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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 2018

The board of directors (the "**Board**" or "**Directors**") of Hong Kong Finance Group Limited (the "**Company**" or "our **Company**") is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2018, together with the comparative figures for the corresponding period of the previous year, are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2018

		Year ended 31 March	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*4, 5*	**132,149**	103,658
Other income and gain	*5*	**2,204**	2,032
Fair value gains on revaluation of investment properties		**21,640**	9,960
Provision for impairment and write-off of loans receivable, net	*6*	**(14,991)**	(3,788)
Administrative expenses	*7*	**(58,861)**	(35,032)
Operating profit		**82,141**	76,830
Finance costs	*8*	**(27,522)**	(22,167)
Profit before income tax		**54,619**	54,663
Income tax expense	*9*	**(4,569)**	(8,364)
Profit and total comprehensive income for the year attributable to owners of the Company		**50,050**	46,299
Earnings per share for profit attributable to owners of the Company			
— Basic *(HK cents)*	*10(a)*	**12.1**	11.2
— Diluted *(HK cents)*	*10(b)*	**12.1**	11.2
Dividends	*11*	**8,300**	11,205

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

		As at 31 March	
		2018	2017
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**80,637**	81,529
Investment properties		**86,170**	64,530
Available-for-sale investment		**625**	625
Loans receivable	*12*	**165,917**	59,039
Other asset		**710**	1,100
Deferred income tax assets		**2,385**	266
Total non-current assets		**336,444**	207,089
Current assets			
Loans receivable	*12*	**677,562**	760,003
Interest receivables	*13*	**18,058**	17,887
Repossessed assets	*14*	**35,859**	–
Prepayments, deposits and other receivables		**2,137**	5,195
Tax recoverable		**842**	1,461
Cash and cash equivalents		**33,710**	15,298
Total current assets		**768,168**	799,844
Total assets		**1,104,612**	1,006,933
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,150**	4,150
Reserves		**534,595**	492,430
Total equity		**538,745**	496,580

		As at 31 March	
		2018	2017
	Note	***HK$'000***	*HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables		**8,249**	6,972
Amount due to a fellow subsidiary	*18(b)*	**125,284**	69,700
Tax payable		**1,054**	–
Bank and other borrowings	*15*	**322,443**	315,752
Bonds	*16*	**27,000**	–
Total current liabilities		**484,030**	392,424
Non-current liabilities			
Bonds	*16*	**78,919**	113,797
Deferred income tax liabilities		**2,918**	4,132
Total non-current liabilities		**81,837**	117,929
Total liabilities		**565,867**	510,353
Total equity and liabilities		**1,104,612**	1,006,933
Net current assets		**284,138**	407,420
Total assets less current liabilities		**620,582**	614,509

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 (the "**HK$'000**"), unless otherwise stated. These consolidated financial statements were approved by the board of directors of the Company for issue on 26 June 2018.

2 BASIS OF PREPARATION

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

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

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

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) New and amended standards adopted by the Group

The Group has applied the following amendments to standards for the first time for its annual reporting period commencing 1 April 2017:

- Recognition of deferred tax assets for unrealised losses — Amendments to Hong Kong Accounting Standard ("**HKAS**") 12;
- Disclosure of interest in other entities — Amendments to HKFRS 12; and
- Disclosure initiative — Amendments to HKAS 7.

The adoption of these amendments to standards 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

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 March 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 "Financial Instruments"

<u>Nature of change</u>
HKFRS 9 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.

<u>Impact</u>
The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on the Group on 1 April 2018:

The financial assets held by the Group include:

- debt instruments currently classified as loans and receivables measured at amortised cost which meet the conditions for classification at amortised cost under HKFRS 9; and

- asset currently classified as available-for-sale investment measured at fair value through other comprehensive income which meet the conditions for classification at fair value through profit or loss under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these 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 fair value through profit or loss 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 fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Management is in the process of reviewing the loans receivable portfolios and the impact of the new model on its impairment provisions. It is anticipated that earlier recognition of credit losses may result. Management is in the process of quantifying the potential effects on its consolidated financial statements.

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.

