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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 2014

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.

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 2014.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2014

		Unaudited	
		Three months ended 31 March	
		2014	2013
	Note	HK\$'000	HK\$'000
Leveraged foreign exchange and other trading income		19,328	24,273
Cash dealing income		3,974	2,853
Other income	3	966	4,762
		<u>24,268</u>	<u>31,888</u>
Total income		24,268	31,888
Fees and commission expenses		12,031	9,968
Staff costs	4	8,618	6,839
Depreciation and amortization		631	636
Lease payments under land and buildings		1,525	1,611
Administrative and other operating expenses	5	7,872	4,408
		<u>30,677</u>	<u>23,462</u>
Total expenses		30,677	23,462
Operating (loss)/profit		(6,409)	8,426
Finance cost		(1)	(26)
(Loss)/Profit before tax		(6,410)	8,400
Income tax expense	6	(659)	(2,424)
(Loss)/Profit for the period		(7,069)	5,976
		<u>(7,069)</u>	<u>5,976</u>
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation difference		4,516	1,477
		<u>4,516</u>	<u>1,477</u>
Other comprehensive income for the period, net of tax		4,516	1,477
		<u>4,516</u>	<u>1,477</u>
Total comprehensive income for the period		(2,553)	7,453
		<u>(2,553)</u>	<u>7,453</u>
(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company for the period – Basic and diluted (HK cents per share)	8	(0.35)	0.36
		<u>(0.35)</u>	<u>0.36</u>
Dividends	7	–	–
		<u>–</u>	<u>–</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2014

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Currency translation reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1 January 2014	20,000	166,928	171,892	-	4,883	18,396	382,099
Comprehensive income							
Loss for the period	-	-	-	-	-	(7,069)	(7,069)
Other comprehensive income for the period	-	-	-	-	4,516	-	4,516
	20,000	166,928	171,892	-	9,399	11,327	379,546
Share option scheme	-	-	-	1,156	-	-	1,156
Balance at 31 March 2014	20,000	166,928	171,892	1,156	9,399	11,327	380,702

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Currency translation reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1 January 2013	100	56,991	171,892	-	6,647	(2,878)	232,752
Comprehensive income							
Profit for the period	-	-	-	-	-	5,976	5,976
Other comprehensive income for the period	-	-	-	-	1,477	-	1,477
Balance at 31 March 2013	100	56,991	171,892	-	8,124	3,098	240,205

NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION 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 of the Stock Exchange since 3 July 2013.

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 service.

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

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 ("KVB Holdings") 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 ("KVBNZ") from KVB Holdings 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 Holdings 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 AND PREPARATION

2.1 Basis of presentation

For the purpose of this report, the financial information 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 condensed consolidated statements of comprehensive income and the condensed consolidated statements of changes in equity of the Group for the three-month ended 31 March 2014 have been prepared on a consolidated basis and include the financial information of the companies under the common control of the controlling shareholders and now comprising the Group as if the current group structure had been in existence throughout the year ended 31 December 2013 and three-month ended 31 March 2014.

2.2 Basis of preparation

The financial information for the three-month ended 31 March 2014 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The financial information should be read in conjunction with the Company’s 2013 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 2013 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 months period that could be expected to have a material impact on this Group.

3 OTHER INCOME

	Unaudited	
	Three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Provision of management services	525	932
Fees and commission income	4,079	4,644
Interest income	495	288
Exchange losses, net	(4,277)	(1,234)
Others	144	132
	<u>966</u>	<u>4,762</u>

4 STAFF COSTS

	Unaudited	
	Three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Salaries and allowances	7,286	6,630
Pension scheme contributions	176	209
Share option expenses	1,156	-
	<u>8,618</u>	<u>6,839</u>

5 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited	
	Three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Management fees paid to ultimate holding company	199	167
Management fees paid to fellow subsidiaries	73	-
Other office occupation expenses	408	389
Auditor's remuneration	468	218
Information services expenses	662	736
Professional and consultancy fee	1,430	1,088
Repair and maintenance (including system maintenance)	169	151
Marketing, advertising and promotion expenses	2,438	304
Travelling expenses	592	388
Entertainment expenses	279	239
Others	1,154	728
	<u>7,872</u>	<u>4,408</u>

6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit in Hong Kong for each of the respective periods. Taxation on overseas profits has been calculated on the estimated assessable profit for the respective periods 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 respectively in accordance with the local tax authorities.

