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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)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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 the GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the 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 the GEM (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.*

#### **ANNUAL RESULTS**

The board of Directors (the “Board”) of the Company announces the consolidated annual results of the Group for the year ended 31 December 2013, together with comparative figures for the corresponding year of 2012.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

		2013	2012
	Note	HK\$'000	HK\$'000
Leveraged foreign exchange and other trading income	4	135,543	86,951
Cash dealing income	4	11,505	9,310
Other income	5	29,671	26,961
Total income		<u>176,719</u>	<u>123,222</u>
Fees and commission expenses		57,768	48,804
Staff costs	6	30,819	29,532
Depreciation and amortisation		2,550	2,307
Lease payments under land and buildings		5,873	5,777
Administrative and other operating expenses	7	29,456	34,064
Total expenses		<u>126,466</u>	<u>120,484</u>
Operating profit		50,253	2,738
Finance cost		(123)	(306)
Profit before tax		50,130	2,432
Income tax expense	8	(15,356)	(4,181)
Profit/(loss) for the year		<u>34,774</u>	<u>(1,749)</u>
<b>Other comprehensive income</b>			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation difference		(1,764)	4,586
Other comprehensive income for the year, net of tax		<u>(1,764)</u>	<u>4,586</u>
Total comprehensive income for the year		<u>33,010</u>	<u>2,837</u>
Earnings/(loss) per share for profit attributable to the equity holders of the Company for the year – Basic and diluted (HK cents per share)	10	<u>1.90</u>	<u>(0.11)</u>
Dividends	9	<u>29,500</u>	<u>14,000</u>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	<i>Note</i>	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>6,301</b>	5,894
Intangible assets		<b>257</b>	329
Deferred tax assets		<b>413</b>	438
		<u>6,971</u>	<u>6,661</u>
<b>Current assets</b>			
Tax prepayments		<b>567</b>	1,742
Other assets and prepayments	<i>11</i>	<b>4,973</b>	8,662
Amounts due from ultimate holding company		<b>23</b>	–
Amounts due from fellow subsidiaries		<b>75</b>	201
Derivative financial instruments	<i>12</i>	<b>56,594</b>	36,571
Balances due from agents	<i>13</i>	<b>16,910</b>	14,037
Cash and bank balances and client trust bank balances	<i>14</i>	<b>483,880</b>	340,132
		<u>563,022</u>	<u>401,345</u>
<b>Total current assets</b>		<b>563,022</b>	401,345
<b>Total assets</b>		<b>569,993</b>	408,006
<b>EQUITY AND LIABILITIES</b>			
Share capital	<i>17</i>	<b>20,000</b>	100
Share premium		<b>166,928</b>	56,991
Capital reserve	<i>18</i>	<b>171,892</b>	171,892
Currency translation reserve		<b>4,883</b>	6,647
Retained earnings/(accumulated losses)		<b>18,396</b>	(2,878)
		<u>382,099</u>	<u>232,752</u>
<b>Total equity</b>		<b>382,099</b>	232,752

	<i>Note</i>	<b>2013</b> <b>HK\$'000</b>	2012 HK\$'000
<b>Current liabilities</b>			
Finance lease obligations		45	151
Current income tax liabilities		3,068	328
Other payables and accrued liabilities	15	12,189	15,247
Amounts due to fellow subsidiaries		312	698
Amounts due to ultimate holding company		–	3,683
Derivative financial instruments	12	2,579	7,178
Clients' balances	16	169,426	147,590
		<u>187,619</u>	<u>174,875</u>
<b>Non-current liabilities</b>			
Finance lease obligations		126	197
Deferred tax liabilities		149	182
		<u>275</u>	<u>379</u>
<b>Total liabilities</b>		<u><b>187,894</b></u>	<u>175,254</u>
<b>Total equity and liabilities</b>		<u><b>569,993</b></u>	<u>408,006</u>
<b>Net current assets</b>		<u><b>375,403</b></u>	<u>226,470</u>
<b>Total assets less current liabilities</b>		<u><b>382,374</b></u>	<u>233,131</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

### 1.1 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's shares have been listed on the GEM since 3 July 2013.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of leveraged foreign exchange and other trading, cash dealing business, and other service.

The financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

### 1.2 Reorganisation

In preparing for the listing of shares of the Company on the GEM of the Stock Exchange, the Company underwent a reorganisation, pursuant to which the group companies owned by the controlling shareholders were transferred to the Company ("Reorganisation"). The reorganisation involved the following:

- (a) On 9 November 2010, the Company was incorporated in the Cayman Islands by Codan Trust Company (Cayman) Limited. On the same date, 100% equity interest was transferred to Mr Li Zhi Da ("Mr Li").
- (b) On 8 April 2011, LXL Capital I Limited ("LXL I") was incorporated as a wholly owned subsidiary of the Company.
- (c) On 8 April 2011, LXL Capital II Limited ("LXL II"), LXL Capital III Limited ("LXL III") and LXL Capital IV Limited ("LXL IV") were incorporated and each of them allotted and issued 100 nil-paid shares to LXL I.
- (d) On 4 May 2012, pursuant to a sale and purchase agreement:
  - (i) The entire issued share capital of the Company was transferred from Mr Li to KVB Kunlun Holdings Limited for a consideration of HK\$1.
  - (ii) The Company acquired the entire share capital of KVB Kunlun International (HK) Limited ("KVBHK") from Mr Li and the estate of late Ms Tsui Wang by crediting as fully paid at par the 100 nil-paid LXL IV shares allotted and issued to LXL I on 8 April 2011 (as mentioned in (c) above).
  - (iii) The Company acquired the entire share capital of KVB Kunlun New Zealand Limited from KVB Kunlun Holdings Limited ("KVBNZ") by crediting as fully paid at par the 100 nil-paid LXL II shares allotted and issued to LXL I on 8 April 2011 (as mentioned in (c) above).
  - (iv) The Company acquired the entire share capital of KVB Kunlun Pty Ltd ("KVBAU") from KVB Kunlun Holdings Limited by crediting as fully paid at par the 100 nil-paid LXL III shares allotted and issued to LXL I on 8 April 2011 (as mentioned in (c) above).

Such transfers were completed by 7 May 2012.

## 2 BASIS OF PRESENTATION

For the purpose of this announcement, the financial statements of the Group has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the years ended 31 December 2013 and 2012 have been prepared on a consolidated basis and include the financial statements of the companies under the common control of the controlling shareholders and now comprising the Group at if the current group structure had been in existence throughout the years ended 31 December 2013 and 2012. The consolidated balance sheets of the Group as at 31 December 2013 and 2012 have been prepared to present the assets and liabilities of the companies now comprising the Group as at these dates, as if the current group structure had been in existence as at these dates.

The net assets and results of the Group are consolidated using the existing book values from the controlling shareholders’ perspective.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The financial statements has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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.

Unless otherwise stated herein, all references to 2013 refer to the Group’s fiscal year ended, or the date, as the context requires, 31 December 2013.

**(a) *Newly effective standards and amended standards for the financial year from 1 January 2013 that is applicable to the Group***

Amendment to Hong Kong Accounting Standard (“HKAS”) 1, “Financial statement presentation”

Amendment to HKFRS 7, “Financial instruments: Disclosures’ on asset and liability offsetting”

HKFRS 10 “Consolidated financial statements”

HKFRS 12 “Disclosure of interests in other entities”

HKFRS 13, “Fair value measurements”

- (b) *The following new standards and amendments to standards have been issued but are not effective for the financial year ended 31 December 2013 which are relevant to the Group but the Group has not early adopted*

Amendment to HKAS 32 “Financial instruments: Presentation” on asset and liability offsetting (effective from 1 January 2014)

HKFRS 9 “Financial instruments” (effective from 1 January 2015)

Other HKFRSs that are applicable for the financial year beginning on or after 1 January 2013 have no significant impact on the Group.