<u>Date of adoption by Group</u>
The new standard must be applied for the financial years commencing on or after 1 April 2018. The Group will apply the new rules retrospectively from 1 April 2018, with the practical expedients permitted under the standard. Comparatives for FY2017/18 will not be restated.

HKFRS 15 "Revenue from Contracts with Customers"

Nature of change

The HKICPA 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 and the related literature.

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.

Impact

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements and is of the view that the standard will not have any significant impact on the consolidated financial statements of the Group.

Date of adoption by Group

The new standard is mandatory for financial years commencing on or after 1 April 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 April 2018 and that comparatives will not be restated.

HKFRS 16 "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, 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.

Impact

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$739,000. The Group estimates that none of these relate to payments for short-term and low value leases which will be recognised on a straightline basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease terms and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/Date of adoption by Group

The new standard is mandatory for financial years commencing on or after 1 April 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4 SEGMENT INFORMATION

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

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

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

There are no sales between the operating segments in the years ended 31 March 2018 and 2017.

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 2018 and 2017.

All of the Group's operating segments operate in Hong Kong, and accordingly geographical segment information is presented.

For the year ended 31 March 2018

	Property mortgage loans *HK$'000*	Personal loans *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	106,345	25,804	–	132,149
Other income and gain	–	–	2,204	2,204
Fair value gains on revaluation of investment properties	–	–	21,640	21,640
Provision for impairment and write-off of loans receivable, net	(2,328)	(12,663)	–	(14,991)
Administrative expenses	(33,317)	(25,147)	(397)	(58,861)
Operating profit/(loss)	70,700	(12,006)	23,447	82,141
Finance costs	(18,843)	–	(8,679)	(27,522)
Profit/(loss) before income tax	51,857	(12,006)	14,768	54,619
Income tax (expense)/credit	(7,266)	2,290	407	(4,569)
Profit/(loss) and total comprehensive income/(loss) for the year attributable to owners of the Company	44,591	(9,716)	15,175	50,050

As at 31 March 2018

	Property mortgage loans *HK$'000*	Personal loans *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment assets	800,881	143,224	160,507	1,104,612
Segment liabilities	(317,218)	(3,215)	(245,434)	(565,867)
Other information:				
Depreciation expense	(1,468)	(721)	(803)	(2,992)
Reversal of/(provision for) individual impairment of loans receivable	393	(966)	–	(573)
Provision for collective impairment of loans receivable	(561)	(5,926)	–	(6,487)
Loans receivable written-off	(2,160)	(5,771)	–	(7,931)

For the year ended 31 March 2017

	Property mortgage loans *HK$'000*	Personal loans *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	102,058	1,600	–	103,658
Other income and gain	–	–	2,032	2,032
Fair value gains on revaluation of investment properties	–	–	9,960	9,960
Provision for impairment and write-off of loans receivable, net	(3,243)	(545)	–	(3,788)
Administrative expenses	(28,527)	(5,339)	(1,166)	(35,032)
Operating profit/(loss)	70,288	(4,284)	10,826	76,830
Finance costs	(13,116)	–	(9,051)	(22,167)
Profit/(loss) before income tax	57,172	(4,284)	1,775	54,663
Income tax expense	(6,761)	–	(1,603)	(8,364)
Profit/(loss) and total comprehensive income/(loss) for the year attributable to the owners of the Company	50,411	(4,284)	172	46,299

As at 31 March 2017

	Property mortgage loans *HK$'000*	Personal loans *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment assets	842,147	24,387	140,399	1,006,933
Segment liabilities	(310,091)	(1,349)	(198,913)	(510,353)
Other information:				
Depreciation expense	(816)	(349)	(1,904)	(3,069)
Provision for individual impairment of loans receivable	(1,359)	–	–	(1,359)
Provision for collective impairment of loans receivable	(668)	–	–	(668)
Loans receivable written-off	(1,216)	(545)	–	(1,761)

5 REVENUE AND OTHER INCOME AND GAIN

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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Revenue:		
Interest income — property mortgage loans	**106,345**	102,058
Interest income — personal loans	**25,804**	1,600
Total revenue	**132,149**	103,658
Other income and gain:		
Rental income	**1,900**	2,031
Sundry income	**44**	1
Gain on disposals of plant and equipment	**260**	–
Total other income and gain	**2,204**	2,032

