香港信貸
Hong Kong Finance

Hong Kong Finance Group Limited
香港信貸集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1273)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

Financial Highlights

	Year ended 31 March		
	2017	2016	Change
	HK$'million	*HK$'million*	
Revenue	**103.7**	111.3	(6.8)%
Profit and total comprehensive income for the year attributable to owners of the Company	**46.3**	48.1	(3.7)%
Net profit margin *(%)*	**44.6**	43.2	1.4pt
Net interest margin *(%)*	**12.0**	14.3	(2.3)pt
Basic earnings per share *(HK cents)*	**11.2**	11.6	(3.4)%
Diluted earnings per share *(HK cents)*	**11.2**	11.6	(3.4)%
Paid interim dividends per share *(HK cents)*	**1.6**	1.9	
Proposed final dividends per share *(HK cents)*	**1.1**	1.6	

	As at 31 March		
	2017	2016	
	HK$'million	*HK$'million*	
Loans receivable, net of provision	**819.0**	674.1	21.5%
Total assets	**1,006.9**	854.6	17.8%
Total equity	**496.6**	463.0	7.3%

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

The board of directors (the "**Board**" or "**Directors**") of Hong Kong Finance Group Limited (the "**Company**" or "**our Company**") is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2017 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**") (the "**Listing Rules**"), together with the comparative figures for the corresponding period in 2016.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

		Year ended 31 March	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Revenue	*4, 5*	**103,658**	111,273
Other income	*5*	**2,032**	2,127
Fair value gains on revaluation of investment properties		**9,960**	–
Administrative expenses	*6*	**(38,820)**	(36,448)
Operating profit		**76,830**	76,952
Finance costs	*7*	**(22,167)**	(19,309)
Profit before income tax		**54,663**	57,643
Income tax expense	*8*	**(8,364)**	(9,582)
Profit and total comprehensive income for the year attributable to owners of the Company		**46,299**	48,061
Earnings per share for profit attributable to owners of the Company			
— Basic *(HK cents)*	*9(a)*	**11.2**	11.6
— Diluted *(HK cents)*	*9(b)*	**11.2**	11.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

		As at 31 March	
		2017	2016
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**81,529**	60,660
Investment properties		**64,530**	76,860
Available-for-sale investment		**625**	625
Loans receivable	*11*	**59,039**	97,527
Other asset		**1,100**	–
Deferred income tax assets		**266**	87
Total non-current assets		**207,089**	235,759
Current assets			
Loans receivable	*11*	**760,003**	576,529
Interest receivables	*12*	**17,887**	15,197
Prepayments, deposits and other receivables		**5,195**	987
Repossessed asset		**–**	5,306
Tax recoverable		**1,461**	–
Cash and cash equivalents		**15,298**	20,791
Total current assets		**799,844**	618,810
Total assets		**1,006,933**	854,569
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,150**	4,150
Reserves		**492,430**	458,819
Total equity		**496,580**	462,969

		As at 31 March	
		2017	2016
	Note	***HK$'000***	*HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables		**6,972**	5,544
Amount due to a fellow subsidiary	*16(b)*	**69,700**	88,951
Tax payable		**–**	2,423
Bank and other borrowings	*13*	**315,752**	179,251
Total current liabilities		**392,424**	276,169
Non-current liabilities			
Bonds	*14*	**113,797**	111,451
Deferred income tax liabilities		**4,132**	3,980
Total non-current liabilities		**117,929**	115,431
Total liabilities		**510,353**	391,600
Total equity and liabilities		**1,006,933**	854,569
Net current assets		**407,420**	342,641
Total assets less current liabilities		**614,509**	578,400

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 and personal loans in Hong Kong.

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

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 of the Company for issue on 27 June 2017.

2 BASIC OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") and requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the derivative financial instrument, which is 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 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) New and 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 January 2016:

- *Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11*
- *Clarification of acceptable methods of depreciation and amortisation — Amendments to Hong Kong Accounting Standard ("**HKAS**") 16 and HKAS 38*
- *Annual improvements to HKFRSs 2012–2014 cycle, and*
- *Disclosure initiative — amendments to HKAS 1.*

The adoption of these amendments did not have any material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New standards and interpretation not yet adopted

A number of new standards and amendments to standards and interpretation are effective for annual periods beginning 1 January 2016 and have not been early adopted 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'

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 ("**FVOCI**") and fair value through profit or loss ("**FVPL**"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in other comprehensive income ("**OCI**") 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 FVPL. 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 new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, derivative financial instrument currently measured at FVPL which would likely continue to be measured on the same basis under HKFRS 9. Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("**ECL**") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory effective date.