#### **4 SEGMENT REPORTING**

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. The Group’s operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group’s business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. The Board of Directors considers the business from a geographical and product perspective.

Summary details of the business segments are as follows:

- (a) the margin dealing segments engage in the provision of leveraged foreign exchange and other trading services in Hong Kong and New Zealand;
- (b) the unleveraged cash dealing segment engages in the provision of non-leveraged foreign exchange trading services in New Zealand. Unleveraged cash dealing services were provided to corporate clients, in particular, those clients engaged in money changing business for the purpose of hedging their cash positions and meeting settlement obligations. The Group is rewarded by the spread between the price quoted to our clients and the price offered by our market makers; and
- (c) the investment sales segments engage in provision of sale and marketing functions to clients in New Zealand and Australia.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the years ended 31 December 2013 and 2012.

The segment information provided to the management for the reportable segments for the years ended 31 December 2013 and 2012 is as follows:

**For the year ended 31 December 2013**

	New Zealand Margin dealing HK\$'000	Hong Kong Margin dealing HK\$'000	New Zealand Cash dealing HK\$'000	New Zealand Investment sales HK\$'000	Australia Investment sales HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:								
Foreign exchange and other trading income earned from external customers	135,549	-	9,340	-	-	2,159	-	147,048
Inter-segment sales	-	27,069	-	4,833	7,104	-	(39,006)	-
Segment revenue	135,549	27,069	9,340	4,833	7,104	2,159	(39,006)	147,048
Other income	24,903	-	108	67	14	4,579	-	29,671
Total revenue and other income	<u>160,452</u>	<u>27,069</u>	<u>9,448</u>	<u>4,900</u>	<u>7,118</u>	<u>6,738</u>	<u>(39,006)</u>	<u>176,719</u>
Segment profit/(loss)	52,080	21,309	6,169	(4,058)	(4,565)	6,738		77,673
Other staff costs								(17,323)
Other unallocated administrative and operating expenses								(10,220)
Profit before tax								50,130
Income tax expense								(15,356)
Profit for the year								<u>34,774</u>
Other segment information:								
Depreciation and amortisation	83	319	49	83	471	1,545	-	2,550
Finance cost	100	-	7	-	-	16	-	123



For the year ended 31 December 2012

	New Zealand Margin dealing <i>HK\$'000</i>	Hong Kong Margin dealing <i>HK\$'000</i>	New Zealand Cash dealing <i>HK\$'000</i>	New Zealand Investment sales <i>HK\$'000</i>	Australia Investment sales <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue and other income:								
Foreign exchange and other trading income earned from external customers	86,632	120	11,045	–	–	(1,536)	–	96,261
Inter-segment sales	–	24,141	–	2,851	5,862	–	(32,854)	–
Segment revenue	86,632	24,261	11,045	2,851	5,862	(1,536)	(32,854)	96,261
Other income	21,584	–	286	243	399	4,449	–	26,961
Total revenue and other income	<u>108,216</u>	<u>24,261</u>	<u>11,331</u>	<u>3,094</u>	<u>6,261</u>	<u>2,913</u>	<u>(32,854)</u>	<u>123,222</u>
Segment profit/(loss)	15,059	21,793	6,232	(392)	(6,585)	2,913		39,020
Other staff costs								(17,406)
Other unallocated administrative and operating expenses								(19,182)
Profit before tax								2,432
Income tax expense								(4,181)
Loss for the year								<u>(1,749)</u>
Other segment information:								
Depreciation and amortisation	46	31	61	77	573	1,519	–	2,307
Finance cost	30	–	71	–	–	205	–	306

The Company is domiciled in the Hong Kong. The majority of the Group's income from external customers is derived from its operations in New Zealand. The result of its income from external customers in New Zealand and others is as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
New Zealand	<b>147,048</b>	96,141
Others	–	120
	<u><b>147,048</b></u>	<u>96,261</u>

The locations of its non-current assets (excluding financial assets and deferred tax assets) are as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Hong Kong	<b>4,365</b>	4,564
New Zealand	<b>1,579</b>	834
Others	<b>614</b>	825
	<u><b>6,558</b></u>	<u>6,223</u>

None of the external customers contributes more than 10% of the Group's trading income individually in the respective years.