6 PROVISION FOR IMPAIRMENT AND WRITE-OFF OF LOANS RECEIVABLE, NET

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Property mortgage loans:		
(Reversal of)/provision for individual impairment of loans receivable *(Note 12)*	**(393)**	1,359
Provision for collective impairment of loans receivable *(Note 12)*	**561**	668
Loans receivable written-off *(Note 12)*	**2,160**	1,216
	2,328	3,243
Personal loans:		
Provision for individual impairment of loans receivable *(Note 12)*	**966**	–
Provision for collective impairment of loans receivable *(Note 12)*	**5,926**	–
Loans receivable written-off *(Note 12)*	**5,771**	545
	12,663	545
Total provision for impairment and write-off of loans receivable, net	**14,991**	3,788

7 ADMINISTRATIVE EXPENSES

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Employee benefit expenses (including directors' emoluments)	**21,979**	15,799
Advertising and marketing expenses	**16,394**	6,911
Depreciation of property, plant and equipment	**2,992**	3,069
Referral fees	**5,139**	1,747
Other expenses	**12,357**	7,506
Total administrative expenses	**58,861**	35,032

8 FINANCE COSTS

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Interest on secured bank borrowings wholly repayable within 5 years	**10,565**	7,896
Interest on bank overdrafts	**376**	367
Interest on amount due to a fellow subsidiary	**5,241**	4,091
Interest and other expenses on bonds	**8,679**	9,051
Interest on other borrowings	**2,661**	762
Total finance costs	**27,522**	22,167

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits during the year ended 31 March 2018.

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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong profits tax		
— Current year	**7,652**	8,157
— (Over)/under provision in prior years	**(227)**	234
Deferred income tax	**(2,856)**	(27)
	4,569	8,364

10 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of HK$50,050,000 (2017: HK$46,299,000) by the weighted average number of 415,000,000 (2017: 415,000,000) ordinary shares in issue during the year ended 31 March 2018.

	Year ended 31 March	
	2018	2017
Profit attributable to owners of the Company *(HK$'000)*	**50,050**	46,299
Weighted average number of ordinary shares in issue for basic earnings per share *('000)*	**415,000**	415,000
Basic earnings per share *(HK cents)*	**12.1**	11.2

(b) Diluted earnings per share

Diluted earnings per share during the year ended 31 March 2018 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	
	2018	2017
Profit attributable to owners of the Company *(HK$'000)*	**50,050**	46,299
Weighted average number of ordinary shares in issue for diluted earnings per share *('000)*	**415,000**	415,000
Diluted earnings per share *(HK cents)*	**12.1**	11.2

The calculation of diluted earnings per share for year ended 31 March 2018 does 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 per share of the Company during the year.

11 DIVIDENDS

A final dividend in respect of the year ended 31 March 2018 of HK1.2 cents per share, totaling HK$4,980,000, is to be declared at the forthcoming annual general meeting of the Company. These consolidated financial statements do not reflect this dividend payable.

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Interim dividend paid of HK0.8 cents (2017: HK1.6 cents) per share	**3,320**	6,640
Proposed final dividend of HK1.2 cents (2017: HK1.1 cents) per share	**4,980**	4,565
	8,300	11,205

12 LOANS RECEIVABLE

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
Gross loans receivable — property mortgage loans	**722,417**	808,038
Gross loans receivable — personal loans	**140,613**	17,325
	863,030	825,363
Total gross loans receivable		
Less: Provision for individual impairment of loans receivable	**(3,723)**	(3,150)
Provision for collective impairment of loans receivable	**(7,897)**	(1,410)
Loans receivable written-off	**(7,931)**	(1,761)
Loans receivable, net of provision	**843,479**	819,042
Less: non-current portion	**(165,917)**	(59,039)
Current portion	**677,562**	760,003

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

Except for personal loans receivable of HK$140,613,000 (2017: 17,325,000) which are unsecured, loans receivable are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the customers.

