



KOALA Financial Group Limited
樹熊金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

Third Quarterly Report 2018



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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*This report, for which the directors (the "**Directors**") of KOALA Financial Group Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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 report is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

The board of directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months ended 30 September 2018, together with the comparative figures as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the nine months ended 30 September 2018

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	3	14,460	3,557	36,944	9,374
Cost of sales and services		(777)	(784)	(2,156)	(2,380)
Gross profit		13,683	2,773	34,788	6,994
Other income and gains		1,789	5,449	7,326	8,740
Selling and distribution expenses		(14)	(220)	(49)	(816)
Administrative expenses		(5,859)	(5,789)	(17,050)	(23,183)
Other operating expenses		(2,134)	(3,836)	(2,134)	(4,161)
Finance costs		(237)	(1,564)	(3,100)	(4,554)
Profit/(loss) before tax		7,228	(3,187)	19,781	(16,980)
Income tax	4	(1,164)	834	(3,234)	606
Profit/(loss) for the period		6,064	(2,353)	16,547	(16,374)
Other comprehensive income/(expense) item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		485	(52)	504	21
Other comprehensive income/(expense) for the period		485	(52)	504	21

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Total comprehensive income/(expense) for the period		6,549	(2,405)	17,051	(16,353)
Profit/(loss) for the period attributable to:					
Owners of the Company		4,981	(449)	14,428	(12,942)
Non-controlling interests		1,083	(1,904)	2,119	(3,432)
		6,064	(2,353)	16,547	(16,374)
Total comprehensive income/(expense) for the period attributable to:					
Owners of the Company		5,263	(475)	14,720	(12,931)
Non-controlling interests		1,286	(1,930)	2,331	(3,422)
		6,549	(2,405)	17,051	(16,353)
Earnings/(loss) per share	5				
— Basic (in cents)		0.18	(0.02)	0.55	(0.56)
— Diluted (in cents)		0.18	N/A	0.55	N/A

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the nine months ended 30 September 2018

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium account	Convertible bonds reserve	Share option reserve	Exchange fluctuation reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2017	16,380	450,226	74,286	7,410	(311)	(439,987)	108,004	(1,719)	106,285
Total comprehensive income/(expense) for the period	—	—	—	—	11	(12,942)	(12,931)	(3,422)	(16,353)
Issue of shares upon open offer	8,190	106,472	—	—	—	—	114,662	—	114,662
Share issue expenses	—	(5,316)	—	—	—	—	(5,316)	—	(5,316)
At 30 September 2017	24,570	551,382	74,286	7,410	(300)	(452,929)	204,419	(5,141)	199,278
At 1 January 2018	24,570	551,182	74,286	7,410	(292)	(449,728)	207,428	(6,238)	201,190
Total comprehensive income for the period	—	—	—	—	292	14,428	14,720	2,331	17,051
Issue of shares upon conversion of convertible bonds	3,263	102,217	(74,286)	—	—	—	31,194	—	31,194
Decrease in non-controlling interests arising on disposal of subsidiaries	—	—	—	—	—	—	—	11,385	11,385
At 30 September 2018	27,833	653,399	—	7,410	—	(435,300)	253,342	7,478	260,820

Notes to Condensed Consolidated Financial Statements

For the nine months ended 30 September 2018

1. GENERAL

The Company is a limited liability company incorporated in the Cayman Islands, and the issued shares of which are listed on GEM of the Stock Exchange.

The Company is principally engaged in investment holding. The principal activities of the Company's principal subsidiaries are set out as follow:

- Securities investment
- Provision of securities placing and brokerage services
- Money lending business
- Leasing of investment properties

The consolidated financial statements are presented in Hong Kong dollar ("HK\$"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in the exchange for goods and services.

