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KVB KUNLUN FINANCIAL GROUP LIMITED

昆侖國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8077)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the “Directors”) of KVB Kunlun Financial Group Limited (the “Company”, together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FIRST QUARTERLY RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated first quarterly results of the Group for the three months ended 31 March 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2017

		Unaudited	
		Three months ended 31 March	
		2017	2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leveraged foreign exchange and other trading income		50,236	90,761
Cash dealing (loss)/income		(73)	2,207
Fee and commission income		14,331	15,129
Other income/(losses)	3	1,135	(2,289)
Total income		65,629	105,808
Referral expenses and other charges		46,222	34,751
Staff costs	4	11,816	19,687
Depreciation and amortization		3,087	1,794
Lease payments under land and buildings		3,510	2,790
Administrative and other operating expenses	5	16,144	12,015
Total expenses		80,779	71,037
Operating (loss)/profit		(15,150)	34,771
Finance cost		(612)	(15)
(Loss)/profit before tax		(15,762)	34,756
Income tax expense	6	(3,124)	(10,320)
(Loss)/profit for the period		(18,886)	24,436
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation difference		1,623	3,933
Other comprehensive income for the period, net of tax		1,623	3,933
Total comprehensive income for the period		(17,263)	28,369
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company for the period			
– Basic (HK cents per share)	8	(0.93)	1.20
– Diluted (HK cents per share)	8	(0.93)	1.20

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Unaudited						
	Share capital	Share premium	Capital reserve	Share option reserve	Currency translation reserve	Retained earnings	Total equity
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2017	20,332	180,464	171,892	17,692	(9,766)	133,903	514,517
Comprehensive income							
Loss for the period	-	-	-	-	-	(18,886)	(18,886)
Other comprehensive income for the period	-	-	-	-	1,623	-	1,623
	<u>20,332</u>	<u>180,464</u>	<u>171,892</u>	<u>17,692</u>	<u>(8,143)</u>	<u>115,017</u>	<u>497,254</u>
Share option scheme	-	-	-	254	-	248	502
Balance at 31 March 2017	<u><u>20,332</u></u>	<u><u>180,464</u></u>	<u><u>171,892</u></u>	<u><u>17,946</u></u>	<u><u>(8,143)</u></u>	<u><u>115,265</u></u>	<u><u>497,756</u></u>

	Unaudited						
	Share capital	Share premium	Capital reserve	Share option reserve	Currency translation reserve	Retained earnings	Total equity
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2016	20,330	180,276	171,892	9,551	(11,794)	95,155	465,410
Comprehensive income							
Profit for the period	-	-	-	-	-	24,436	24,436
Other comprehensive income for the period	-	-	-	-	3,933	-	3,933
	<u>20,330</u>	<u>180,276</u>	<u>171,892</u>	<u>9,551</u>	<u>(7,861)</u>	<u>119,591</u>	<u>493,779</u>
Share option scheme	-	-	-	408	-	-	408
Issuance of new ordinary shares upon exercise of share option	2	188	-	(60)	-	60	190
Balance at 31 March 2016	<u><u>20,332</u></u>	<u><u>180,464</u></u>	<u><u>171,892</u></u>	<u><u>9,899</u></u>	<u><u>(7,861)</u></u>	<u><u>119,651</u></u>	<u><u>494,377</u></u>

NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

General information

The Company was incorporated in the Cayman Islands on 9 November 2010 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 its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company and its subsidiaries are principally engaged in leveraged foreign exchange and other trading, cash dealing business, and other services.

The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited since 3 July 2013.

The financial information is presented in HK dollars ("HK\$"), unless otherwise stated. This financial information has not been audited.

2 BASIS OF PREPARATION

The financial information for the three months ended 31 March 2017 has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the applicable disclosure requirements of the GEM Listing Rules. The financial information should be read in conjunction with the Company's 2016 Annual Report, which has been prepared in accordance with HKFRS.