Movements on the Group's individual impairment of loans receivable are as follows:

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
At beginning of the year	**3,150**	1,791
Provision for individual impairment of loans receivable, net	**573**	1,359
At end of the year	**3,723**	3,150

As at 31 March 2018, additional collective impairment of loans receivable of HK$6,487,000 (2017: HK$668,000) was made.

For property mortgage loans, 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.

For personal loans, the Group performs collective impairment assessment of loans receivable by grouping together all its receivables with similar customer credit ratings and by applying a historical impairment rate, which has been derived since the commencement of the personal loans business of the Group, as well as making reference to the rates adopted by other licensed money lenders.

Movements on the Group's collective impairment of loans receivable are as follows:

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
At beginning of the year	**1,410**	742
Provision for collective impairment of loans receivable, net	**6,487**	668
At end of the year	**7,897**	1,410

As at 31 March 2018, loans receivable amounted to HK$7,931,000 (2017: HK$1,761,000) had been written-off. These relate to customers who are either (i) in financial difficulties; (ii) declared bankruptcy; or (iii) deceased and in the opinion of the directors, such loans receivable are uncollectible.

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

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
Current	**677,562**	760,003
2-5 years	**80,085**	21,213
Over 5 years	**85,832**	37,826
	843,479	819,042

13 INTEREST RECEIVABLES

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
Interest receivables	**18,058**	17,887

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

Except for interest receivables of HK$2,233,000 (2017: HK$412,000) which are unsecured, interest receivables are secured by collaterals provided by customers and repayable with fixed terms agreed with the customers. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

14 REPOSSESSED ASSETS

During the year, the Group obtained assets by taking possession of collaterals held as security. The nature and carrying value of these assets held as at 31 March are summarised as follows:

	2018	2017
	HK$'000	*HK$'000*
Repossessed asset — a mix of commercial and residential property	**35,859**	–

The estimated market value of the repossessed asset held by the Group as at 31 March 2018 was HK$42,500,000 (2017: Nil). It comprises property in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the properties concerned) for release in full or in part of the obligations of the borrower.

15 BANK AND OTHER BORROWINGS

Bank and other borrowings are analysed as follows:

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
Bank loans	**233,003**	236,545
Bank overdrafts	**18,440**	36,207
Other borrowings	**71,000**	43,000
Total bank and other borrowings	**322,443**	315,752

The weighted average effective interest rate on bank loans and bank overdrafts during the year ended 31 March 2018 was 4.7% (2017: 5.1%) per annum.

Other borrowings of HK$71,000,000 (2017: HK$43,000,000) are unsecured, interest bearing at rates ranging from 4.5% to 6.5% (2017: ranging from 6.0% to 7.0%) per annum and repayable within one year.

At 31 March 2018 and 2017, all bank borrowings are denominated in Hong Kong dollars and the carrying amounts approximate their fair values.

As at 31 March 2018, the bank loans and overdrafts utilised by the Group amounted to HK$251,443,000 (2017: HK$272,752,000) were secured by the following:

(i) investment properties held by the Group amounting to HK$86,170,000 (2017: HK$64,530,000);

(ii) land and buildings held by the Group with net book value of HK$77,701,000 (2017: HK$79,639,000);

(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$524,420,000 (2017: HK$273,500,000); and

(iv) corporate guarantee of the Company.

16 BONDS

As at 31 March 2018, 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$27,000,000 (2017: HK$84,000,000 and HK$37,000,000), before placing commission, respectively, with coupon rates at 6.0% (2017: 6.0%) and 4.5% (2017: 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. Subsequent to 31 March 2018, a principal amount of Bond II of HK$9,000,000 was redeemed.

The aggregate carrying amounts of the Bonds are HK$105,919,000 as at 31 March 2018 (2017: HK$113,797,000), 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.

17 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 terms range from 1 to 2 years.

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

	As at 31 March	
	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**510**	1,895
Within 2-5 years	**229**	132
	739	2,027

The Company did not have any significant capital commitment at 31 March 2018 (2017: Nil).

18 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 2018 and 2017, and balances arising from related party transactions as at 31 March 2018 and 2017.