The accounting policies and method of computation used in preparing the financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2017.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. REVENUE

Revenue, which is also the Group's turnover recognised for the period, represents the aggregate of net invoiced value of goods sold, after allowances for returns, trade discounts and sales related taxes, income from provision of securities placing and brokerage services, interest income from money lending activities and rental income from lease of investment properties, analysed as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue				
Sales of goods	—	—	—	114
Provision of securities placing and brokerage services	10,767	1,835	26,151	6,119
Interest income from money lending activities	3,558	1,587	10,388	2,736
Rental income from lease of investment properties	135	135	405	405
Total revenue	14,460	3,557	36,944	9,374

4. INCOME TAX

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Current tax				
Hong Kong Profit Tax	1,164	864	3,234	1,092
Over-provision in prior period	—	(1,698)	—	(1,698)
Total tax credit	1,164	(834)	3,234	(606)

Hong Kong Profit Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period.

5. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Earnings/(loss)				
Earnings/(loss) for the purposes of basic loss per share	4,981	(449)	14,428	(12,942)
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds	—	1,435	—	3,885
Earnings for the purposes of diluted earnings per share	4,981	N/A	14,428	N/A

	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic loss per share	2,783,360	2,457,044	2,604,065	2,301,041
Effect of dilutive potential ordinary shares:				
Convertible bonds	—	237,883	—	197,193
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,783,360	2,694,927	2,604,065	2,498,234

Diluted loss per share is not presented because the Group sustained a loss for that period and the impact of convertible bonds and exercise of share options is regarded as anti-dilutive.

6. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period, the Group's businesses were organised in five operation's segments namely (i) Securities brokerage, underwriting and placements; (ii) Money lending; (iii) Securities investment; (iv) Investment in properties and (v) Asset management.

Securities Brokerage, Underwriting and Placements

In November 2016, the Group completed the acquisition of 80% equity interest in KOALA Securities Limited ("**KOALA Securities**"). As at 30 September 2018, KOALA Securities is licensed to carry on Type 1 (Dealing in Securities) and Type 4 (Advising on Securities) regulated activities under the SFO. The Group is optimistic about the market condition of the securities brokerage, share placements, underwriting services and other related businesses and believes that it will benefit the Group in the long term.

Revenue from this business segment during the period was approximately HK\$26.2 million (2017: HK\$6.1 million). It accounted for approximately 70.8% of the Group's revenue during the period.

Money Lending

In February 2016, the Group, through an indirect wholly-owned subsidiary of the Group, obtained a money lender's licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). In developing the Group's money lending business, the Group targets corporations and individuals with financing needs. The Group will only advance new loans to those borrowers whose have good financial credit rating and all overdue balances are reviewed regularly by our senior management.

During the period, the Group recorded loan interest income of approximately HK\$10.4 million (2017: HK\$2.7 million) from granting loans to both corporate and individual clients. It accounted for approximately 28.1% of the Group's revenue during the period. The outstanding principal amount of loan receivables as at 30 September 2018 was HK\$50.8 million. During the period, the Group did not record any doubtful or bad debt in its money lending activities.

Securities Investment

This business activity started in the third quarter of 2015. The investment scope includes short-term investments in listed securities in Hong Kong and other recognised overseas securities markets as well as other related investment products offered by banks and financial institutions. The Board expects that this business activity can generate additional investment returns on available funds of the Company from time to time.

As at 30 September 2018, the Group managed a portfolio of listed equity investment with fair value of approximately HK\$43.6 million (31 December 2017: HK\$12.2 million) which are classified as held-for-trading investments. During the period, the Group recorded a gain on fair value change of listed equity investments of approximately HK\$2.7 million (2017: gain of HK\$3.0 million) and a realised gain of approximately HK\$3.2 million (2017: gain of HK\$4.1 million).

Investment in Properties

In the third quarter of 2016, the Group had acquired commercial properties for investment purpose. The properties are located in Hong Kong. It is currently leased by a listed company. The Group believes that these properties could generate stable rental income to the Group.

During the period, the rental income was approximately HK\$0.4 million (2017: HK\$0.4 million). It accounted for approximately 1.1% of the Group's revenue during the period.

