demand for mortgage loan products in the money lending market, our average month-end balance of aggregate mortgage loans receivable increased by HK\$87.1 million or 29.8% from HK\$292.3 million for the year ended 31 March 2013 to HK\$379.4 million for the year ended 31 March 2014.

## **Other income**

Our Group's other income mainly represents the rental income received from leasing of our investment properties, which increased by HK\$0.2 million or 10.0% from HK\$2.0 million for the year ended 31 March 2013 to HK\$2.2 million for the year ended 31 March 2014.

## **Administrative expenses**

We incurred administrative expenses of HK\$31.8 million for the year ended 31 March 2014 whereas the amount of HK\$5.0 million was listing expenses in relation to the initial public offer of our Company's shares on the Stock Exchange which was considered as a non-operating and non-recurring expense. Should the listing expenses be excluded, our administrative expenses for the year ended 31 March 2014 would be HK\$26.8 million, which was HK\$7.7 million or 40.3% higher than the administrative expenses of HK\$19.1 million for the year ended 31 March 2013 (as adjusted after excluding the listing expenses of HK\$5.5 million). Such increase was mainly attributable to (i) the increase in our Group's employee benefit expenses, as a result of the increment of salary expenses to our staff members; and (ii) the increase in our advertising and marketing expenses, resulting from the sponsorship of television drama and programmes during the television prime time, and the appointment of artiste to be the spokesman of our Company, as mentioned above.

## **Finance costs**

Finance costs decreased by HK\$3.3 million or 34.7% from HK\$9.5 million for the year ended 31 March 2013 to HK\$6.2 million for the year ended 31 March 2014. The decrease was mainly attributable to the decrease of the interest expenses on bank borrowings and on the amount due to a fellow subsidiary of our Company.



## **Net interest margin**

The net interest margin of our property mortgage loans increased from 19.6% for the year ended 31 March 2013 to 19.8% for the year ended 31 March 2014. The decrease of our cost of finance led to a higher net interest margin accordingly.

## **Profit and total comprehensive income**

As a result of the foregoing, our profit and total comprehensive income for the years ended 31 March 2014 and 2013 achieved HK\$40.5 million and HK\$35.8 million respectively. Should the non-operating fair value gains on revaluation of investment properties and listing expenses be excluded in both years, the adjusted profit and total comprehensive income for the years ended 31 March 2014 and 2013 would have achieved HK\$43.2 million and HK\$33.4 million respectively, representing an increase of 29.3%.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the year ended 31 March 2014, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from our controlling shareholder through a fellow subsidiary of our Group, borrowings from banks, and the net proceeds from the listing of Company's shares on 2 October 2013 (the "Listing Date") in which, as disclosed in our Prospectus, all these proceeds have been utilised for the expansion of our property mortgage loan portfolio. As at 30 September 2013, the unaudited loans receivable amounted to HK\$327.0 million which has been increased by HK\$140.7 million to HK\$467.7 million as at 31 March 2014.

Based on our current and anticipated levels of operations, barring unforeseen market conditions, our future operations and capital requirements will be financed through loans from banks or authorised financial institutions that are independent third parties, the advances from our controlling shareholder through a fellow subsidiary of our Group, and retained earnings and our share capital. We had no significant commitments for capital expenditure during the year ended 31 March 2014.

As at 31 March 2014, the cash and cash equivalent amounted to HK\$0.9 million (31 March 2013: HK\$2.6 million); the amount due to a fellow subsidiary amounted to HK\$39.0 million (31 March 2013: HK\$15.7 million); and the interest-bearing bank borrowings amounted to HK\$179.1 million (31 March 2013: HK\$183.8 million).

As at 31 March 2014, all interest-bearing bank borrowings were repayable on demand and were secured by (i) our Group's investment properties and land and buildings, and (ii) by corporate guarantee executed by our Company. The amount due to a fellow subsidiary was unsecured, interest bearing at prime rate plus 1.75% per annum and with fixed term of repayment.

During the year ended 31 March 2014, 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 2014, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$6.7 million and HK\$41.0 million, respectively (2013: HK\$24.4 million and Nil).

## **GEARING RATIO**

As at 31 March 2014, the gearing ratio, which was calculated by dividing net debts (being the total interest-bearing bank borrowings and amount due to a fellow subsidiary less cash and cash equivalents and bank deposits) by total equity, was 0.55 (2013: 0.80).

## **SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS**

Save as the listing of Company's shares on the Main Board of the Stock Exchange on Listing Date, our Group did not have any significant investments held, material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 March 2014 and up to the date of this announcement.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 March 2014, our Group employed 18 full time employees. The total employee benefit expenses (including directors' emoluments) of our Group for the years ended 31 March 2014 and 2013 were HK\$9.0 million and HK\$6.7 million, respectively.

Our Group relies on our remuneration policy on the position, duties and performance of our employees. The remuneration of our employees may include salary, overtime allowance, bonus and various subsidies. We conduct performance appraisal on an annual basis. Our Company has conditionally adopted the share option scheme on 4 September 2013 and the principal terms of the share option scheme are summarised under the section headed "D. Share option scheme" in Appendix V to the Prospectus. No options have been granted, exercised or lapsed under this share option scheme since the listing of our Company's share on the Stock Exchange.

## **CHARGES ON GROUP ASSETS**

As at 31 March 2014, our investment properties of HK\$73.1 million and our land and buildings of HK\$62.3 million were secured for the Group's bank borrowings.

## **CONTINGENT LIABILITIES**

As at 31 March 2014, our Group had no material contingent liabilities.

