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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 2016**

Financial Highlights	Year ended 31 March		Change
	2016	2015	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Revenue	111.3	99.3	12.1%
Profit and total comprehensive income for the year attributable to owners of the Company	48.1	52.9	(9.1)%
Net profit margin (%)	43.2	53.3	(10.1)pt
Net interest margin (%)	14.3	18.1	(3.8)pt
Basic earnings per share (<i>HK cents</i>)	11.6	12.7	(8.7)%
Diluted earnings per share (<i>HK cents</i>)	11.6	12.7	(8.7)%
Paid interim dividends per share (<i>HK cents</i>)	1.9	1.7	
Proposed final dividends per share (<i>HK cents</i>)	1.6	1.9	
	As at 31 March		
	2016	2015	
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Loans receivable, net of provision	674.1	522.2	29.1%
Total assets	854.6	696.9	22.6%
Total equity	463.0	427.9	8.2%

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

The board of directors (the “Board” or “Directors”) of Hong Kong Finance Group Limited (the “Company”) is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2016 prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), together with the comparative figures for the corresponding period in 2015.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

		Year ended 31 March	
		2016	2015
	Note	HK\$'000	HK\$'000
Revenue	4, 5	111,273	99,267
Other income	5	2,127	1,969
Fair value gains on revaluation of investment properties		–	3,770
Administrative expenses	6	<u>(36,448)</u>	<u>(32,417)</u>
Operating profit		76,952	72,589
Finance costs	7	<u>(19,309)</u>	<u>(9,443)</u>
Profit before income tax		57,643	63,146
Income tax expense	8	<u>(9,582)</u>	<u>(10,270)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>48,061</u>	<u>52,876</u>
Earnings per share for profit attributable to owners of the Company			
— Basic (<i>HK cents</i>)	9(a)	<u>11.6</u>	<u>12.7</u>
— Diluted (<i>HK cents</i>)	9(b)	<u>11.6</u>	<u>12.7</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

		As at 31 March	
	Note	2016 HK\$'000	2015 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		60,660	63,403
Investment properties		76,860	76,860
Available-for-sale investment		625	–
Loans receivable	11	97,527	56,607
Deferred income tax assets		87	–
Total non-current assets		235,759	196,870
Current assets			
Loans receivable	11	576,529	465,579
Interest receivables	12	15,197	10,650
Prepayments, deposits and other receivables		987	998
Repossessed asset		5,306	–
Cash and cash equivalents		20,791	22,776
Total current assets		618,810	500,003
Total assets		854,569	696,873
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,150	4,150
Reserves		458,819	423,751
Total equity		462,969	427,901

		As at 31 March	
		2016	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Current liabilities			
Trade and other payables		5,544	3,536
Amount due to a fellow subsidiary	<i>16(b)</i>	88,951	39,231
Tax payable		2,423	4,469
Bank and other borrowings	<i>13</i>	179,251	129,616
Total current liabilities		276,169	176,852
Non-current liabilities			
Bonds	<i>14</i>	111,451	87,912
Deferred income tax liabilities		3,980	4,208
Total non-current liabilities		115,431	92,120
Total liabilities		391,600	268,972
Total equity and liabilities		854,569	696,873
Net current assets		342,641	323,151
Total assets less current liabilities		578,400	520,021

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

These consolidated financial statements are presented in thousands of Hong Kong dollars (“HK\$’000”), unless otherwise stated. These consolidated financial statements were approved by the Board for issue on 15 June 2016.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale investment, 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) Amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2015:

Amendment to Hong Kong Accounting Standard (“HKAS”) 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to HKFRSs — 2010–2012 Cycle, on HKFRS 8, “Operating segments”, HKAS 16, “Property, plant and equipment” and HKAS 38, “Intangible assets” and HKAS 24, “Related party disclosures”.

Amendments from annual improvements to HKFRSs — 2011–2013 Cycle, on HKFRS 3, “Business combinations”, HKFRS 13, “Fair value measurement” and HKAS 40, “Investment property”.