	Unaudited	
	Three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Current tax:		
Charge for the period	<u>659</u>	<u>2,424</u>
Income tax expense	<u>659</u>	<u>2,424</u>

7 DIVIDENDS

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 approved by the Company's shareholders at the annual general meeting on 5 May 2014.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

	Unaudited	
	Three months ended 31 March	
	2014	2013
(Loss)/Profit attributable to equity holders of the Company (<i>HK\$'000</i>)	(7,069)	5,976
Weighted average number of ordinary shares deemed to be in issue	<u>2,000,000,000</u>	<u>1,656,655,000</u>
Basic (loss)/earnings per share (<i>HK\$ cents</i>)	<u>(0.35)</u>	<u>0.36</u>

The basic earnings per share for three months ended 31 March 2013 as presented on the condensed consolidated statement of comprehensive income have taken into account the capitalisation of the sum of HK\$16,466,550 standing to the credit of the share premium account of the Company for issue of 1,646,655,000 shares credited as fully paid at par to the holders of shares whose names appear on the register of members of the Company at the close of business on 2 June 2013 in proportion to their then existing respective shareholding.

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share for the three months ended 31 March 2014 and 31 March 2013 are shown as the outstanding share options are anti-dilutive and have no dilutive effect.

9 APPROVAL OF FINANCIAL INFORMATION

The financial information for the three months ended 31 March 2014 was approved and authorised for issue by the Board on 5 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first three months in 2014, reduced volatility in the foreign exchange (“FX”) and commodity market have been observed. The gold price mainly traded within a range for the first three months of 2014, compared with a sharp downward trend in the same period in 2013. The price of the EUR/USD was also less volatile in the first three months of 2014, compared with the movement in the same period in 2013. The highest and the lowest level of the EUR/USD were seen to be 1.3711 and 1.2750 respectively, a nearly 1,000-pip movement in the first quarter 2013, while the movement of the price in the first quarter 2014 only presented a 500-pip change. The XAU/USD and the EUR/USD were the most popular trading pairs in both quarters, followed by the AUD/USD, GBP/USD and USD/JPY. Due to the lack of market momentum in the first quarter 2014, a narrowed profit margin earned from the trading volume of the clients has been observed.

During the first quarter in 2014, the Group has taken moves to narrow the spread of most cross currency pairs. This move has successfully enhanced the trading experience of the clients of the Group, resulting in a marked increase in the dollar amount of trading volume for most non-JPY cross currency pairs.

In March 2014, the Group launched a CHINA300 index contract for difference (“CFD”). This CFD product is designed to meet the needs of the proportion of the clients who are interested in investing in the Chinese stock markets. In addition, the Group added another commodity under leveraged trading, copper CFD. This continues to be in line with the current market trend that investors invest in commodities as a way to safeguard the value of their wealth.

FINANCIAL PERFORMANCE

The Group recorded a total income of approximately HK\$24.3 million for the three months ended 31 March 2014, a 23.9% decrease from approximately HK\$31.9 million for the corresponding period of the previous year. The Group recorded a loss of approximately HK\$7.1 million for the three months ended 31 March 2014 compared to a profit of approximately HK\$6.0 million for the same period last year. The decrease in both total income and profit is mainly contributed by the low volatility in the FX and commodity market during the three months ended 31 March 2014 compared to that during the three months ended 31 March 2013 and period-end translation of monetary assets denominated in foreign currency into the local reporting currency by KVBZ, and specifically due to the depreciation of USD/NZD exchange rate from approximately 1.2165 as at 31 December 2013 to 1.1567 as at 31 March 2014.

Total expenses for the three months ended 31 March 2014 amounted to approximately HK\$30.7 million, increased by around 30.8% as compare to the same period in 2013. Such increase is mainly due to the increase in fees and commission expenses which is in line with the trend of the increase in trading volume of the clients introduced by referral parties. Staff cost, marketing expenses were increased due to the payment of staff share option expenses and payment to new marketing channels, including Baidu and Google advertising.

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 during 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 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 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 reviewed the unaudited consolidated results of the Group for the three months ended 31 March 2014 and has provided advice and comments thereon.

QUARTERLY DIVIDEND

The Board does not recommend the payment of any dividend for the period under review (2013: Nil).

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

During the period under review, 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, 5 May 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

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This announcement will remain on the website of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at 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.