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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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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.

THIRD QUARTERLY RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated third quarterly results of the Group for the nine months ended 30 September 2014.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2014

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Leveraged foreign exchange and other trading income		41,305	30,091	84,054	100,388
Cash dealing income		4,883	3,188	11,701	8,412
Other income	3	14,357	3,639	21,820	23,720
Total income		<u>60,545</u>	<u>36,918</u>	<u>117,575</u>	<u>132,520</u>
Fees and commission expenses		14,734	16,878	39,542	44,904
Staff costs	4	8,336	8,997	26,553	23,973
Depreciation and amortization		756	658	2,066	1,951
Lease payments under land and buildings		1,740	1,457	4,809	4,539
Administrative and other operating expenses	5	7,882	5,426	24,580	21,974
Total expenses		<u>33,448</u>	<u>33,416</u>	<u>97,550</u>	<u>97,341</u>
Operating profit		27,097	3,502	20,025	35,179
Finance cost		(6)	(25)	(10)	(96)
Profit before tax		27,091	3,477	20,015	35,083
Income tax expense	6	(7,002)	(786)	(5,775)	(11,443)
Profit for the period		<u>20,089</u>	<u>2,691</u>	<u>14,240</u>	<u>23,640</u>
Other comprehensive income					
Currency translation difference		(9,931)	5,378	(4,489)	(885)
Other comprehensive income for the period, net of tax		<u>(9,931)</u>	<u>5,378</u>	<u>(4,489)</u>	<u>(885)</u>
Total comprehensive income for the period		<u>10,158</u>	<u>8,069</u>	<u>9,751</u>	<u>22,755</u>
Earnings per share for profit attributable to the equity holders of the Company for the period – Basic and diluted (HK cents per share)	8	<u>1.00</u>	<u>0.14</u>	<u>0.71</u>	<u>1.34</u>
Dividends	7	<u>–</u>	<u>–</u>	<u>–</u>	<u>16,000</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2014

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve (Note) 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							
Profit for the period	-	-	-	-	-	14,240	14,240
Other comprehensive income for the period	-	-	-	-	(4,489)	-	(4,489)
	20,000	166,928	171,892	-	394	32,636	391,850
Share option scheme	-	-	-	3,347	-	-	3,347
Dividends	-	-	-	-	-	(10,000)	(10,000)
Balance at 30 September 2014	20,000	166,928	171,892	3,347	394	22,636	385,197

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve (Note) 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	-	-	-	-	-	23,640	23,640
Other comprehensive income for the period	-	-	-	-	(885)	-	(885)
	100	56,991	171,892	-	5,762	20,762	255,507
Capitalisation issue	16,467	(16,467)	-	-	-	-	-
Placing of new shares	3,433	151,758	-	-	-	-	155,191
Shares issue expenses	-	(9,354)	-	-	-	-	(9,354)
Dividends	-	(16,000)	-	-	-	-	(16,000)
Balance at 30 September 2013	20,000	166,928	171,892	-	5,762	20,762	385,344

Note: The balance represents the difference between the book value of the net assets of KVB Kunlun New Zealand Limited, KVB Kunlun Pty Ltd and KVB Kunlun International (HK) Limited over the par value of the shares issued by LXL Capital II Limited, LXL Capital III Limited and LXL Capital IV Limited in exchange for these subsidiaries under the reorganisation of the Group in 2012.

NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

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 Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (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 services.

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

1.2 Key Events

- (a) On 10 January 2014, the Board of Directors of the Company has granted 40,000,000 share options to 68 individuals ("Grantees") for their subscription of new ordinary shares of HK\$0.01 per share of the Company.
- (b) On 5 March 2014, Zhuhai City Hengqin New District Administration for Industry and Commerce (珠海市橫琴新區工商行政管理局) has granted the business licence of 珠海橫琴昆侖新金融交易中心有限公司 (Zhuhai Hengqin Kunlun Financial Exchange Limited), which has become a wholly-owned subsidiary of the Company.

2 BASIS OF PREPARATION

The financial information for the nine months ended 30 September 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 Hong Kong Institute of Certified Public Accountants ("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 issued by HKICPA.

The accounting policies applied are consistent with those of adopted for the preparation of 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 nine months period that could be expected to have a material impact on this Group.

3 OTHER INCOME

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of management services	566	564	1,647	1,813
Fees and commission income	5,527	7,860	15,794	21,760
Interest income	429	408	1,329	984
Exchange gain/(losses), net	7,800	(5,317)	2,796	(1,220)
Others	35	124	254	383
	<u>14,357</u>	<u>3,639</u>	<u>21,820</u>	<u>23,720</u>

4 STAFF COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and allowances	7,034	8,800	22,588	23,330
Pension scheme contributions	226	197	618	643
Share option expenses	1,076	–	3,347	–
	<u>8,336</u>	<u>8,997</u>	<u>26,553</u>	<u>23,973</u>