All the above amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and interpretation not yet adopted

A number of new standards and amendments to standards and interpretation are effective for annual periods beginning after 1 April 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the “hedged ratio” to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9’s full impact.

HKFRS 15, “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 “Revenue” and HKAS 11 “Construction contracts” and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

4 SEGMENT INFORMATION

During the years ended 31 March 2016 and 2015, all of the Group's revenue was generated from the money lending business of providing property mortgage loans in Hong Kong. Revenue represents interest income earned from such 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 are 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 2016 and 2015.

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 during the year are as follows:

	Year ended 31 March	
	2016 HK\$'000	2015 HK\$'000
Revenue		
Interest income	<u>111,273</u>	<u>99,267</u>
Other income		
Rental income	2,124	1,963
Sundry income	<u>3</u>	<u>6</u>
	<u>2,127</u>	<u>1,969</u>

6 ADMINISTRATIVE EXPENSES

	Year ended 31 March	
	2016 HK\$'000	2015 HK\$'000
Employee benefit expenses (including directors' emoluments)	15,218	11,534
Advertising and marketing expenses	7,793	9,944
Depreciation of property, plant and equipment	2,807	3,152
Provision for individual impairment assessment of loans receivable (Note 11)	1,791	–
Provision for collective impairment assessment of loans receivable (Note 11)	742	–
Provision for impairment of repossessed asset	435	–
Other expenses	<u>7,662</u>	<u>7,787</u>
	<u>36,448</u>	<u>32,417</u>

7 FINANCE COSTS

	Year ended 31 March	
	2016 HK\$'000	2015 HK\$'000
Interest on secured bank borrowings wholly repayable within 5 years	4,596	3,673
Interest on bank overdraft	676	495
Interest on amount due to a fellow subsidiary	4,416	3,219
Interest and other expenses on bonds	8,731	1,270
Interest on other borrowings	890	786
	<u>19,309</u>	<u>9,443</u>

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

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

	Year ended 31 March	
	2016 HK\$'000	2015 HK\$'000
Hong Kong profits tax		
— Current year	9,970	9,830
— (Over)/under provision in prior years	(73)	288
Deferred income tax	<u>(315)</u>	<u>152</u>
	<u>9,582</u>	<u>10,270</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\$48,061,000 (2015: HK\$52,876,000) by the weighted average number of 415,000,000 (2015: 415,000,000) ordinary shares in issue during the year.

	Year ended 31 March	
	2016	2015
Profit attributable to owners of the Company (HK\$'000)	48,061	52,876
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>11.6</u>	<u>12.7</u>

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 March 2016 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option scheme are the only dilutive potential ordinary shares of the Company. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share. There were no potential dilutive ordinary shares outstanding for the year ended 31 March 2015 and hence the diluted earnings per share is the same as basic earnings per share.

	Year ended 31 March	
	2016	2015
Profit attributable to owners of the Company (<i>HK\$'000</i>)	48,061	52,876
Weight average number of ordinary shares in issue for diluted earnings per share (<i>'000</i>)	415,741	415,000
Diluted earnings per share (<i>HK cents</i>)	11.6	12.7

10 DIVIDENDS

A final dividend in respect of the year ended 31 March 2016 of HK1.6 cents per share, totaling HK\$6,640,000, is to be declared at the forthcoming annual general meeting of the Company. These financial statements do not reflect this dividend payable.

	Year ended 31 March	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend paid of HK1.9 cents (2015: HK1.7 cents) per share	7,885	7,055
Proposed final dividend of HK1.6 cents (2015: HK1.9 cents) per share	6,640	7,885
	14,525	14,940

11 LOANS RECEIVABLE

	As at 31 March	
	2016	2015
	HK\$'000	HK\$'000
Loans receivable	676,589	522,186
Less: Provision for individual impairment assessment of loans receivable	(1,791)	–
Provision for collective impairment assessment of loans receivable	(742)	–
	<u>674,056</u>	<u>522,186</u>
Loans receivable, net of provision	674,056	522,186
Less: non-current portion	(97,527)	(56,607)
	<u>576,529</u>	<u>465,579</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 dollars.

