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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)**

## **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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.*

### **ANNUAL RESULTS**

The board of directors (the “Board”) of the Company announces the audited consolidated annual results of the Group for the year ended 31 December 2016, together with comparative figures for the corresponding year of 2015.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2016*

	<i>Note</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Leveraged foreign exchange and other trading income	3	<b>306,036</b>	343,062
Cash dealing income	3	<b>4,251</b>	11,517
Fee and commission income		<b>55,356</b>	48,819
Other (losses)/income	4	<b>(3,036)</b>	3,413
<b>Total income</b>		<b>362,607</b>	406,811
Referral expenses and other charges		<b>160,407</b>	120,462
Staff costs	5	<b>60,105</b>	80,660
Depreciation and amortisation	10 & 11	<b>8,146</b>	5,401
Lease payments under land and buildings		<b>12,548</b>	9,300
Administrative and other operating expenses	6	<b>65,992</b>	60,836
<b>Total expenses</b>		<b>307,198</b>	276,659
<b>Operating profit</b>		<b>55,409</b>	130,152
Finance cost		<b>(1,166)</b>	(2,003)
<b>Profit before tax</b>		<b>54,243</b>	128,149
Income tax expense	7	<b>(15,555)</b>	(33,440)
<b>Profit for the year</b>		<b>38,688</b>	94,709
<b>Other comprehensive income</b>			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation difference		<b>2,028</b>	(11,381)
<b>Other comprehensive income for the year, net of tax</b>		<b>2,028</b>	(11,381)
<b>Total comprehensive income for the year</b>		<b>40,716</b>	83,328
<b>Earnings per share for profit attributable to the equity holders of the Company for the year</b>			
– Basic (HK cents per share)	9	<b>1.90</b>	4.68
– Diluted (HK cents per share)	9	<b>1.90</b>	4.65

## CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	<i>Note</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>10,400</b>	9,397
Intangible assets	<i>11</i>	<b>27,447</b>	7,679
Deferred tax assets	<i>17</i>	<b>1,876</b>	1,893
		<u><b>39,723</b></u>	<u>18,969</u>
<b>Current assets</b>			
Other receivables, prepayments and deposits	<i>12</i>	<b>10,875</b>	7,064
Tax prepayment		<b>6,224</b>	–
Derivative financial instruments	<i>13</i>	<b>77,377</b>	224,859
Balances due from agents	<i>14</i>	<b>57,556</b>	41,859
Cash and bank balances and client trust bank balances	<i>15</i>	<b>890,403</b>	776,025
<b>Total current assets</b>		<u><b>1,042,435</b></u>	<u>1,049,807</u>
<b>Total assets</b>		<u><b>1,082,158</b></u>	<u>1,068,776</u>
<b>EQUITY AND LIABILITIES</b>			
Share capital	<i>21</i>	<b>20,332</b>	20,330
Reserves		<b>360,282</b>	349,925
Retained earnings		<b>133,903</b>	95,155
<b>Total equity</b>		<u><b>514,517</b></u>	<u>465,410</u>
<b>Current liabilities</b>			
Finance lease obligations	<i>16</i>	<b>18</b>	43
Current income tax liabilities		<b>2,201</b>	13,775
Other payables and accrued liabilities	<i>18</i>	<b>31,785</b>	57,363
Amounts due to other related parties		<b>–</b>	73
Borrowing	<i>19</i>	<b>55,835</b>	–
Derivative financial instruments	<i>13</i>	<b>3,047</b>	3,414
Clients' balances	<i>20</i>	<b>473,904</b>	528,059
		<u><b>566,790</b></u>	<u>602,727</u>
<b>Non-current liabilities</b>			
Finance lease obligations	<i>16</i>	<b>–</b>	19
Deferred tax liabilities	<i>17</i>	<b>851</b>	620
		<u><b>851</b></u>	<u>639</u>
<b>Total liabilities</b>		<u><b>567,641</b></u>	<u>603,366</u>
<b>Total equity and liabilities</b>		<u><b>1,082,158</b></u>	<u>1,068,776</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 CORPORATE INFORMATION

### 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 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 services.