5 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Management fees paid to ultimate holding company	199	164	598	497
Management fees paid to fellow subsidiaries	75	76	224	245
Other office occupation expenses	417	408	1,216	1,209
Auditor's remuneration	755	198	1,971	1,075
Information services expenses	822	865	2,181	2,311
Professional and consultancy fee	2,484	(736)	5,664	7,012
Repair and maintenance (including system maintenance)	201	119	549	401
Marketing, advertising and promotion expenses	755	1,398	5,783	3,188
Travelling expenses	737	646	2,195	1,361
Entertainment expenses	278	320	820	723
Others	1,159	1,968	3,379	3,952
	<u>7,882</u>	<u>5,426</u>	<u>24,580</u>	<u>21,974</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 30 September		Unaudited Nine months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Current tax: Charge for the period	4,805	786	5,858	11,443
Deferred tax: Charge/(credit) for the period	2,197	–	(83)	–
Income tax expense	<u>7,002</u>	<u>786</u>	<u>5,775</u>	<u>11,443</u>

7 DIVIDENDS

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

On 8 November 2013, the Board of Directors had approved the payment of a third quarterly dividend of 2013 of HK\$0.675 cents per ordinary share. A total dividend of HK\$13,500,000 was paid to the then shareholders out of retained earnings.

On 10 November 2014, the Board of Directors had approved the payment of a third quarterly dividend of 2014 of HK\$0.675 cents per ordinary share, amounting to a total dividend of HK\$13,500,000.

8 EARNINGS PER SHARE

(a) Basic 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 in issue for the current period and deemed to be in issue for the prior period.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (HK\$'000)	20,089	2,691	14,240	23,640
Weighted average number of ordinary shares deemed to be in issue	<u>2,000,000,000</u>	<u>1,992,535,978</u>	<u>2,000,000,000</u>	<u>1,769,845,659</u>
Basic earnings per share (HK\$ cents)	<u>1.00</u>	<u>0.14</u>	<u>0.71</u>	<u>1.34</u>

The basic and diluted earnings per share for the nine months ended 30 September 2013 as presented on the consolidated statement of comprehensive income have taken into account the capitalisation issue of the Company in 2013.

(b) Diluted earnings per share

No diluted earnings per share for the periods ended 30 September 2014 and 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 nine months ended 30 September 2014 was approved and authorised for issue by the Board on 10 November 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) of the Company is pleased to present the unaudited consolidated results of the Group for the nine months ended 30 September 2014, together with the unaudited comparative figures for the corresponding period in 2013.

BUSINESS REVIEW

In the first two quarters, there has been a significant slowdown in market momentum, with volatility reduced in the foreign exchange (“FX”) and commodity market; however in the third quarter, market volatility has improved with the expectations of a US interest rate hike in early to mid 2015. Gold prices traded within a narrow range for the first six months in 2014, with the upper and lower boundaries being at USD1,392 and USD1,181 per ounce respectively. The movement in gold price was much less than the price action observed in the same period in 2013, which presented a sharp drop from around USD1,696.9 per ounce to USD1,180.4 per ounce. In the first six months of 2014 the movement in major currency pairs was also affected by the reduced market volatility. The EUR/USD continued to be the most popular traded currency pair, with the AUD/USD, USD/JPY and GBP/USD following closely behind. The EUR/USD topped out at 1.3711 in February 2013 and then dropped to 1.2744 in April 2013, a more than 950-pips turnaround. During the same period in 2014, the EUR/USD experienced only around a 500-pips movement, a more than 42% volatility drop compared with the same period in 2013. The price in the AUD/USD, USD/JPY and GBP/USD all traded with either a sharp uptrend or downtrend (more than 1,000-pips movement) in the first six months in 2013. Although this kind of market momentum was not repeated in the same period in 2014, in the third quarter, market volatility increased significantly. Profitability of the Group has improved from the first two quarters. Overall for the first nine months in 2014, the Group is less profitable than the same period in 2013.

FINANCIAL PERFORMANCE

The Group recorded a total income of approximately HK\$117.6 million for the 9 months ended 30 September 2014, an 11.2% decrease from approximately HK\$132.5 million for the corresponding period of the previous year. The Group recorded a profit of HK\$14.2 million for the 9 months ended 30 September 2014 compared to the profit of HK\$23.6 million for the same period last year. The decrease in both total income and profit is mainly attributed to the low volatility in the FX and Commodity markets during the 9 months ended 30 September 2014 compared to that during the 9 months ended 30 September 2013.

Total expenses for the 9 months ended 30 September 2014 amounted to HK\$97.6 million, increased by around 0.2% as compared to the same period in 2013. Such increase is mainly due to increases in staff costs and marketing expenses due to the recognition of staff share option expenses and payment to new marketing channels, namely 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 nine months ended 30 September 2014 and has provided advice and comments thereon.

QUARTERLY DIVIDEND

The Board has recommended and approved the payment of third quarterly dividend of 2014 of HK\$0.675 cents per ordinary share. Such third quarterly dividend will be distributed on or around Thursday, 27 November 2014 to shareholders whose names appear on the register of members of the Company as at the close of business on Tuesday, 25 November 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 24 November 2014 to Tuesday, 25 November 2014, both days inclusive, during which period no transfer of the shares will be registered. In order to qualify for the third quarterly dividend, all transfers 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 Tuesday, 25 November 2014.

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, 10 November 2014

As at the date of this announcement, the executive Directors are Mr. Liu Stefan and Mr. Ng Chee Hung Frederick; the non-executive Directors are Mr. Li Zhi Da and Mr. Stephen Gregory McCoy; and the independent non-executive Directors are Ms. Zhao Guixin, Mr. Cornelis Jacobus Keyser and Mr. Lin Wenhui.

This announcement will remain on the GEM website 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.