Loans receivable are secured by collaterals provided by customers, bear interest and are 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 loans receivable mentioned above.

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

	As at 31 March	
	2016	2015
	HK\$'000	HK\$'000
Current	576,529	465,579
2–5 years	73,479	39,690
Over 5 years	24,048	16,917
	<u>674,056</u>	<u>522,186</u>

12 INTEREST RECEIVABLES

	As at 31 March	
	2016	2015
	HK\$'000	HK\$'000
Interest receivables	<u>15,197</u>	<u>10,650</u>

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

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 interest receivables mentioned above.

13 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 31 March	
	2016	2015
	HK\$'000	HK\$'000
Bank loans	141,565	115,616
Bank overdraft	23,686	–
Other borrowings	<u>14,000</u>	<u>14,000</u>
Total bank and other borrowings	<u>179,251</u>	<u>129,616</u>

The weighted average effective interest rate on bank loans and bank overdraft for the year ended 31 March 2016 was 3.2% (2015: 2.8%) per annum.

The other borrowings of HK\$14,000,000 (2015: HK\$14,000,000) are unsecured, bear interest at rates ranging from 6.5% to 8.0% (2015: 7.0%) per annum and repayable within one year.

At 31 March 2016 and 2015, all bank borrowings are denominated in Hong Kong dollars.

As at 31 March 2016, the bank loans and overdraft utilised by the Group amounted to HK\$165,251,000 (2015: HK\$115,616,000) were secured by the following:

- (i) investment properties held by the Group amounting to HK\$76,860,000 (2015: HK\$76,860,000);
- (ii) land and buildings held by the Group with net book value of HK\$59,285,000 (2015: HK\$60,777,000);
and
- (iii) corporate guarantee of the Company.

14 BONDS

During the year ended 31 March 2016, the Company issued Bond I and Bond II (in aggregate, the “Bonds”) with an aggregate amount of HK\$23,000,000 (2015: HK\$61,000,000) and Nil (2015: HK\$37,000,000), before placing commission, respectively, to several independent third parties with coupon rates of 6.0% (2015: 6.0%) and 4.5% (2015: 4.5%) per annum, respectively, repayable in 7 years from the respective issue dates. Bond II carry an option by the bondholder to redeem Bond II three years after the issuance of the Bond II.

The aggregate carrying amounts of the Bonds are HK\$111,451,000 (2015: HK\$87,912,000) as at 31 March 2016, which 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.

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 2 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:

	As at 31 March	
	2016	2015
	HK\$'000	HK\$'000
Within 1 year	2,059	611
Within 2-5 years	404	166
	<u>2,463</u>	<u>777</u>

The Company did not have any significant commitments at 31 March 2016 (2015: 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 year ended 31 March 2016 and 2015, and balances arising from related party transactions as at 31 March 2016 and 2015.

(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	
	2016	2015
	HK\$'000	HK\$'000
Interest expense paid to a fellow subsidiary		
— Tin Ching Industrial Company Limited (“Tin Ching Industrial”)	<u>4,416</u>	<u>3,219</u>

Interest expense on an amount due to a fellow subsidiary was charged at effective interest rate of 6.5% (2015: 7.0%) 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\$150,000,000 (2015: HK\$80,000,000), of which the Group utilised an amount of HK\$88,951,000 (2015: HK\$39,231,000) as at 31 March 2016.

The amount was unsecured, interest bearing at weighted average effective interest rate of 6.5% (2015: 7.0%) 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

Since the establishment of our Group for about 20 years, we have principally engaged in the money lending business of providing property mortgage loans in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) (“MLO”). During the year ended 31 March 2016, our Group did not change our focus from the property mortgage loans business but experienced that such business in Hong Kong was highly competitive and extremely challenging.

The Hong Kong Monetary Authority (“HKMA”) continued to impose stringent policies and prudential measures on property mortgage loans provided by authorised financial institutions in Hong Kong, which created additional hurdles for the public who may look for mortgages to satisfy their financial needs. This gave us business opportunities to expand our mortgage loan business during the year ended 31 March 2016. The demand for our mortgage loan products remained strong, which increased our mortgage loan portfolio by 29.1% from HK\$522.2 million as at 31 March 2015 to HK\$674.1 million as at 31 March 2016. Our interest income derived from property mortgage loans portfolio also surged up to HK\$111.3 million for the year ended 31 March 2016, as compared to HK\$99.3 million for the corresponding period in 2015, representing an increase of 12.1%.