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.

On 29 January 2015, KVB Kunlun Holdings Limited, the then controlling shareholder of the Company, and CITIC Securities Company Limited (the "CITIC Securities"), a company incorporated in the People's Republic of China, entered into a share purchase agreement (the "Share Purchase Agreement") pursuant to which CITIC Securities has agreed to acquire 1,200,000,000 shares of the Company (the "Sale Shares") from the controlling shareholder (the "Transaction"). In accordance with the Share Purchase Agreement, CITIC Securities has nominated CITIC Securities Overseas Investment Company Limited (the "CITIC Securities Overseas"), a wholly-owned subsidiary of CITIC Securities which is 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 holds 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 becomes the immediate holding company while CITIC Securities becomes the ultimate holding company of the Company.

As at 31 December 2016, 59.03% of the total issued shares of the Company are held by CITIC Securities Overseas, 14.75% of issued shares are held by KVB Kunlun Holdings Limited and the remaining 26.22% of issued shares are held by the public.

As a consequence of the completion of the transaction, companies owned by KVB Kunlun Holdings Limited ceased to be the fellow subsidiaries. Accordingly, such companies are now referred to as "other related parties" throughout these financial statements and underlying notes.

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 a spot trading and settlement platform for precious metals trading and the relevant consulting, training and management services to KVB ZHHQ. TPME is controlled by CITIC Limited, an entity incorporated in Hong Kong which has significant influence over CITIC Securities Overseas.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together the “Group”) have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which carried at fair value.

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.

#### (a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38;
- Annual improvements to HKFRSs 2012 – 2014 cycle; and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

#### (b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, ‘Financial instruments’ addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers', the HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 16, 'Leases', will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

### **3 SEGMENT REPORTING**

Operating segments are reported in a manner consistent with the internal reporting provided to the executive directors and senior management of the Group. 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;
- (c) the investment sales segments engage in provision of sales and marketing functions to clients in New Zealand and Australia; and
- (d) the PRC business segment engages in provision of trading and settlement of precious metals in PRC.

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 2016 and 2015.

The segment information provided to the management for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

**For the year ended 31 December 2016**

	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	PRC Business 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	310,104	(2)	4,251	-	-	(4,066)	-	-	310,287
Inter-segment sales	-	113,659	-	14,489	13,317	-	-	(141,465)	-
Segment revenue	310,104	113,657	4,251	14,489	13,317	(4,066)	-	(141,465)	310,287
Fee and commission income	53,700	-	-	-	-	-	1,656	-	55,356
Other (losses)/ income	1,096	-	47	-	81	17	(4,277)	-	(3,036)
Total revenue and other income	<u>364,900</u>	<u>113,657</u>	<u>4,298</u>	<u>14,489</u>	<u>13,398</u>	<u>(4,049)</u>	<u>(2,621)</u>	<u>(141,465)</u>	<u>362,607</u>
Segment profit/(loss)	52,561	104,238	3,228	952	9,367	(17,388)	(2,621)	-	150,337
Other unallocated staff costs									(35,459)
Other unallocated administrative and operating expenses									(60,635)
Profit before tax									54,243
Income tax expense									(15,555)
Profit for the year									<u>38,688</u>
Other segment information:									
Depreciation and amortisation	-	82	-	-	21	928	7,115	-	8,146
Lease payments	-	953	-	-	-	2,925	8,670	-	12,548
Finance cost	35	-	-	-	-	1,126	5	-	1,166