The Group intends to quantify the potential impact of HKFRS 9 once it is practicable to provide reliable estimates.

HKFRS 15, 'Revenue from contracts with customers'

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its mandatory effective date.

The Group is in the process of assessing the impact of HKFRS 15 to the Group, but is of the view that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$2,027,000 (Note 15). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its mandatory effective date.

4 SEGMENT INFORMATION

During the years ended 31 March 2017 and 2016, all of the Group's revenue was generated from the money lending business of providing property mortgage loans and personal 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 2017 and 2016.

5 REVENUE AND OTHER INCOME

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

	Year ended 31 March	
	2017	2016
	HK$'000	*HK$'000*
Revenue		
Interest income	**103,658**	111,273
Other income		
Rental income	**2,031**	2,124
Sundry income	**1**	3
	2,032	2,127

6 ADMINISTRATIVE EXPENSES

	Year ended 31 March	
	2017	2016
	HK$'000	*HK$'000*
Employee benefit expenses (including directors' emoluments)	**15,799**	15,218
Advertising and marketing expenses	**6,911**	7,793
Depreciation of property, plant and equipment	**3,069**	2,807
Provision for individual impairment assessment of loans receivable *(Note 11)*	**1,359**	1,791
Provision for collective impairment assessment of loans receivable *(Note 11)*	**668**	742
Provision for impairment of repossessed asset	**77**	435
Loans and interest receivables written off	**1,761**	–
Other expenses	**9,176**	7,662
	38,820	36,448

7 FINANCE COSTS

	Year ended 31 March	
	2017	2016
	HK$'000	*HK$'000*
Interest on secured bank borrowings wholly repayable within 5 years	**7,896**	4,596
Interest on bank overdrafts	**367**	676
Interest on amount due to a fellow subsidiary	**4,091**	4,416
Interest and other expenses on bonds	**9,051**	8,731
Interest on other borrowings	**762**	890
	22,167	19,309

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits during the year ended 31 March 2017.

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

	Year ended 31 March	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong profits tax		
— Current year	**8,103**	9,970
— Under/(over) provision in prior years	**234**	(73)
Deferred income tax	**27**	(315)
	8,364	9,582

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$46,299,000 (2016: HK$48,061,000) by the weighted average number of 415,000,000 (2016: 415,000,000) ordinary shares in issue during the year ended 31 March 2017.

	Year ended 31 March	
	2017	2016
Profit attributable to owners of the Company *(HK$'000)*	**46,299**	48,061
Weighted average number of ordinary shares in issue for basic earnings per share *('000)*	**415,000**	415,000
Basic earnings per share *(HK cents)*	**11.2**	11.6

(b) Diluted earnings per share

Diluted earnings per share during 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.

	Year ended 31 March	
	2017	2016
Profit attributable to owners of the Company *(HK$'000)*	**46,299**	48,061
Weight average number of ordinary shares in issue for diluted earnings per share *('000)*	**415,000**	415,741
Diluted earnings per share *(HK cents)*	**11.2**	11.6

The calculation of diluted earnings per share for the year ended 31 March 2017 do not assume the exercise of the Company's share options as the exercise prices of the outstanding share options were higher than the average market price of the shares of the Company during the year.

10 DIVIDENDS

A final dividend in respect of the year ended 31 March 2017 of HK1.1 cents per share, totaling HK$4,565,000, 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	
	2017	2016
	HK$'000	*HK$'000*
Interim dividend paid of HK1.6 cents (2016: HK1.9 cents) per share	**6,640**	7,885
Proposed final dividend of HK1.1 cents (2016: HK1.6 cents) per share	**4,565**	6,640
	11,205	14,525

11 LOANS RECEIVABLE

	As at 31 March	
	2017	2016
	HK$'000	*HK$'000*
Loans receivable	**825,363**	676,589
Less: Provision for individual impairment assessment of loans receivable	**(3,150)**	(1,791)
Provision for collective impairment assessment of loans receivable	**(1,410)**	(742)
Loans receivable written-off	**(1,761)**	–
Loans receivable, net of provision	**819,042**	674,056
Less: non-current portion	**(59,039)**	(97,527)
Current portion	**760,003**	576,529

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

Except for loans receivable of HK$17,325,000 (2016: Nil) which are unsecured, loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the customers.