The accounting policies applied are consistent with those adopted to prepare to the Company's 2016 annual report.

Taxes on income in the reporting periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

There are no other amended standards or interpretations that are effective for the first time for this three-month period that could be expected to have a material impact to the Group.

3 OTHER INCOME/(LOSSES)

	Unaudited	
	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Interest income	726	447
Exchange gain/(losses), net	210	(3,325)
Handling fee rebate	—	303
Others	199	286
	<u>1,135</u>	<u>(2,289)</u>

4 STAFF COSTS

	Unaudited	
	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Staff costs (including directors' remuneration):		
Salaries, bonus and allowances	10,964	18,923
Pension scheme contributions	350	356
Share option expenses	502	408
	<u>11,816</u>	<u>19,687</u>

5 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited	
	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Management fees paid to ultimate holding company	165	216
Other office occupation expenses	839	721
Auditor's remuneration		
– Audit services	668	607
– Non-audit services	161	52
Information services expenses	1,156	899
Professional and consultancy fee	1,423	547
Repair and maintenance (including system maintenance)	2,857	1,154
Marketing, advertising and promotion expenses	3,275	2,722
Handling fee expenses	2,942	2,533
Travelling expenses	818	683
Entertainment expenses	275	170
Insurance	163	202
Clients' debt balances written off	3	110
Others	1,399	1,399
	<u>16,144</u>	<u>12,015</u>

6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit during the period. Taxation on overseas profits has been calculated on the estimated assessable profit during the period at the rates of taxation prevailing in the countries in which the Group operates. The income tax expenses of the Group are charged at a tax rate of 28% (2016: 28%) in New Zealand, 30% (2016: 30%) in Australia and 25% (2016: 25%) in PRC in accordance with the local tax authorities.

	Unaudited	
	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Current tax:		
Charge for the period	3,040	10,257
Others	84	63
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Income tax expense	3,124	10,320
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7 DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2017 (2016: Nil).

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Unaudited	
	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders of the Company	(18,886)	24,436
Weighted average number of ordinary shares in issue	2,033,240,000	2,033,196,044
	<hr/>	<hr/>
Basic (loss)/earnings per share (HK cents)	(0.93)	1.20
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(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit for the period attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares under the share option scheme into ordinary shares.

	Unaudited	
	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders of the Company	(18,886)	24,436
Weighted average number of ordinary shares in issue	2,033,240,000	2,033,196,044
Adjustments for share options	<u>—</u>	<u>—</u>
Weighted average number of shares for the purpose of calculating diluted (loss)/earnings per share	<u>2,033,240,000</u>	<u>2,033,196,044</u>
Diluted (loss)/earnings per share (HK cents)	<u>(0.93)</u>	<u>1.20</u>

Note: The effects of the share options granted on 19 August 2015 and 29 December 2016 which are outstanding on 31 March 2017 are not included in the computation of diluted (loss)/earnings per share for the period ended 31 March 2017 as those are anti-dilutive.

9 APPROVAL OF FINANCIAL INFORMATION

The financial information for the three months ended 31 March 2017 was approved and authorised for issue by the Board on 10 May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first quarter of 2017, we experienced a period of unfavorable trading conditions due to reduced volatility in the foreign exchange (“FX”) and commodity markets. This resulted in a decrease in revenue. However, new client registrations and total clients’ trading volume increased during the period under review, compared with that in the first quarter of 2016.

XAU/USD was the mostly traded product, followed by EUR/USD, USD/JPY, USCRUDE and GBP/USD.

In the first quarter of 2017, Gold traded within a price range of USD117 per ounce. Gold was traded at the highest price of USD1,263 per ounce and the lowest at USD1,146 per ounce. The price range of Gold was much narrower compared to the same period in 2016. In the first quarter of 2016, the price range of Gold was USD222 per ounce, with the highest at USD1,284 per ounce, and the lowest at USD1,062 per ounce. The trading price range of crude oil was also narrower, with the highest at USD55.20 per barrel and the lowest at USD47 per barrel, compared with the highest at USD42.50 per barrel and the lowest at USD26.05 per barrel in the first quarter of 2016.

