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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 2016

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

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

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

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

THIRD QUARTERLY RESULTS

The board (the “Board”) of Directors is pleased to present the unaudited condensed consolidated third quarterly results of the Group for the nine months ended 30 September 2016, together with the unaudited comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2016

	Notes	Unaudited		Unaudited	
		Three months ended 30 September		Nine months ended 30 September	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Leveraged foreign exchange and other trading income		54,363	133,862	215,384	256,274
Cash dealing income		868	4,481	3,787	9,833
Fee and commission income		13,954	13,833	42,905	31,640
Other (losses)/income	3	(2,579)	5,111	(5,899)	14,215
Total income		<u>66,606</u>	<u>157,287</u>	<u>256,177</u>	<u>311,962</u>
Fees and commission expenses		43,487	36,624	113,959	82,330
Staff costs	4	10,127	33,429	43,646	64,528
Depreciation and amortisation		1,984	1,274	5,634	3,976
Lease payments under land and buildings		3,380	2,227	8,937	6,216
Administrative and other operating expenses	5	14,076	22,644	43,093	43,576
Total expenses		<u>73,054</u>	<u>96,198</u>	<u>215,269</u>	<u>200,626</u>
Operating profit/(loss)		(6,448)	61,089	40,908	111,336
Finance cost		(421)	(1,443)	(441)	(1,689)
Profit/(loss) before tax		(6,869)	59,646	40,467	109,647
Income tax (expense)/credit	6	3,975	(20,408)	(9,333)	(35,190)
Profit/(loss) for the period		<u>(2,894)</u>	<u>39,238</u>	<u>31,134</u>	<u>74,457</u>
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Currency translation difference		1,378	(10,896)	6,744	(23,085)
Other comprehensive income for the period, net of tax		<u>1,378</u>	<u>(10,896)</u>	<u>6,744</u>	<u>(23,085)</u>
Total comprehensive income for the period		<u>(1,516)</u>	<u>28,342</u>	<u>37,878</u>	<u>51,372</u>
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company for the period					
– Basic (HK cents per share)	8	<u>(0.14)</u>	<u>1.93</u>	<u>1.53</u>	<u>3.69</u>
– Diluted (HK cents per share)	8	<u>(0.14)</u>	<u>1.92</u>	<u>1.53</u>	<u>3.65</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2016

	Share capital	Share premium	Capital reserve <i>(Note)</i>	Unaudited Share option reserve	Currency translation reserve	Retained earnings	Total equity
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2016	20,330	180,276	171,892	9,551	(11,794)	95,155	465,410
Comprehensive income							
Profit for the period	-	-	-	-	-	31,134	31,134
Other comprehensive income for the period	-	-	-	-	6,744	-	6,744
	<u>20,330</u>	<u>180,276</u>	<u>171,892</u>	<u>9,551</u>	<u>(5,050)</u>	<u>126,289</u>	<u>503,288</u>
Total transactions with owners, recognised directly in equity							
Share option scheme	-	-	-	760	-	-	760
Issue of new ordinary shares upon exercise of share option	<u>2</u>	<u>188</u>	<u>-</u>	<u>(60)</u>	<u>-</u>	<u>60</u>	<u>190</u>
Balance at 30 September 2016	<u><u>20,332</u></u>	<u><u>180,464</u></u>	<u><u>171,892</u></u>	<u><u>10,251</u></u>	<u><u>(5,050)</u></u>	<u><u>126,349</u></u>	<u><u>504,238</u></u>
	Share capital	Share premium	Capital reserve <i>(Note)</i>	Unaudited Share option reserve	Currency translation reserve	Retained earnings	Total equity
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2015	20,000	166,928	171,892	4,339	(413)	29,977	392,723
Comprehensive income							
Profit for the period	-	-	-	-	-	74,457	74,457
Other comprehensive income for the period	-	-	-	-	(23,085)	-	(23,085)
	<u>20,000</u>	<u>166,928</u>	<u>171,892</u>	<u>4,339</u>	<u>(23,498)</u>	<u>104,434</u>	<u>444,095</u>
Total transactions with owners, recognised directly in equity							
Share option scheme	-	-	-	9,428	-	-	9,428
Issue of new ordinary shares upon exercise of share option	330	13,348	-	(4,052)	-	4,052	13,678
Release of share option reserves upon cancellation of share option scheme	-	-	-	(638)	-	638	-
Dividends paid <i>(Note 7)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,221)</u>	<u>(34,221)</u>
Balance at 30 September 2015	<u><u>20,330</u></u>	<u><u>180,276</u></u>	<u><u>171,892</u></u>	<u><u>9,077</u></u>	<u><u>(23,498)</u></u>	<u><u>74,903</u></u>	<u><u>432,980</u></u>

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 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.