(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	
	2018	2017
	HK$'000	*HK$'000*
Interest expenses paid to a fellow subsidiary — Tin Ching Industrial Company Limited ("**Tin Ching Industrial**")	**5,241**	4,091

Interest expenses on an amount due to a fellow subsidiary was charged at weighted average effective interest rate of 6.5% (2017: 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$200,000,000 (2017: HK$150,000,000), of which the Group utilised an amount of HK$125,284,000 (2017: HK$69,700,000) as at 31 March 2018.

The amount was unsecured, interest bearing at weighted average effective interest rate of 6.5% (2017: 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

Since the establishment in 1996, we have principally engaged in the money lending business specialising in providing property mortgage loans in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) ("**MLO**"). During the year ended 31 March 2018 ("**FY2017/18**"), we still focused on our core business in property mortgage loans under our well-known and highly recognised brand name "***Hong Kong Finance***". We also expanded our money lending business in personal loan products by launching a young and easy-recognised brand name "***EasyLend***" in order to diversify ourselves in different money lending market segment, to capture new market opportunity and to enhance our overall interest margin.

During FY2017/18, the Centa-City Leading Index as quoted by Centaline Property Agency Limited has continued to rise and reached to its highest record at 177.61 as at 31 March 2018, representing an increase of 16.7% as compared to the same as at 31 March 2017 of 152.18, showing that the property market in Hong Kong remained boiling hot and high rocketing during FY2017/18. Although the demand for our property mortgage loan products remained strong and energetic which gave us opportunity to grow our mortgage loan portfolio, other challenges have been imposed on its growth which included keen market competition with the persistent increase in the number of money lenders, intensive price war on interest margin among those market players, persistent increase in interest rate in the United States of America, and a recent increase and fluctuation in Hong Kong Inter Bank Offering Rate (HIBOR). The above factors have created uncertainty on our mortgage loan business and therefore during FY2017/18, we continued to adopt a prudent and cautious approach when conducting our mortgage loan business, such as stringent credit policy, strict control on loan-to-value ratio, providing more first mortgage loan to our high net worth customers, etc.

Having anticipated that the above prudent and cautious approach in conducting our mortgage loan business and the uncertainty of the property market would continue and would have impact on our financial performance and our interest margin in the foreseeable future, we have diversified, expanded and launched our new personal loan products under the new brand name ***EasyLend*** since late 2016. This new launch represented a new era for us to expand our new position in the money lending market. During FY2017/18, the personal loan products have already contributed interest income to our Group of HK$25.8 million, which surged up our overall interest income from HK$103.7 million for the year ended 31 March 2017 ("**FY2016/17**") to HK$132.1 million for FY2017/18, representing an increase of 27.4%. Our net interest margin also improved to 13.2% as compared to 12.0% attained in the last year. The above improvement in our interest income and in our interest margin was mainly attributable to the contribution of our new personal loan business. Our overall loans receivable increased to HK$843.5 million (net of provisions) as at 31 March 2018, as compared the same of HK$819.0 million (net of provisions) as at 31 March 2017.

Industry review

The money lending market in Hong Kong remains highly competitive, as evidenced by the continuous increase in the number of money lenders licensees with over 2,000 licensees in Hong Kong as at 31 March 2018. Further, after the imposition of additional licensing conditions in late 2016, those small to medium-sized finance companies which previously and significantly relied on financial intermediaries for business referral, turned to offering much lower interest rates and to adopting aggressive marketing strategies to attract customers, which affected overall yields of the money lending industry. We believe the above would continue and we shall continue to face more competition in capturing new business opportunity to expand our loan portfolio.

One of the main purposes of the above imposition of additional licensing conditions was to combat the problem of illegal and unreasonable fees charged to borrowers by fraudsters who claim themselves as financial intermediaries for money lending. Although we did not place reliance on financial intermediaries to refer mortgage loan business to our Group, we have appointed a number of financial agents and referrers to refer lending business for our new personal loan business. We have carefully and cautiously selected these financial intermediaries and we have strictly followed those requirements under the new additional licensing conditions so that we could provide reliable and legal personal 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 and personal loans in Hong Kong increased by HK$28.4 million or 27.4% from HK$103.7 million for FY2016/17 to HK$132.1 million for the FY2017/18. Such increase was primarily due to the new launch of personal loan business which contributed interest income of HK$25.8 million to our Group during FY2017/18, increased by HK$24.2 million or 1,512.5% from HK$1.6 million for FY2016/17.