In the FX market, the price of the EUR/USD also traded in a much narrower price range in the first quarter of 2017, compared with the movements in the same period in 2016. The highest and the lowest level of the EUR/USD were 1.0905 and 1.0340 respectively, with a 565-pip trading range in the first quarter of 2017, compared to the movements of the price in first quarter of 2016 which represented a 700-pip trading range, from 1.1410 to 1.0710. The unfavorable trading conditions, driven by low market volatility, has seen tighter profit margins earned from customer initiated trading volume.

The retail margin FX trading market is highly competitive. Market competitors include international multi-product trading firms, online trading firms and other financial institutions. We expect the market to remain highly competitive in the foreseeable future. We are continually seeking to improve our quality of service so as to respond to the demand of our clients in a timely manner and to provide more trading opportunities in the global financial markets.

Financial Performance

The Group recorded a total income of approximately HK\$65.6 million for the three months ended 31 March 2017, representing a decrease of approximately 38.0% from approximately HK\$105.8 million for the corresponding period in 2016. The Group recorded a loss of approximately HK\$18.9 million for the three months ended 31 March 2017 compared to the profit of approximately HK\$24.4 million for the same period last year. The main reason for the decrease in both total income and profit was low volatility in the foreign exchange, commodity and index markets.

Total expenses for the three months ended 31 March 2017 amounted to approximately HK\$80.8 million, increased by 13.7% compared to the same period in 2016. The increase was mainly due to 1) increase in referral fees and other charges, mainly caused by increased commission rebate to external parties (including margin business and PRC operations); 2) increase in depreciation and amortization costs, mainly caused by new assets capitalization from late 2016; 3) increase in lease payments, mainly caused by the increased rental expenses of new Beijing office; and 4) increase in administrative expenses, mainly caused by increased marketing expenses, regulatory and compliance expenses, computer services expense and customer promotion expenses.

INTERESTS OF THE COMPLIANCE ADVISER AND ITS DIRECTORS, EMPLOYEES AND CLOSE ASSOCIATES

As confirmed by Lego Corporate Finance Limited, the compliance adviser of the Company, none of Lego Corporate Finance Limited or its directors, employees and close associates (as defined under the GEM Listing Rules) is materially interested in any contract or arrangement during the three months ended 31 March 2017, which is significant in relation to the business of the Group.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S COMPETING INTERESTS

As at 31 March 2017, none of the Directors or the controlling shareholder or their respective close associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group.

REVIEW OF FINANCIAL STATEMENTS

The Company established an audit committee (the "Audit Committee") on 18 December 2012 with written terms of reference in compliance with the requirements as set out in Rule 5.28 of the GEM Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Lin Wenhui, Ms. Zhao Guixin and Mr. Cornelis Jacobus Keyser. Mr. Lin Wenhui is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Company, nominate and monitor external auditors and provide advice and comments to the Directors. The Audit Committee has reviewed the unaudited condensed consolidated results of the Group for the three months ended 31 March 2017 and has provided advice and comments thereon.

QUARTERLY DIVIDEND

The Board does not declare the payment of any dividend for the three months ended 31 March 2017 (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 31 March 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
KVB Kunlun Financial Group Limited
Liu Stefan
Executive Director

Hong Kong, 10 May 2017

As at the date of this announcement, the directors of the Company are as follows:

Executive directors

Mr. Liu Stefan

Mr. Ng Chee Hung Frederick

Non-executive directors

Mr. Li Zhi Da

Mr. Stephen Gregory McCoy

Independent Non-executive directors

Ms. Zhao Guixin

Mr. Cornelis Jacobus Keyser

Mr. Lin Wenhui

This announcement will remain on the website of GEM of the Stock Exchange at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the day of its posting and on the website of the Company at www.kvblastco.com.