On 29 January 2015, CITIC Securities Company Limited (the "CITIC Securities"), a company incorporated in the People's Republic of China, has acquired 1,200,000,000 shares of the Company (the "Sale Shares") from the controlling shareholder, KVB Kunlun Holdings Limited (the "Transaction"). In accordance with the Share Purchase Agreement, CITIC Securities nominated CITIC Securities Overseas Investment Company Limited ("CITIC Securities Overseas"), a wholly-owned subsidiary of CITIC Securities, which was incorporated in Hong Kong, to purchase the full legal and beneficial ownership of the Sale Shares.

Subsequent to the completion of the Transaction, CITIC Securities Overseas held 1,200,000,000 shares of the Company, representing approximately 59.37% of the total issued share capital of the Company as at the completion date and became an immediate holding company while CITIC Securities became an ultimate holding company of the Company.

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

1.2 Key Events

On 2 June 2016, Zhuhai Hengqin Kunlun Financial Exchange Limited ("KVB ZHHQ"), a wholly-owned subsidiary of the Company, entered into a membership agreement with Tianjin Precious Metals Exchange Limited ("TPME"), whereby TPME will provide KVB ZHHQ with a spot trading and settlement platform for precious metals trading. It will also provide the relevant consulting, training and management services to KVB ZHHQ.

2 BASIS OF PREPARATION

The financial information for the nine months ended 30 September 2016 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 annual financial statements for the year ended 31 December 2015, which has been prepared in accordance with HKFRS issued by HKICPA.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015.

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 the Group.

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

3 OTHER (LOSSES)/INCOME

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Provision of management services	–	275	–	955
Interest income	528	270	1,375	1,097
Exchange (losses)/gain, net	(3,126)	3,416	(8,133)	10,824
Others	19	1,150	859	1,339
	<u>(2,579)</u>	<u>5,111</u>	<u>(5,899)</u>	<u>14,215</u>

4 STAFF COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Staff costs:				
Salaries and allowances	9,785	24,023	41,883	54,174
Pension scheme contributions	338	329	1,003	926
Share option expenses	4	9,077	760	9,428
	<u>10,127</u>	<u>33,429</u>	<u>43,646</u>	<u>64,528</u>

5 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Management fees paid to the then immediate holding company	214	215	645	727
Other office occupation expenses	773	519	2,237	1,489
Auditor's remuneration				
– Audit services	1,079	685	2,297	2,009
– Non-audit services	118	48	224	202
Information services expenses	615	1,156	2,599	2,992
Professional and consultancy fee	672	2,986	2,514	4,259
Repair and maintenance (including system maintenance)	1,595	3,399	6,971	9,769
Marketing, advertising and promotion expenses	2,975	6,968	8,792	9,467
Handling fee expenses	2,426	3,117	7,525	4,511
Travelling expenses	949	505	2,809	1,890
Entertainment expenses	472	622	921	1,672
Insurance	176	236	529	503
Clients' debit balances written off	155	348	493	1,102
Staff training	11	294	874	545
Others	1,846	1,546	3,663	2,439
	<u>14,076</u>	<u>22,644</u>	<u>43,093</u>	<u>43,576</u>

6 INCOME TAX (EXPENSE)/CREDIT

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	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:				
Charge/(credit) for the period	(4,038)	20,233	9,146	34,815
Others	63	175	187	375
	<u>(3,975)</u>	<u>20,408</u>	<u>9,333</u>	<u>35,190</u>

7 DIVIDENDS

A final dividend in respect of the year ended 31 December 2014 of HK1.075 cents per ordinary share amounting to a total dividend of approximately HK\$21,729,000 was recommended by the Directors at the meeting of the Board of Directors held on 31 March 2015. The final dividend was approved by the Company's shareholders at its annual general meeting held on 6 May 2015 and was paid to the then shareholders on 21 May 2015.

On 6 May 2015, the Board approved the payment of the first quarterly dividend of HK0.618 cents per ordinary share. A total of approximately HK\$12,492,000 was paid to then shareholders on 1 June 2015.

The Board does not declare the payment of any dividend for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: Nil).

8 EARNINGS/(LOSS) PER SHARE

(a) Basic 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 in issue during the respective periods.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Profit/(loss) attributable to equity holders of the Company	<u>(2,894)</u>	<u>39,238</u>	<u>31,134</u>	<u>74,457</u>
	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	<u>2,033,040,000</u>	<u>2,033,040,000</u>	<u>2,033,225,401</u>	<u>2,018,763,956</u>
Basic earnings/(loss) per share (HK cents)	<u><u>(0.14)</u></u>	<u><u>1.93</u></u>	<u><u>1.53</u></u>	<u><u>3.69</u></u>

(b) **Diluted earnings/(loss) per share**

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders of the Company	<u>(2,894)</u>	<u>39,238</u>	<u>31,134</u>	<u>74,457</u>
	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	2,033,040,000	2,033,040,000	2,033,225,401	2,018,763,956
Adjustments for share options	<u>–</u>	<u>10,151,209</u>	<u>–</u>	<u>23,959,700</u>
Weighted average number of shares for the purpose for calculating diluted earnings/(loss) per share	<u>2,033,040,000</u>	<u>2,043,191,209</u>	<u>2,033,225,401</u>	<u>2,042,723,656</u>
Diluted earnings/(loss) per share (HK cents)	<u>(0.14)</u>	<u>1.92</u>	<u>1.53</u>	<u>3.65</u>

Note:

Diluted earnings/(loss) per share for the nine-month period and three-month period ended 30 September 2016 was same as the basic earnings/(loss) per share as the outstanding share options are anti-dilutive and had no dilutive effect.