## **PROSPECTS**

With tight control on authorised financial institutions in Hong Kong and stringent policy on the property market imposed by the Hong Kong Government, it has already been experienced that the property market has shrunk in transaction numbers over the past few months. It has brought both challenges and business opportunities to our Group. We are of the view that despite keen and intense market competition, the market demand for mortgage loan products will continue to grow. Nevertheless, given the uncertainties of the property market, we have already adopted a more conservative approach on our credit assessment when granting and renewing loans to our customers, and performed more intensive credit reviews on our loan portfolio so as to minimise the default risk from our customers. We believe that with our long-established and well-known brand "Hong Kong Finance", we are in our strategic position to capture the business opportunities and market shares of the property mortgage loan markets. We will continue to provide high-quality and tailor-made property mortgage loan products and services to our customers to meet with their short-term financial needs. We have already spent and will continue to channel more resources and effort in advertising and enhancing our brand image and awareness, and to promote our products and services. We will also actively look for different financing resources for our business expansion. We are confident in the growth of interest income which will create sound financial results and performance to our shareholders and stakeholders in the years to come.

## **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 shares during the period from the Listing Date and up to the date of this announcement.

## **CORPORATE GOVERNANCE PRACTICES**

Our Company has adopted and complied with the code provisions (the “Code Provisions”) as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Rules Governing The Listing of Securities on the Stock Exchange (the “Listing Rules”), except that:

1. although Code A.1.1 of the Code Provisions requires every listed company should hold its regular board meetings at least four times a year at approximately quarterly intervals, only two regular Board meetings were held at around quarterly intervals since our Company was listed on the Main Board of the Stock Exchange on the Listing Date for about six months up to 31 March 2014. In fact, several Board meetings had been held and various written resolutions of all Directors had been passed since our Company’s incorporation on 6 February 2013 and up to 31 March 2014. Further, our Company had held a regular Board meeting on 6 June 2014 to review and approve, amongst other matters, the final financial results of our Group for the year ended 31 March 2014.
2. although Code A.2.7 of the Code Provisions requires the Chairman of the Board should at least annually hold meetings with the independent non-executive Directors without the executive Directors present, our Company has not held such meeting for the year ended 31 March 2014 since the Company has just been listed on the Main Board of the Stock Exchange for about six months from the Listing Date. In the opinion of the Chairman of the Board, there was no specific agenda item which required him to hold such a meeting only with independent non-executive Directors without the presence of executive Directors during the approximately six-month period from the Listing Date to 31 March 2014. In fact, our Chairman had held such a meeting with the independent non-executive Directors without the presence of executive Directors on 6 June 2014 with the appropriate agenda items for discussion.

## **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 on 4 September 2013 to monitor the code of conduct regarding securities transactions by our Directors. Having made enquiries to all Directors, they all have confirmed that they have complied with the required standards as set out in the Model Code since the Listing Date up to 31 March 2014.

## **REVIEW OF FINAL RESULTS**

The Audit Committee of our Company consists of three independent non-executive Directors, namely, Mr. Chan Siu Wing Raymond (“Mr. Chan”), Mr. Chu Yat Pang Terry and Mr. Cheung Kok Cheong, and is chaired by Mr. Chan.

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 2014. It has also reviewed the consolidated financial statements for the year ended 31 March 2014 with the management and the auditor of our Company and recommended them to the Board for approval.

## **FINAL DIVIDEND**

The Board recommended the payment of a final dividend of HK2.8 cents per share for the year ended 31 March 2014, subject to shareholders’ approval at the forthcoming annual general meeting of our Company to be held on Thursday, 31 July 2014, payable to the shareholders of our Company whose names appear on the register of members of our Company on Wednesday, 20 August 2014. The proposed final dividend will be paid on or about Friday, 29 August 2014 following approval at our 2014 annual general meeting.

## **CLOSURES OF REGISTER OF MEMBERS**

For determining the entitlement to attend and vote at the forthcoming annual general meeting of our Company to be held on Thursday, 31 July 2014, the register of members of our Company will be closed from Wednesday, 30 July 2014 to Thursday, 31 July 2014 (both days inclusive), during which no transfer of shares of our Company will be registered. In order to qualify for attendance and voting at the forthcoming annual general meeting of our Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 29 July 2014.

The final dividend is payable to our Company’s shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 20 August 2014. For determining the entitlement to the recommended final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 19 August 2014.

## **PUBLICATION**

The final results announcement of our Company for the year ended 31 March 2014 is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company ([www.hkfinance.hk](http://www.hkfinance.hk)) respectively. The 2014 annual report will be dispatched to the shareholders of our Company and published on the respective websites of the Stock Exchange and our Company in due course.

## **ANNUAL GENERAL MEETING**

The first annual general meeting of our Company will be held on Thursday, 31 July 2014. The notice of the annual general meeting, which constitutes part of the circular to our shareholders, together with proxy form and our Company's 2014 annual report will be published on the aforesaid websites and dispatched to our shareholders in due course.

## **APPRECIATION**

On behalf of the Board, I would like to extend my sincere thanks to our shareholders for their unwavering support and trust, and express my deepest gratitude to the Board, the management team and all staff members of the Group for their dedication and diligence.

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

Hong Kong, 6 June 2014

*As at the date of this announcement, the Board comprises Mr. Chan Kwong Yin, William (Chairman), Mr. Chan Koung Nam and Mr. Tse Pui To (Chief Executive Officer) being the executive Directors, Mr. Chan Siu Wing, Raymond, Mr. Chu Yat Pang Terry and Mr. Cheung Kok Cheong being the independent non-executive Directors.*