Information on segment assets and liabilities are not disclosed as this information is not presented to the Board of Directors as they do not assess performance of reportable segments using information on assets and liabilities.

## 5 OTHER INCOME

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Provision of management services	2,508	7,916
Fees and commission income	26,499	22,301
Interest income	1,525	1,571
Exchange losses, net	(1,371)	(5,343)
Gain on disposal of fixed assets	19	–
Others	491	516
	<u>29,671</u>	<u>26,961</u>

## 6 STAFF COSTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Staff costs		
Salaries and allowances	29,978	28,595
Pension scheme contributions	841	937
	<u>30,819</u>	<u>29,532</u>

## 7 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Management fees paid to ultimate holding company	661	2,543
Management fees paid to fellow subsidiaries	328	82
Other office occupation expenses	1,618	1,541
Auditor's remuneration	2,150	2,865
Information services expenses	3,251	3,690
Professional and consultancy fee	8,109	14,287
Repair and maintenance (including system maintenance)	598	623
Marketing, advertising and promotion expenses	4,424	2,511
Travelling expenses	2,412	2,033
Entertainment expenses	1,009	1,030
Others	4,896	2,859
	<u>29,456</u>	<u>34,064</u>

## 8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit during the year. Taxation on overseas profits has been calculated on the estimated assessable profit during the year 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% in New Zealand and 30% in Australia in accordance with the local tax authorities.

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current tax:		
Charge for the year	15,412	4,293
Over-provision in prior year	(30)	(371)
Deferred tax:		
(Credit)/charge for the year	(26)	259
Income tax expense	<u>15,356</u>	<u>4,181</u>

## 9 DIVIDENDS

During the year ended 31 December 2012, dividends of HK\$14,000,000 in respect of the year ended 31 December 2012 were declared and paid by the Company to the then shareholders.

On 21 May 2013 and 3 June 2013, the Company had declared a special dividend of HK\$1 and HK\$0.6 per ordinary share based on the outstanding shares at the respective dates of those meetings. The total special dividends of HK\$16,000,000 were paid to the then shareholders out of share premium.

The Board of the Company resolved to declare a third quarterly dividend of HK\$0.675 cents per ordinary share. The dividend was distributed on 3 December 2013 to shareholders of the Company whose names appear on the register of members of the Company as at the close of business on 27 November 2013. A total of HK\$13,500,000 was paid to the then shareholders out of retained earnings.

A final dividend in respect of the year ended 31 December 2013 of HK\$0.5 cents per ordinary share, amounting to a total dividend of HK\$10,000,000 is recommended at the Board of Directors meeting on 19 March 2014. These financial statements do not reflect this dividend payable.

The proposed final dividend for the year ended 31 December 2013 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 10 EARNINGS/(LOSS) PER SHARE

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit/(loss) attributable to equity holders of the Company	34,774	(1,749)
Weighted average number of ordinary shares deemed to be in issue	<u>1,827,857,164</u>	<u>1,597,495,177</u>
Basic earnings/(loss) per share (HK\$ cent)	<u>1.90</u>	<u>(0.11)</u>

The diluted earnings per share for the respective years are the same as basic earnings per share as there are no dilutive ordinary shares. The basic and diluted earnings per share as presented on the consolidated statement of comprehensive income have taken into account the capitalisation issue as described in Note 17(d).

## 11 OTHER ASSETS AND PREPAYMENTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Rental, utility and other receivables	3,167	3,052
Prepayments	1,553	5,566
Others	253	44
Total	<u>4,973</u>	<u>8,662</u>

The carrying amounts of the Group's other assets approximate to their fair values.