As for our interest income from our mortgage loan business, it remained stable for FY2017/18 with a slight increase by HK$4.2 million or 4.1% from HK$102.1 million for FY2016/17 to HK$106.3 million for FY2017/18.

Fair value gains on revaluation of investment properties

The fair value gains on revaluation of investment properties increased by HK$11.6 million or 116.0% from HK$10.0 million for FY2016/17 to HK$21.6 million for FY2017/18 which reflected the significant upward revaluation of the commercial and residential properties held by our Group during FY2017/18.

Provision for impairment and write-off of loans receivable, net

The amount significantly increased by HK$11.2 million, or 294.7%, from HK$3.8 million for FY2016/17 to HK$15.0 million for FY2017/18. The significant increase was mainly attributable to the increase of (i) provision for individual impairment assessment; (ii) provision for collective impairment assessment; and (iii) write-off of loans receivable from the personal loan business.

Below is the breakdown of provision for/(reversal of provision for) impairment and write-off of loans receivable incurred from property mortgage loans and personal loans during FY2017/18 and FY2016/17:

	Property mortgage loans		**Personal loans**	
	2018	2017	**2018**	2017
	HK$' million	*HK$' million*	***HK$' million***	*HK$' million*
Individual impairment	**(0.4)**	1.4	**1.0**	–
Collective impairment	**0.6**	0.7	**5.9**	–
Loans receivable written-off	**2.1**	1.2	**5.8**	0.5
	2.3	3.3	**12.7**	0.5

The increase in provision for collective impairment assessment of loans receivable from personal loan business is calculated with reference to (i) the historical impairment rate derived since the commencement of the personal loan business in FY2016/17 as well as (ii) making reference to rates adopted by other licensed money lenders and is in line with the increase in provision for individual impairment assessment of loans receivable. The increase in write-off of loans receivable was mainly due to the increase in personal loans receivable in which we considered them as uncollectible either due to (i) the long overdue payments; (ii) bankruptcy of the customers; or (iii) death of the customers.

Administrative expenses

We have incurred administrative expenses of HK$58.9 million for FY2017/18 (FY2016/17: HK$35.0 million), which mainly comprised employee benefit expenses, advertising and marketing expenses, referral fees, depreciation of property, plant and equipment and other miscellaneous expenses. The amounts increased significantly by HK$23.9 million or 68.3% mainly due to the expansion of our personal loan business which substantially and additionally incurred employee benefit expenses, advertising and marketing expenses, and referral fees during FY2017/18.

Finance costs

We have incurred finance costs of HK$27.5 million for FY2017/18 (FY2016/17: HK$22.2 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$5.3 million or 23.9% was mainly attributable to the increase in utilisation of bank and other borrowings during FY2017/18.

Net interest margin

The net interest margin of our money lending business increased from 12.0% for FY2016/17 to 13.2% for FY2017/18, which mainly attributed to the contribution from personal loan business which generally offered relatively higher interest rates to personal loan customers than to mortgage loan customers.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income for FY2017/18 and FY2016/17 attributable to owners of our Company achieved HK$50.1 million and HK$46.3 million, respectively, representing a year by year increase of 8.2%.

LIQUIDITY AND SOURCES OF FINANCIAL RESOURCES

During FY2017/18, 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 FY2017/18.

As at 31 March 2018, cash and cash equivalent amounted to HK$33.7 million (2017: HK$15.3 million); amount due to a fellow subsidiary amounted to HK$125.3 million (2017: HK$69.7 million); interest bearing bank and other borrowings amounted to HK$322.4 million (2017: HK$315.8 million), and bonds amounted to HK$105.9 million (2017: HK$113.8 million).