As at 31 March 2017, additional collective impairment of loans receivable of HK$668,000 (2016: HK$742,000) was made. The Group performs collective impairment assessment of loans receivable by grouping together all its receivables with similar credit risk characteristics and by applying a historical impairment rate, taking the average of the most recent 3 financial periods of the percentage of impairment loss recognised in the consolidated statement of comprehensive income to the total loans and interest receivables as at the respective year end dates.

As at 31 March 2017, loans receivable amounted to HK$1,761,000 (2016: Nil) had been written-off. These relates to customers who are in financial difficulties and in the opinion of the directors, such loans receivable are uncollectible.

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

	As at 31 March	
	2017	2016
	HK$'000	*HK$'000*
Current	**760,003**	576,529
2–5 years	**21,213**	73,479
Over 5 years	**37,826**	24,048
	819,042	674,056

12 INTEREST RECEIVABLES

	As at 31 March	
	2017	2016
	HK$'000	*HK$'000*
Interest receivable	**17,887**	15,197

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

Except for interest receivables of HK$412,000 (2016: Nil) which are unsecured, interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with the customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

13 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 31 March	
	2017	2016
	HK$'000	*HK$'000*
Bank loans	**236,545**	141,565
Bank overdrafts	**36,207**	23,686
Other borrowings	**43,000**	14,000
Total bank and other borrowings	**315,752**	179,251

The weighted average effective interest rate on bank loans and bank overdrafts during the year ended 31 March 2017 was 5.1% (2016: 3.2%) per annum.

The other borrowings of HK$43,000,000 (2016: HK$14,000,000) are unsecured, bear interest at rates ranging from 6.0% to 7.0% (2016: ranging from 6.5% to 8.0%) per annum and repayable within one year.

At 31 March 2017 and 2016, all bank borrowings are denominated in Hong Kong dollars.

As at 31 March 2017, the bank loans and overdrafts utilised by the Group amounted to HK$272,752,000 (2016: HK$165,251,000) were secured by the following:

(i) investment properties held by the Group amounting to HK$64,530,000 (2016: HK$76,860,000);

(ii) land and buildings held by the Group with net book value of HK$79,639,000 (2016: HK$59,285,000);

(iii) pledge of certain properties mortgaged to a subsidiary of the Company for loans granted to its respective customers. The fair value of these properties were approximately HK$273,500,000 (2016: Nil); and

(iv) corporate guarantee of the Company.

14 BONDS

As at 31 March 2017, the Company had balances of Bond I and Bond II (in aggregate, the "Bonds") with an aggregate amount of HK$84,000,000 and HK$37,000,000 (2016: HK$84,000,000 and HK$37,000,000), before placing commission, respectively, with coupon rates at 6.0% (2016: 6.0%) and 4.5% (2016: 4.5%) per annum, respectively, repayable in 7 years from the respective issue dates. Bond II carries an option by the bondholder to redeem Bond II three years after the date of issuance.

The aggregate carrying amounts of the Bonds are HK$113,797,000 as at 31 March 2017 (2016: HK$111,451,000), 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	
	2017	2016
	HK$'000	*HK$'000*
Within 1 year	**1,895**	2,059
Within 2–5 years	**132**	404
	2,027	2,463

The Company did not have any significant commitments at 31 March 2017 (2016: 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 2017 and 2016, and balances arising from related party transactions as at 31 March 2017 and 2016.

(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	
	2017	2016
	HK$'000	*HK$'000*
Interest expenses paid to a fellow subsidiary — Tin Ching Industrial Company Limited ("Tin Ching Industrial")	**4,091**	4,416

Interest expenses on an amount due to a fellow subsidiary was charged at weighted average effective interest rate of 6.5% (2016: 6.5%) per annum.