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>Current assets</b>		
Derivative foreign exchange contracts	56,594	36,571
<b>Current liabilities</b>		
Derivative foreign exchange contracts	<u>(2,579)</u>	<u>(7,178)</u>
Total	<u>54,015</u>	<u>29,393</u>

The Group has trades in foreign currencies through its foreign currency margin trading business. In order to protect against exchange rate movements, the Group has entered into a number of foreign exchange and forward transactions with the Group's bankers to manage its net foreign currency exposure.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2013 and 2012 are HK\$2,584,207,000 and HK\$1,892,205,000 respectively.

## 13 BALANCES DUE FROM AGENTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Balances due from:		
– securities agents	<u>16,910</u>	<u>14,037</u>

The carrying amounts of the Group's balances due from agents approximate to their fair values. The balances due from agents are current in nature and ageing within 30 days.

## 14 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Cash and bank balances	201,926	243,493
Fixed deposits with banks	157,046	24,948
Client trust bank balances	124,908	71,691
Total	<u>483,880</u>	<u>340,132</u>

The Group maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Group is not allowed to use the clients' monies to settle its own obligations in the ordinary course of business, and therefore they are not included as cash and cash equivalents in the statement of cash flows.

As at 31 December 2013 and 2012, fixed deposits of HK\$45,101,000 and HK\$13,942,000 respectively are pledged to banks for banking facilities. No overdraft facility was utilised by the Group as at 31 December 2013 and 2012. Bank deposits of HK\$3,196,000 and HK\$5,849,000 are collateral deposits by the Group placed with market makers as at 31 December 2013 and 2012 respectively.

## 15 OTHER PAYABLES AND ACCRUED LIABILITIES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>The Group</b>		
Accrued rental benefit	648	1,002
Accruals	4,146	5,612
Commission payable	5,038	3,139
Employee entitlements	1,604	512
Temporary deposits from clients	–	413
Other payables	753	4,569
	<u>12,189</u>	<u>15,247</u>

The carrying amounts of the Group's and the Company's other payables approximate to their fair values.

## 16 CLIENTS' BALANCES

The balances represent margin deposits received from clients for their trading activities under normal course of business. The carrying amounts approximate to their fair values.

## 17 SHARE CAPITAL

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>Authorised:</b>		
4,000,000,000 (31 December 2012: 4,000,000,000) ordinary shares of HK\$0.01 each ( <i>note(c)</i> )	<u>40,000</u>	<u>40,000</u>
<b>Issued and fully paid:</b>		
2,000,000,000 (31 December 2012: 10,000,000) ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>100</u>

The movements in issued share capital were as follows:

	<b>Number of shares in issue</b>	<b>Issued share capital HK\$'000</b>
As at 1 January 2012 <i>(note(a))</i>	1	–
Issue of shares to shareholders <i>(note(b))</i>	9,999,999	100
As at 31 December 2012 and 1 January 2013	10,000,000	100
Capitalisation issue <i>(note(d))</i>	1,646,655,000	16,467
Placing of new shares <i>(note(e))</i>	343,345,000	3,433
As at 31 December 2013	<u>2,000,000,000</u>	<u>20,000</u>

- (a) The Company was incorporated on 9 November 2010 with an initial authorised share capital of HK\$10,000 divided into 1,000,000 shares with par value of HK\$0.01 each. On the date of incorporation, 1 ordinary share was issued to Mr Li.
- (b) On 17 May 2012, the authorised share capital of the Company was increased from HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each to HK\$1,000,000 divided into 100,000,000 shares of HK\$0.01 each. On the same date, the Company issued 9,054,399 shares at par to KVB Kunlun Holding Limited, the ultimate holding company, and 945,600 shares at a consideration of HK\$57,000,000. The ordinary shares issued have the same rights as the other shares in issue.
- (c) On 18 December 2012, the authorised share capital of the Company was further increased to HK\$40,000,000 divided into 4,000,000,000 shares by the creation of an additional 3,900,000,000 shares, each ranking pari passu in all aspect with the existing issued shares.
- (d) Pursuant to the written resolution passed by the shareholders on 3 June 2013, the directors were authorised to allot and issue a total of 1,646,655,000 shares by way of capitalisation of the sum of HK\$16,466,550 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 1,646,655,000 shares for allotment and issue to the shareholders in proportion to their respective shareholdings.
- (e) On 3 July 2013, 343,345,000 shares of HK\$0.01 each of the Company were issued at premium at an issue price of HK\$0.452 each by way of the placing.