Although we have recorded growth in both our mortgage loan receivable and our interest income, due to the turbulence in global stock markets, anticipated rising interest rate in The United States of America, uncertainty in the local property market and economy, and keen and competitive mortgage loan market in Hong Kong, we took the conservative approach when conducting our mortgage loan business and was cautious about our credit quality on our mortgage loan portfolio. To minimise the potential credit and default risks in our mortgage loan and interest receivables, we have implemented various measures to proactively but cautiously expand our property mortgage loans receivable during the year ended 31 March 2016. One of the significant measures was re-balancing and adjusting our mortgage loan portfolio by providing more first-mortgage loan products to our customers with high quality and sound credit history, so as to maintain our reasonable returns from our mortgage loan portfolio with anticipated increase in credit and default risks under the current unfavourable business environment. We have also performed more strict and tight credit assessments and controls when granting mortgage loans to our customers so as to manage and reduce the possible default risks from our loans receivable. The above measures improved our overall quality on our mortgage loan portfolio but unavoidably reduced our net interest margin which reduced to 14.3% for the year ended 31 March 2016, as compared to 18.1% for the corresponding period in 2015.

Our Directors are of the view that although the above periodical measures have pressurised our net interest margin, these measures would produce a more solid and healthy position in our mortgage loan business which would compensate the impact on our net interest margin, and we believe these measures were particularly important and essential during the time of unstable and uncertain economic environment.

Industry review

Recently, there were numbers of public concerns regarding the increasing number of fraud cases and incidents of overcharging handling fees by a number of illegal financial agents in mortgage loan industry. Unlike other market players in money lending industry, we did not place substantial reliance on financial agents or other professional parties to refer mortgage loan business to our Group. Even if and when necessary, we have carefully and cautiously selected those business referrers and agents so that we could provide reliable and legal mortgage loan products to our customers. Our Group will continue to pay additional attention when selecting and assessing the potential mortgage loan business from these third-party referrers and will co-operate with the government and other authority in order to fight against such illegal agents and referrers so as to retain the reputation of financial institutions and money lenders.

Financial review

Revenue

Our interest income from money lending business of providing property mortgage loans in Hong Kong increased by HK\$12.0 million or 12.1% from HK\$99.3 million for the year ended 31 March 2015 to HK\$111.3 million for the year ended 31 March 2016. Such increase was primarily due to the increase in the average month-end balance of mortgage loans receivables. As discussed above, the increasing demand for mortgage loan products in our money lending market has driven up our average month-end balance of aggregate mortgage loans receivable by HK\$147.7 million or 29.8% from HK\$495.6 million for the year ended 31 March 2015 to HK\$643.3 million for the year ended 31 March 2016.

Administrative expenses

We incurred administrative expenses of HK\$36.4 million for the year ended 31 March 2016 (2015: HK\$32.4 million), which mainly comprised employee benefit expenses, advertising and marketing expenses, depreciation of property, plant and equipment, provision for impairment assessment and other miscellaneous expenses. During the year, the uncertainty in the Hong Kong property market and economy has potentially diminished the recoverability from our mortgage loans receivable and repossessed asset and we have prudently made a provision for impairment assessment amounting to HK\$3.0 million in aggregate for the current year (2015: Nil). Further, due to the grant of 21,350,000 share options to our eligible employees during the year, share options expenses of HK\$2.8 million for the current year was incurred and included in employee benefit expenses (2015: Nil). Details of such grant have been set out in our Company's announcement dated 1 April 2015. Overall our administrative expenses increased by 12.3% to HK\$36.4 million during the year.