(b) Amount due to a fellow subsidiary

Tin Ching Industrial, a fellow subsidiary, provided the Group with a loan facility with a limit of HK$150,000,000 (2016: HK$150,000,000), of which the Group utilised an amount of HK$69,700,000 (2016: HK$88,951,000) as at 31 March 2017.

The amount was unsecured, interest bearing at weighted average effective interest rate of 6.5% (2016: 6.5%) per annum on the outstanding amount, and repayable on demand. The carrying amount of the amount due to a fellow subsidiary is denominated in Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Our Group has been established for more than 20 years and since our establishment, 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 2017 (the "**Year**"), we still principally focused on our property mortgage loans business under our well-known and highly recognised brand name "***Hong Kong Finance***".

The property market in Hong Kong has experienced a correction in early 2016 but has rebounded both in property price and transaction volume and has turned active and energetic again during the Year. The Centa-City Leading Index has reached its highest record, showing that the property market nowadays in Hong Kong is boiling hot and high rocketing. However, as it is generally doubtful about the persistent growth in the property price, and having considered the rising interest rate in the United States of America, and keen and competitive mortgage loan market, we believe the property market remains challenging with full of uncertainties. A prudent and cautious approach for conducting our mortgage loan business were therefore still necessary and essential for the current year.

To minimise the potential credit and default risks in our mortgage loans and interest receivables, we continued to tighten our credit policy when granting mortgage loans to our customers and to re-balance and adjust our mortgage loan portfolio by providing more first-mortgage loan products to our high net worth customers with sound quality and credit history. Although the above prudent measures helped us to maintain the overall credit quality of our mortgage loan portfolio, they would unavoidably affected our financial performance for the current year. Our interest income decreased by HK$7.6 million or 6.8% to HK$103.7 million for the year ended 31 March 2017. Our net interest margin also pressurised to 12.0% as compared to 14.3% attained in last year. However, the demand for mortgage loan product remained strong and we still proactively expanded our mortgage loan portfolio during the Year. Our loans receivable increased to HK$819.0 million (net of provision) as at 31 March 2017, as compared to HK$674.1 million (net of provision) as at 31 March 2016.

We consider that although the property market in Hong Kong is rocketing in terms of property price and it seems that such rise will continue without any sign of cease and turning backward, some external and non-controllable factors such as anticipated rise of interest rate, periodic new measures from the Hong Kong Government to increase the stamp duty on sales and purchase of properties, etc. have led us to be more cautious when managing our mortgage loan business. Although we shall continue to expand our mortgage loan portfolio, at the same time, we consider the above prudent measures are necessary during the time of unstable and uncertain economic environment and these measures would produce a more solid and healthy position in our mortgage loan business which would compensate the impact on our net interest income and mortgage loan portfolio.

Industry review

Since 1 December 2016, to combat the problem of illegal and unreasonable fees charged to borrowers by fraudsters who claim themselves as financial intermediaries for money lending, the Hong Kong Government has imposed additional licensing conditions on money lenders to (i) facilitate effective enforcement of the statutory ban on separate fee charging by money lenders and their connected parties; (ii) ensure better protection of privacy of intending borrowers; (iii) enhance transparency and disclosure; and (iv) promote the importance of prudent borrowing.

Unlike other market players in money lending industry, we do not place substantial reliance on financial intermediaries to refer mortgage loan business to our Group. Further, to the best of our knowledge, our Group has complied with these additional licensing conditions 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 because of these additional licensing conditions.

We have also assessed that these new additional licensing conditions in connection with financial intermediaries created minimal impact on our money lending business. Even when financial intermediaries were to be appointed, we would carefully and cautiously select these financial intermediaries and we would strictly follow those requirements under the new additional licensing conditions so that we could provide reliable and legal loan products to our customers. Our Group will continue to co-operate with the government and other authorities in order to fight against such illegal financial intermediaries 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 decreased by HK$7.6 million or 6.8% from HK$111.3 million for the year ended 31 March 2016 to HK$103.7 million for the year ended 31 March 2017. Such decrease was primarily due to the decrease in the interest margin as a result of the above-mentioned prudent measures carried out by our Group to maintain the overall credit quality of our mortgage loan portfolio.