## 18 CAPITAL RESERVE

The balance represents the difference between the book value of the net assets of KVB NZ, KVB AU and KVB HK over the par value of the shares issued by LXL II, LXL III and LXL IV in exchange for these subsidiaries as if the current group structure had been in existence since 1 January 2011.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Board is pleased to present the audited condensed consolidated results of the Group for the year ended 31 December 2013, together with the audited comparative figures for the corresponding year in 2012.

### **BUSINESS REVIEW AND FINANCIAL PERFORMANCE**

#### **Business review**

During the year under review, the foreign exchange market was volatile. The gold price started to drop from approximately US\$1,696/ounce in January 2013 to below US\$1,200/ounce in December 2013. The AUD/USD also retreated from 1.0500 level, to below 0.8900 in December 2013, the lowest level since September 2010. The XAU/USD and EUR/USD are two of the most popular trading pairs; the unexpected large market volatility has boosted the profit margin of the margin leveraged foreign trading business of the Group.

During the year under review, the Group launched a marketing campaign to expand its local market share in addition to its well-developed referral client base over the past years. Furthermore, the Group put in additional resources in marketing development after listing. As a result, the number of clients increased by 30.7% for the period under review compared with the year ended 31 December 2012.

During the year under review, the Group launched a US Dollar Index Contract (USDIX) and two new commodities under leveraged trading, namely corn and soybean contracts for difference (CFD). This is in line with the market trend that investors invest in commodities in a way to safeguard the value of their wealth.

The net deposit of the margin leveraged trading clients of the Group has been increased 75.1% compared with the year ended 31 December 2012. This has also enhanced the Group's leveraged margin trading profitability.

#### **Total income**

The total income of the Group increased by approximately 43.4% to approximately HK\$176.7 million for the year ended 31 December 2013 from approximately HK\$123.2 million for the year ended 31 December 2012.

#### **A. *Leveraged foreign exchange and other trading income***

The leveraged foreign exchange and other trading income of the Group increased by approximately 55.9% to approximately HK\$135.5 million for the year ended 31 December 2013 from approximately HK\$87.0 million for the year ended 31 December 2012. This is mainly due to the higher market volatility during the year ended 31 December 2013 as compared to that during the year ended 31 December 2012.

## ***B. Cash dealing income***

The cash dealing income of the Group increased by approximately 23.6% from approximately HK\$9.3 million for the year ended 31 December 2012 to HK\$11.5 million for the year ended 31 December 2013. The increase was mainly attributable to the higher market volatility and higher transaction volume for market maker hedge and natural hedge in the cash dealing service business.

## ***C. Other income***

Other income of the Group increased by approximately 10.1% to approximately HK\$29.7 million for the year ended 31 December 2013 from approximately HK\$27.0 million for the year ended 31 December 2012.

The fees and commission income of the Group increased from approximately HK\$22.3 million for the year ended 31 December 2012 to approximately HK\$26.5 million for the year ended 31 December 2013. The major component of fees and commission is the commission charged to the referred clients from leveraged forex and dealing counterparties based on the trading volume.

The increase was mainly due to (i) the increase in the trading volume of referred clients; and (ii) the increase in commission income from margin dealing counterparties during the year under review compared with the year ended 31 December 2012.

During the year ended 31 December 2013, the Group recorded an exchange loss of approximately HK\$1.4 million while there was an exchange loss of approximately HK\$5.3 million during the year ended 31 December 2012. This was mainly due to the period-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB Kunlun New Zealand Limited, a wholly-owned subsidiary of the Company.