Finance costs

We incurred finance costs of HK\$19.3 million for the year ended 31 March 2016 (2015: HK\$9.4 million), which mainly comprised interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary and issue of bonds. The significant increase in the finance costs by HK\$9.9 million or 105.3% was mainly attributable to the issue of bonds in the second half of the last year and the average balance in the issue of bonds was significantly increased which incurred additional interest expenses on the bonds for the current year.

Net interest margin

The net interest margin of our property mortgage loans decreased from 18.1% for the last corresponding period in 2015 to 14.3% for the year ended 31 March 2016. The periodical measures and the increase in our cost of finance, which we have mentioned above, led to a decrease in 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 2016 and 2015 attributable to owners of our Company achieved HK\$48.1 million and HK\$52.9 million, respectively, representing a decrease of 9.1%.

During the year, we did not have any fair value gains on revaluation of investment properties (2015: HK\$3.8 million) due to the recent depression in property market in Hong Kong, and, as we have mentioned above, we incurred share options expenses of HK\$2.8 million for the current year (2015: Nil). Should these non-operating items be excluded, for comparison and information purposes only, our profit and total comprehensive income for the years ended 31 March 2016 and 2015 attributable to owners of our Company would be HK\$50.9 million and HK\$49.1 million, respectively, maintaining at similar level as of last year.

LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES

During the year ended 31 March 2016, our Group's operations and capital requirements were financed principally through retained earnings, loans or advances from our controlling shareholder, Tin Ching Industrial Company Limited, as well as bank and other borrowings, and 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 during the year ended 31 March 2016.

As at 31 March 2016, our cash and cash equivalent amounted to HK\$20.8 million (2015: HK\$22.8 million); amount due to a fellow subsidiary amounted to HK\$89.0 million (2015: HK\$39.2 million); interest bearing bank and other borrowings amounted to HK\$179.3 million (2015: HK\$129.6 million), and bonds amounted to HK\$111.5 million (2015: HK\$87.9 million).

During the year ended 31 March 2016, all interest bearing bank borrowings were repayable on demand and were secured by our Group's investment properties, land and buildings, and corporate guarantee of our Company. The amount due to a fellow subsidiary and the other borrowings were unsecured, interest bearing at a rate ranging from 6.5% to 8.0% per annum and 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 7 years of its maturity.

During the year ended 31 March 2016, 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 2016, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK\$15.8 million and HK\$61.0 million, respectively.

During the year ended 31 March 2016, 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 2015 and 2016 respectively:

	As at 31 March	
	2016	2015
Current ratio ⁽¹⁾	2.24	2.83
Gearing ratio ⁽²⁾	0.78	0.55
	For the year ended 31 March	
	2016	2015
Net interest margin ratio ⁽³⁾	14.3%	18.1%
Return on equity ratio ⁽⁴⁾	10.4%	12.4%
Interest coverage ratio ⁽⁵⁾	4.0 times	7.3 times

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 mortgage loan receivable 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 gains 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 year ended 31 March 2016.

IMPORTANT EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

Our Group did not have any important events affecting our Company and our subsidiaries since the end of the financial year ended 31 March 2016 and up to the date of this announcement.

COMPLIANCE WITH MONEY LENDERS ORDINANCE

Our Group is required to and has, at all time, strictly complied with all relevant laws and regulations. In the opinion of our Directors, in addition to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), MLO constituted a significant influence on our Group’s money lending business during the year ended 31 March 2016.

The MLO is the principal statute which governs the money lending business in Hong Kong. Our money lending business of providing property mortgage loans in Hong Kong has been conducted by our principal operating subsidiary, Hong Kong Finance Company Limited (“HK Finance”), for about 20 years. Since the first grant of money lenders licence to HK Finance, we have never received any objection and have never been investigated by the registrar nor the commissioner of HKMA regarding the renewal of the money lenders licence. During the year, the money lenders licence of HK Finance was successfully renewed on 23 June 2015, and subsequent to the year ended 31 March 2016, we have successfully renewed this licence on 31 May 2016.

To the best of our knowledge, our Group has complied with the MLO in all material aspects, and that our Directors did not aware of any matter 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 year ended 31 March 2016, 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), which were not connected persons or senior management to our Group. We granted loans to these customers on the basis of the properties that they offered to mortgage to us as security for the loans provided by us.