During the FY2017/18, 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, and interest bearing at a weighted average effective interest rate of 4.7% per annum. The amount due to a fellow subsidiary and the other borrowings were unsecured, interest bearing at a rate ranging from 4.5% to 6.5% per annum and with fixed terms 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 their maturity.

During the FY2017/18, 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 2018, our unutilised banking facilities and other unutilised facility available to our Group for drawdown amounted to HK$19.6 million and HK$74.7 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 FY2017/18, 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 2017 and 2018 respectively:

	As at 31 March	
	2018	2017
Current ratio(1)	**1.59**	2.04
Gearing ratio(2)	**0.97**	0.97

	For the year ended 31 March	
	2018	2017
Net interest margin ratio(3)	**13.2%**	12.0%
Return on equity ratio(4)	**9.3%**	9.3%
Interest coverage ratio(5)	**2.2 times**	3.0 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 FY2017/18.

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 2018 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 Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), MLO constituted a significant influence on our Group's money lending business during FY2017/18.

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.

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 FY2017/18, 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 FY2017/18, our top five customers (as determined by interest income generated) accounted for approximately 10.5% (2017: 20.0%) of our total revenue and our single largest customer accounted for approximately 2.3% (2017: 6.0%) of our total revenue.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2018, our Group employed 47 (2017: 40) full time employees. The total staff costs of our Group for FY2017/18 were HK$22.0 million (FY2016/17: HK$15.8 million).

Our Group adopts a remuneration policy covering 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 FY2017/18. As at 31 March 2018, 18,800,000 share options were outstanding which represents approximately 4.5% of the issued ordinary shares of our Company.

CHARGES ON GROUP ASSETS

As at 31 March 2018, our land and buildings of HK$77.7 million (2017: HK$79.6 million), our investment properties of HK$86.2 million (2017: HK$64.5 million) and certain properties mortgaged to our subsidiary with aggregate fair values of these properties of approximately HK$524.4 million (2017: HK$273.5 million) were secured for the Group's bank borrowings.

FOREIGN EXCHANGE EXPOSURE

During FY2017/18, 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 2018, our Group had no material contingent liabilities (2017: Nil).

FUTURE DEVELOPMENT AND PROSPECTS

As for our mortgage loan business, we foresee that the property market in Hong Kong is still energetic and provides business opportunities for expanding our mortgage loan portfolio. At the same time, with great challenges and uncertainty arising from the overheating property market and from the expected increase in interest rates, we consider the prudent and cautious approach are still necessary during the time of challenging business environment and this approach would produce a more solid and healthy position in our mortgage loan business which would compensate the potential impact on our net interest income and mortgage loan portfolio. By leveraging on our professionalism, our well-known brand name ***Hong Kong Finance*** and our profound experience in our mortgage loan business, we expect a growth of our mortgage loan portfolio with a more healthy and solid growth in our mortgage loan business in the foreseeable future.

As for our personal loan business, after a full year of operation, our ***EasyLend*** have started to achieve an equilibrium situation and it is expected that our personal loan business would start to produce positive operating results in the near future. We believe that ***EasyLend*** would be the other revenue and profit driver of our Group and we shall continue to invest resources in our personal loan business such as system formulation and integration, human resources and information technology, etc. Based on our professionalism in money lending market, and on our capital investment in this personal loan business, we 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.

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 FY2017/18 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 FY2017/18.

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 FY2017/18. The Audit Committee has also reviewed the consolidated financial statements for FY2017/18 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 Wednesday, 12 September 2018 (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 2018 annual report in due course.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK1.2 cents per share for the year ended 31 March 2018, subject to shareholders' approval at the AGM. The proposed final dividend will be paid on Wednesday, 10 October 2018.

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 Friday, 7 September 2018 to Wednesday, 12 September 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, all transfers of ordinary shares of the Company, duly accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited (the "**Branch Share Registrar**"), at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Thursday, 6 September 2018; and

(ii) on Wednesday, 19 September 2018 and Thursday, 20 September 2018, 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 Share Registrar at the address set out above for registration no later than 4:00 p.m. on Tuesday, 18 September 2018.

PUBLICATION

This announcement is published on the aforesaid websites. The 2018 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, 26 June 2018

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