The management fee income of the Group decreased to approximately HK\$2.5 million for the year ended 31 December 2013 from approximately HK\$7.9 million for the year ended 31 December 2012. This is mainly due to the Group no longer receiving management fee income from the Non-Listed Group as a result of further business separation from the Non-Listed Group.

## **Fees and commission expenses**

The fees and commission expenses of the Group increased by approximately 18.4% to approximately HK\$57.8 million for the year ended 31 December 2013 from approximately HK\$48.8 million for the year ended 31 December 2012. The increase was mainly due to the increase in trading volume of the clients of the Group referred by referral parties.

## **Staff costs**

The staff cost of the Group increased slightly by approximately 4.4% to approximately HK\$30.8 million for the year ended 31 December 2013 from approximately HK\$29.5 million for the year ended 31 December 2012. The increase was mainly due to inflation and performance base incentive payment.



## **Depreciation and amortisation**

Depreciation and amortisation increased by approximately 10.5% to approximately HK\$2.6 million for the year ended 31 December 2013 from approximately HK\$2.3 million for the year ended 31 December 2012. The increase was mainly due to newly capitalised office equipment and leasehold improvements for the period under review.

## **Lease payments under land and buildings**

Lease payments under land and buildings increased by approximately 1.7% to approximately HK\$5.9 million for the year ended 31 December 2013 from approximately HK\$5.8 million for the year ended 31 December 2012 as the lease of the Beijing office of the Group was renewed in November 2012 with an increase in rent.

## **Administrative and other operating expenses**

The administrative and other operating expenses of the Group decreased by approximately 13.5% to approximately HK\$29.5 million for the year ended 31 December 2013 from approximately HK\$34.1 million for the year ended 31 December 2012. This decrease was primarily due to the decrease in absorption of the listing expenses by approximately HK\$6.8 million during the year ended 31 December 2013 as compared with the year ended 31 December 2012 as most of the listing works were carried out in 2012.

## **Net profit and net profit margin**

For the reasons set forth above, the Group achieved net profit of approximately HK\$34.8 million for the year ended 31 December 2013. The net loss margin of approximately 1.4% for the year ended 31 December 2012 was changed to a net profit margin of approximately 19.7% for the year ended 31 December 2013. In summary, the increase in profitability of the Group was primarily contributed by:

- higher market volatility resulting in higher leverage foreign exchange trading income and other trading income; and
- higher commission rebate income from referred client and dealing counter parties.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the period under review, the operations of the Group have been financed principally by equity capital, cash generated by the Group's business operations and the cash and bank deposits.

## **GEARING RATIO**

The gearing ratio calculated on the basis of net debts (financial lease obligation and amounts due to fellow subsidiaries) over the total shareholders' fund as at 31 December 2013 was approximately 0.13% (2012: 2.0%).

## **FOREIGN CURRENCY EXPOSURE**

During the year under review, the Group recorded an exchange loss of approximately HK\$1.4 million (2012: approximately HK\$5.3 million). This was mainly due to the month-end translation of monetary assets denominated in foreign currency into local reporting currency by the subsidiary of the Group in New Zealand. The main contributor to this result was the depreciation of AUD and the exchange rate of AUD/NZD changed from approximately 1.2612 as at 31 December 2012 to 1.0878 as at 31 December 2013.

The foreign currency risk is managed proactively by regular review of the currency positions in the basket of currency mix. In order to minimise the exposure of the Group to risk, the Group has hedge strategy based on prevailing market conditions and working capital requirements of sub-companies.

## **CAPITAL STRUCTURE**

During the year under review, the capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

## **NEW PRODUCTS AND SERVICES**

The Group launched a US Dollar Index Contract and two new commodities under leveraged trading, namely corn and soybean contracts for difference during the year under review.