9 APPROVAL OF FINANCIAL INFORMATION

The financial information for the nine months ended 30 September 2016 was approved and authorised for issue by the Board on 9 November 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the unaudited consolidated results of the Group for the nine months ended 30 September 2016, together with the unaudited comparative figures for the corresponding period in 2015.

BUSINESS REVIEW

During the third quarter of 2016, we experienced a period of unfavorable trading conditions, as the overall volatility was reduced in the foreign exchange (“FX”) and commodity market. We have seen a decline in revenue, new client registration and clients’ total trading volume, in comparison with the figures of the third quarter of 2015.

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

Gold was mainly traded within a price range of USD65/ounce. The highest traded price of gold was at USD1,375/ounce and the lowest traded price was at USD1,310/ounce for the third quarter of 2016, as compared to a price range of USD120/ounce, with the highest traded price at USD1,191/ounce, and the lowest traded price at USD1,071/ounce during the same period in 2015. The trading price range of crude oil also narrowed, with the highest traded price at USD49.33/barrel and the lowest traded price at USD39.17/barrel, as compared with the highest traded price at USD106.05/barrel and the lowest traded price at USD90.38/barrel during the third quarter of 2015.

In the FX market, the price of the EUR/USD was also traded in a narrower price range in the third quarter of 2016, as compared with the movement in the same period in 2015. The highest and the lowest levels of the EUR/USD were seen to be 1.1365 and 1.0951 respectively, with a trading range of nearly 400-pip in the third quarter of 2016, while the price movement in third quarter of 2015 was a trading range of nearly 900-pip. Under the unfavorable trading conditions with low market volatility, we have seen a narrowed profit margin earned from the trading transactions of our clients.

The retail margin FX trading market is highly competitive. Market competitors include international multi-product trading firms, other online trading firms and other financial institutions. We expect that the market competition will remain fierce this year and in the foreseeable future. Nevertheless, we will strive our efforts to raise our service level to meet the needs of our clients, and provide them with more trading opportunities in the global financial markets.

FINANCIAL PERFORMANCE

The Group recorded a total income of approximately HK\$256.2 million for the nine months ended 30 September 2016, representing a decrease of approximately 17.9% from approximately HK\$312.0 million for the corresponding period in 2015. The Group recorded a profit of approximately HK\$31.1 million for the nine months ended 30 September 2016 as compared to the profit of approximately HK\$74.5 million for the same period last year. The main reason for the decrease in both total income and profit was the low volatility in the foreign exchange, commodity and index markets during the nine months ended 30 September 2016 as compared to the same period last year.

Total expenses for the nine months ended 30 September 2016 amounted to approximately HK\$215.3 million, increased by around 7.3% as compared to the same period in 2015. Such increases were mainly due to the increases in (1) fees and commission expenses which is in line with the trend of the increase in trading volume of our clients introduced by service providers; (2) depreciation and amortisation costs, caused by new assets capitalisation in late 2015; and (3) lease payments which were caused by the increased rental expenses for the Hong Kong office, as it no longer shares office space with other companies in the non-listing group, coupled with the rental expenses incurred for the new offices for KVB ZHHQ since October 2015.

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

As confirmed by Lego Corporate Finance Limited, the compliance adviser of the Company, none of Lego Corporate Finance Limited or its directors, employees and close associates is materially interested in any contract or arrangement during the nine months ended 30 September 2016, which is significant in relation to the business of the Group.

DIRECTORS' COMPETING INTERESTS

During the nine months ended 30 September 2016, none of the Directors or their respective close associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group.

REVIEW OF FINANCIAL STATEMENTS

The Company established an audit committee (the "Audit Committee") on 18 December 2012 with written terms of reference in compliance with the requirements as set out in Rule 5.28 of the GEM Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Lin Wenhui, Ms. Zhao Guixin and Mr. Cornelis Jacobus Keyser. Mr. Lin Wenhui is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Company, nominate and monitor external auditors and provide advice and comments to the Directors. The Audit Committee has reviewed the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2016 and has provided advice and comments thereon.

QUARTERLY DIVIDEND

The Board does not declare the payment of any dividend for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: Nil).

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

During the nine months ended 30 September 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 9 November 2016

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

Executive Directors

Mr. Liu Stefan

Mr. Ng Chee Hung Frederick

Non-executive Directors

Mr. Li Zhi Da

Mr. Stephen Gregory McCoy

Independent Non-executive Directors

Ms. Zhao Guixin

Mr. Cornelis Jacobus Keyser

Mr. Lin Wenhui

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