Asset Management

The Group started the business of asset management by obtaining a licence, through an indirect 40.8% owned subsidiary, KOALA Capital Management Limited, to carry out Type 9 (Asset Management) regulated activities under the SFO in the fourth quarter of 2017. It is focusing on the markets of equities, bond, real estate and private equity in Asia Pacific.

The operations and businesses were at the start-up stage and faces marketing risk with its fund launches. However, the Board expects it to contribute over the long term.

As at 30 September 2018, the assets under management was nil.

FINANCIAL REVIEW

For the nine months ended 30 September 2018, the revenue of the Group increased to approximately HK\$36.9 million (2017: HK\$9.4 million), representing an increase of approximately 3.9 times when compared with that of 2017. The increase in turnover mainly attributable to the performance improved from the business of securities brokerage, underwriting and placements, of which the increment was HK\$20.0 million.

The Group recorded a net profit of approximately HK\$16.5 million for this period, compared with a net loss of approximately HK\$16.4 million for the same period of last year. The main reasons for the reduction in such loss were mainly due to the improvement of the business of securities brokerage, underwriting and placements, which contributed HK\$13.7 million for the period, and the gain on the Group's held-for-trading investments of HK\$5.9 million recognised in this period.

LOOKING AHEAD

Looking forward, the Board will continue to develop current businesses and at the same time proactively explore new business areas and seek suitable investment opportunities.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better return for its shareholders.

LEGAL PROCEEDING

Reference is made to the Company's announcement dated 25 July 2014 in relation to the writ of summons received by the Company. It was alleged in the Writ that a total sum of HK\$10 million was advanced by Total Shares Limited (the "**Plaintiff**") to Mr. Shan Xiaochang ("**Mr. Shan**"), the former Board Chairman and Chief Executive Officer, pursuant to a loan agreement (the "**Loan Agreement**") dated 9 August 2013 made between the Plaintiff as the lender and Mr. Shan as the borrower, the repayment of which was guaranteed by the Company as a guarantor by a guarantee (the "**Guarantee**") signed by the Company in favour of the Plaintiff dated 9 August 2013. The amount of the claim specified in the Writ was HK\$10 million plus the accrued unpaid interest under the Loan Agreement and other interest.

A consent order dated 12 July 2018 was duly signed by the Plaintiff and the Company and filed to High Court Registry. According to the consent order, the Plaintiff agreed to discontinue all proceedings in the action against the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

None of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 September 2018.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2018, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Ms. Wong Ka Man	Beneficial owner	530,667,261	—	530,667,261	19.07%

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 September 2018.

SHARE OPTIONS

The share option scheme effective on 8 July 2002 (the "2002 Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted and became effective for a period of 10 years commencing from 15 June 2012. Shares options granted prior to the expiry of the 2002 Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the 2002 Share Option Scheme.

As at 30 September 2018, the Company had 21,200,000 (31 December 2017: 21,200,000) share options outstanding under the 2002 Share Option Scheme, which represented approximately 0.8% (31 December 2017: 0.9%) of its issued share capital on that date. No share option was granted under the New Share Option Scheme.

The following table discloses movements in the Company's share options during the period:

Name or category of participant	Exercisable period	Exercise price per share of the Company HK\$	Outstanding at 1 January 2018	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 September 2018
Others In aggregate	25 November 2010 to 24 November 2020	0.666	21,200,000	—	—	—	21,200,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the nine months ended 30 September 2018.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code on Corporate Governance Practice as defined in the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises exclusively of independent non-executive Directors.

The Group's unaudited results for the nine months ended 30 September 2018 have been reviewed by the audit committee, which was of the opinion that such financial statements complied with the applicable accounting standards and that adequate disclosures have been made.

By Order of the Board
KOALA Financial Group Limited
Kwan Kar Ching
Chairlady

Hong Kong, 9 November 2018

As at the date of this report, the Board comprises five Directors namely Ms. Kwan Kar Ching and Ms. Hsin Yi-Chin, being the executive Directors and Mr. Hung Cho Sing, Mr. Luk Kin Ting and Mr. Kam Hou Yin, John, being the independent non-executive Directors.