## **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES DURING THE PERIOD UNDER REVIEW**

During the year ended 31 December 2013, the Group did not have any material acquisitions and disposals.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2013, the Group engaged a total of 55 employees (2012: a total of 60). Total staff costs including Directors' remuneration for the period under review amounting to approximately HK\$30.8 million (2012: HK\$29.5 million). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees.

The Group provides retirement benefits in accordance with the relevant laws and regulations in the place where the staff is employed.

The Company has adopted a share option scheme pursuant to which the Directors and employees of the Group are entitled to participate.

## **CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES**

As at 31 December 2013, certain bank balances of the Group amounting to approximately HK\$45.1 million were used to secure the banking facilities and the offices lease bonds.

As at 31 December 2013, the Group did not have any material contingent liabilities.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The future investment plans of the Group are detailed in the sub-section headed “Business objectives and future plans” in the prospectus of the Company dated 11 June 2013 (the “Prospectus”).

As disclosed in the Prospectus, the Company expects to:

- (i) expand operations in the worldwide overseas Chinese and Japanese communities;
- (ii) increase the range of the financial services and products of the Group;
- (iii) further upgrade the online trading platform of the Group; and
- (iv) strategically grow through mergers and acquisitions.

The source of funding for these investment plans is from the net proceeds of the placing of the Company (as disclosed in the Prospectus) of approximately HK\$125.3 million. The Directors presently intend that the net proceeds has been and will be applied as follows:

	<b>Intended amount (HK\$)</b>	<b>Actual approximate amount utilized up to 31 December 2013 (HK\$)</b>
Expansion of operations in the worldwide overseas Chinese and Japanese communities	36,000,000	–
Increase in the range of the financial services and products of the Group	35,000,000	–
Further upgrade of the online trading platform of the Group	28,000,000	641,488
Strategic growth through mergers and acquisitions	21,000,000	–

The Directors plan to use the remaining net proceeds of approximately HK\$5.3 million for general working capital purposes. As at 31 December 2013, such net proceeds have already been utilized for general working capital purposes.

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

As confirmed by Quam Capital Limited, the compliance adviser of the Company, none of Quam Capital Limited and its directors, employees and associates is materially interested in any contract or arrangement subsisting on 3 July 2013, being the first date of trading of the shares of the Company immediately after the period under review, which is significant in relation to the business of the Group.

## **DIRECTORS' COMPETING INTERESTS**

During the period under review, none of the Directors or their respective 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.

## **AUDIT COMMITTEE**

The Company has established an audit committee (the "Audit Committee") on 19 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 primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

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 Audit Committee has met with the external auditor of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of this announcement and financial statements of the Group for the year ended 31 December 2013.

## **DIVIDEND**

During the year ended 31 December 2013, the Company had declared special dividends of HK\$1 and HK\$0.6 per ordinary share based on the outstanding shares on 21 May 2013 and 3 June 2013. Total special dividends of HK\$16,000,000 were paid to the then shareholders of the Company. On 8 November 2013, the Board has resolved to pay a third quarterly dividend of 0.675 HK cents per ordinary share and distributed to the shareholders on 3 December 2013. A total of HK\$13,500,000 for the third quarter was paid to the then shareholders.

The Board recommend the payment of a final dividend of HK\$0.005 per ordinary share to the shareholders. The final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on Thursday, 22 May 2014 to the shareholders whose name appear on the register of members of the Company on Wednesday, 14 May 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 13 May 2014 to Wednesday, 14 May 2014, both days inclusive. During that period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfer of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 12 May 2014.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company has complied with the code provisions as set out in the Corporate Governance Code in Appendix 15 of the GEM Listing Rules throughout the period under review since the listing of shares of the Company.

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

For the period from 3 July 2013 to 31 December 2013, neither the Company nor any of its subsidiaries had 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, 19 March 2014

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, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquires, 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.*

*This announcement will remain on the website of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at [www.hkgem.com](http://www.hkgem.com) on the "Latest Listed Company Information" page for at least seven days from the day of its posting and on the website of the Company at [www.kvblastco.com](http://www.kvblastco.com).*