Fair value gains on revaluation of investment properties

Fair value gains on revaluation of investment properties increased by 100.0% to HK$10.0 million for the year ended 31 March 2017 (2016: Nil). The fair value gains on revaluation of investment properties reflected upward revaluation of the commercial and residential properties held by our Group during the Year.

Administrative expenses

We incurred administrative expenses of HK$38.8 million for the year ended 31 March 2017 (2016: HK$36.4 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. The amounts increased mainly due to the increases in provision for impairment and written off of loans receivable and miscellaneous expenses.

Finance costs

We incurred finance costs of HK$22.2 million for the year ended 31 March 2017 (2016: HK$19.3 million), which mainly comprised interest on interest bearing bank and other borrowings, amount due to a fellow subsidiary, and issue of bonds. The increase in the finance costs by HK$2.9 million or 15.0% was mainly attributable to the increase in secured bank borrowings which incurred additional interests during the Year.

Net interest margin

The net interest margin of our money lending business decreased from 14.3% for the last year to 12.0% for the year ended 31 March 2017. The prudent measures on our mortgage loan business, which we have mentioned above, and the increase in our cost of finance 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 2017 and 2016 attributable to owners of our Company achieved HK$46.3 million and HK$48.1 million, respectively, representing a decrease of 3.7%.

LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES

During the year ended 31 March 2017, 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 banks 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 2017.

As at 31 March 2017, cash and cash equivalent amounted to HK$15.3 million (2016: HK$20.8 million); amount due to a fellow subsidiary amounted to HK$69.7 million (2016: HK$89.0 million); interest bearing bank and other borrowings amounted to HK$315.8 million (2016: HK$179.3 million), and bonds amounted to HK$113.8 million (2016: HK$111.5 million).

During the year ended 31 March 2017, all interest bearing bank borrowings were repayable on demand and were secured by our Group's investment properties, land and buildings, certain properties mortgaged to our subsidiary and corporate guarantee of our Company. The amount due to a fellow subsidiary and the other borrowings were unsecured, interest bearing at a rate ranging from 6.0% to 7.0% 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 2017, 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 2017, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK$1.8 million and HK$80.3 million, respectively. It is our Group's policy to prioritise the utilisation of our available facilities which offer the lowest finance cost to our Group.

During the year ended 31 March 2017, 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 2016 and 2017 respectively:

	As at 31 March	
	2017	2016
Current ratio [(1)]	**2.04**	2.24
Gearing ratio [(2)]	**0.97**	0.78

	For the year ended 31 March	
	2017	2016
Net interest margin ratio [(3)]	**12.0%**	14.3%
Return on equity ratio [(4)]	**9.3%**	10.4%
Interest coverage ratio [(5)]	**3.0 times**	4.0 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 receivables at the respective year-end date.

[4] Return on equity ratio was calculated by dividing profit and total comprehensive income for year attributable to owners of the Company by the total equity as at the respective year-end date.

[5] Interest coverage ratio was calculated by dividing profit before finance costs and income tax expenses (excluding fair value 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 2017.

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 2017 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 Listing Rules, MLO constituted a significant influence on our Group's money lending business during the Year.

The MLO is the principal statute which governs the money lending business in Hong Kong. Our money lending business has been conducted through the subsidiaries of our Company, Hong Kong Finance Company Limited ("**HK Finance**") and EasyLend Finance Company Limited ("**EasyLend Finance**"). Since the first granting of money lenders licence to HK Finance and EasyLend Finance, we have never received any objection from and have never been investigated by the Registrar of Money Lenders nor the Commissioner of Police regarding the renewal of the money lenders licence. During the Year, the money lenders licence of HK Finance was successfully renewed on 31 May 2016, and subsequent to 31 March 2017, we have successfully renewed the licences of HK Finance and of EasyLend Finance on 15 June 2017 and 25 April 2017, respectively.

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, 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 20.0% (2016: 19.0%) of our total revenue and our single largest customer accounted for approximately 6.0% (2016: 6.0%) of our total revenue.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2017, our Group employed 40 full time employees. The total staff costs of our Group for the year ended 31 March 2017 were HK$15.8 million (2016: HK$15.2 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 on 4 September 2013, the purpose of which is to provide incentives to our employees who made contributions to our Group with a view to motivating them and/or attracting and retaining them for the long term growth of our Group. No share option was granted during the Year. As at 31 March 2017, 19,150,000 share options were outstanding which represents approximately 4.6% of the issued ordinary shares of our Company.