During the year, our top five customers (as determined by interest income generated) accounted for approximately 19% (2015: 14%) of our total revenue and our single largest customer accounted for approximately 6% (2015: 4%) of our total revenue.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2016, our Group employed 20 full time employees. The total staff costs of our Group for the year ended 31 March 2016 were HK\$15.2 million (2015: HK\$11.5 million).

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 also adopted the share option scheme, 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. During the year, our Group has granted 21,350,000 share options to our eligible employees, the details of such grant have been set out in our Company's announcement dated 1 April 2015.

ENVIRONMENTAL POLICY AND PERFORMANCE

Our Group is committed to contributing to the sustainability and protection of the environment. We adhere to the principle of recycling and energy saving. We have encouraged and motivated our staff to be environmental-friendly in the office such as using recycled papers during printing and copying, reducing electricity consumption by switching off idle lightings and electrical appliance, etc.

CHARGES ON GROUP ASSETS

As at 31 March 2016, our land and buildings of HK\$59.3 million (2015: HK\$60.8 million) and our investment properties of HK\$76.9 million (2015: HK\$76.9 million) were secured for the Group's bank borrowings.

FOREIGN EXCHANGE EXPOSURE

During the year, the business activities of our Group were denominated in Hong Kong dollars. Our Directors did not consider our Group was exposed to any significant foreign exchange risks. Our Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

CONTINGENT LIABILITIES

As at 31 March 2016, our Group had no material contingent liabilities (2015: Nil).

FUTURE DEVELOPMENT AND PROSPECTS

As discussed above, the recent financial hard times and unstable economic environment have put additional burdens and hurdles on our mortgage loan business. However, being professional and highly experienced in our mortgage loan business, we believe the current economic difficulty could give us opportunity again to consolidate and to expand our mortgage loan business and portfolio. During the year ended 31 March 2016, which was generally agreed a difficult one, we continued to record a growth in our mortgage loan receivable and interest income. We expect such growth will continue by providing more first-mortgage loan products to our customers which, we believe, such approach to re-balancing and adjusting our mortgage loan portfolio is particularly important and essential during the economic downtrend. We shall continue to perform more strict and tight credit assessments and controls when granting mortgage loans to our customers so as to manage and reduce the possible default risks from our loans receivable. On the other hand, we shall continue to look for different financial resources so as to maintain our cost of funding and net interest margin at justifiable level. We are also in a progress to consider and to determine launching a new product line of money lending in order to capture another market segment and opportunity. We shall continue to channel more resources and effort in advertising and enhancing our brand image and awareness, and to promote and develop our products and services. We are confident in our business expansion and the growth of interest income which will create sound financial results and performance for 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 listed securities during the year ended 31 March 2016 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 ended 31 March 2016.

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 our Company (the “Audit Committee”) 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 2016. The Audit Committee has also reviewed the consolidated financial statements for the year ended 31 March 2016 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 Tuesday, 6 September 2016 (the “AGM”). The notice of AGM, which constitutes part of the circular to the shareholders, will be published on the aforesaid websites and dispatched to our shareholders together with our Company’s 2016 annual report in due course.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK1.6 cents per share for the year ended 31 March 2016, subject to shareholders’ approval at the AGM. The proposed final dividend will be paid on Wednesday, 5 October 2016.

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, 5 September 2016 to Tuesday, 6 September 2016, 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, Tricor Investor Services Limited (the “Branch Registrar”), at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 2 September 2016; and
- (ii) on Monday, 12 September 2016, for the purpose of ascertaining shareholders’ entitlement to the proposed final dividend. In order to establish 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 Registrar at the address set out above for registration no later than 4:30 p.m. on Friday, 9 September 2016.

PUBLICATION

The final results announcement of our Company for the year ended 31 March 2016 is published on the websites of the Stock Exchange (www.hkexnews.hk) and of our Company (www.hkfinance.hk), respectively. The 2016 annual report will be dispatched to the shareholders of our Company and published on the respective websites of the Stock Exchange and of our Company 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 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, 15 June 2016

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.