CHARGES ON GROUP ASSETS

As at 31 March 2017, our land and buildings of HK$79.6 million (2016: HK$59.3 million), our investment properties of HK$64.5 million (2016: HK$76.9 million) and certain properties mortgaged to our subsidiary with aggregate fair values of these properties of approximately HK$273.5 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 2017, our Group had no material contingent liabilities (2016: Nil).

FUTURE DEVELOPMENT AND PROSPECTS

For our mortgage loan business, as discussed above, although the recent property market in Hong Kong is boiling hot and high rocketing, the financial uncertainties such as the anticipated rise of interest rate, government measures and policies, keen competition, etc. still create burdens and hurdles on our mortgage loan business. As we are professional and highly experienced in our mortgage loan business, we believe the current challenge could give us an opportunity to consolidate and to expand our mortgage loan business and portfolio. Periodical prudent measures and tight credit policy were important and essential during the Year and they are expected to be attained during the current economy with full of challenge and uncertainties.

Apart from our core mortgage loan business, to further expand our money lending business and to capture and enlarge our market shares and segments in this money lending industry, we have diversified and soft-launched our new personal loan product under the young and easy-recognised brand name "***EasyLend***" in the last quarter of the Year. This new launch represents a new era for us to expand our new position in the money lending market. Certain amounts of resources have already been injected and invested on our personal loan business such as system formulation and integration, human resources, information technology, etc. and these investments and commitments are expected to be continued in the foreseeable future. Although ***EasyLend*** is still at early stage which produced insignificant influence on our Group's operating results for the Year, based on our professionalism in money lending market, and on our capital investment in this personal loan business, we strongly believe that ***EasyLend*** could grow with fruitful results which would increase our interest income and margin and the profitability of our Group in the foreseeable future.

Last but not least, to finance our money lending business, we shall continue to source different financial resources to maintain our cost of funding and net interest margin at a justifiable level. We shall continue to channel more resources and effort in advertising and enhancing our brand images and awareness, and to promote and develop our products and services. We are confident in our business diversification and expansion and the growth of interest income and its yield that will create sound financial results and performance for our shareholders and stakeholders in 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 2017 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 2017.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules to monitor the code of conduct regarding securities transactions by our Directors. Having made enquiry to all Directors, they all have confirmed that they have complied with the required standards as set out in the Model Code during the Year under review.

REVIEW OF FINAL RESULTS

The audit committee of the Company (the "**Audit Committee**") consists of three independent non-executive Directors, namely, Mr. Chan Siu Wing Raymond (Chairman of Audit Committee), Mr. Chu Yat Pang Terry and Mr. Cheung Kok Cheong.

The Audit Committee has discussed with the management of our Company the internal control and financial reporting matters including the accounting principles and practices related to the preparation of the consolidated financial statements for the year ended 31 March 2017. The Audit Committee has also reviewed the consolidated financial statements for the year ended 31 March 2017 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, 5 September 2017 (the "**AGM**"). The notice of AGM, which constitutes part of the circular to the shareholders, will be published on the websites of our Company (www.hkfinance.hk) and of the Stock Exchange (www.hkexnews.hk), respectively and dispatched to our shareholders together with our Company's 2017 annual report in due course.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK1.1 cents per share for the year ended 31 March 2017, subject to shareholders' approval at the AGM. The proposed final dividend will be paid on Wednesday, 11 October 2017.

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 Thursday, 31 August 2017 to Tuesday, 5 September 2017, 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 Wednesday, 30 August 2017; and

(ii) on Wednesday, 13 September 2017, 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 Tuesday, 12 September 2017.

PUBLICATION

This announcement is published on the aforesaid websites. The 2017 annual report will be dispatched to the shareholders of our Company and published on the above websites 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, 27 June 2017

As at the date of this announcement, the Board comprises the following members:

Executive Directors:
Mr. Chan Kwong Yin William *(Chairman)*
Mr. Chan Koung Nam
Mr. Tse Pui To *(Chief Executive Officer)*

Independent Non-executive Directors:
Mr. Chan Siu Wing Raymond
Mr. Chu Yat Pang Terry
Mr. Cheung Kok Cheong