For the year ended 31 December 2015

	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	342,917	145	11,517	-	-	-	-	354,579
Inter-segment sales	-	118,979	-	27,628	22,781	-	(169,388)	-
Segment revenue	342,917	119,124	11,517	27,628	22,781	-	(169,388)	354,579
Fee and commission income	47,413	-	-	-	-	1,406	-	48,819
Other income	2,221	-	106	-	152	934	-	3,413
Total revenue and other income	<u>392,551</u>	<u>119,124</u>	<u>11,623</u>	<u>27,628</u>	<u>22,933</u>	<u>2,340</u>	<u>(169,388)</u>	<u>406,811</u>
Segment profit	80,403	109,341	11,078	12,740	18,968	2,340		234,870
Other unallocated staff costs								(36,447)
Other unallocated administrative and operating expenses								<u>(70,274)</u>
Profit before tax								128,149
Income tax expense								<u>(33,440)</u>
Profit for the year								<u>94,709</u>
Other segment information:								
Depreciation and amortisation	-	194	-	-	-	5,207		5,401
Lease payments	-	855	-	-	-	8,445		9,300
Finance cost	1,913	-	-	-	-	90		2,003
	<u>1,913</u>	<u>1,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,742</u>		<u>15,704</u>

The Company is domiciled in Hong Kong. The Group's major income from external customers is derived from its operations in New Zealand.

	<b>2016</b> <b><i>HK\$'000</i></b>	2015 <i>HK\$'000</i>
New Zealand	<b>314,355</b>	354,434
Others	<b>(4,068)</b>	145
	<u><b>310,287</b></u>	<u>354,579</u>

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

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<b>8,943</b>	6,395
New Zealand	<b>18,311</b>	7,836
Australia	<b>1,395</b>	2,845
PRC	<b>9,198</b>	–
	<u><b>37,847</b></u>	<u>17,076</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 is not disclosed as this information is not presented to the Board of Directors. They do not assess performance of reportable segments using information on assets and liabilities.

#### 4 OTHER (LOSSES)/INCOME

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of management services	–	1,256
Interest income	<b>1,877</b>	1,314
Exchange losses, net	<b>(5,814)</b>	(1,324)
Handling fee rebate	<b>865</b>	1,891
Others	<b>36</b>	276
	<u><b>(3,036)</b></u>	<u>3,413</u>

#### 5 STAFF COSTS

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs (including directors' remuneration):		
Salaries, bonus and allowances	<b>50,595</b>	69,469
Pension scheme contributions	<b>1,309</b>	1,289
Staff option expenses ( <i>Note 23</i> )	<b>8,201</b>	9,902
	<u><b>60,105</b></u>	<u>80,660</u>

## 6 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Management fees paid to the then immediate holding company	857	983
Other office occupation expenses	2,873	2,216
Auditor's remuneration		
– Audit services	2,833	2,931
– Non-audit services	611	252
Information services expenses	4,018	4,584
Professional and consultancy fee	3,508	5,334
Repair and maintenance (including system maintenance)	9,745	9,138
Marketing, advertising and promotion expenses	16,149	14,140
Handling fee expenses	10,468	7,005
Travelling expenses	4,038	3,650
Entertainment expenses	1,901	2,651
Insurance	709	705
Bank charges	1,599	843
Staff training	1,071	640
Client's debit balances written off	2,115	2,388
Others	3,497	3,376
	<u>65,992</u>	<u>60,836</u>

## 7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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% (2015: 28%) in New Zealand, 30% (2015: 30%) in Australia and 25% (2015: 25%) in PRC in accordance with the local tax authorities.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
Charge for the year	15,416	33,951
Over-provision in prior year	(383)	(155)
Others	249	225
Deferred tax:		
Charge/(credit) for the year ( <i>Note 17</i> )	<u>273</u>	<u>(581)</u>
Income tax expense	<u>15,555</u>	<u>33,440</u>

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit before income tax	<u>54,243</u>	<u>128,149</u>
Tax at the Hong Kong statutory tax rate	<b>8,950</b>	21,145
Effect of different taxation rates in other countries	<b>1,430</b>	9,396
Income not subject to tax	<b>(673)</b>	(828)
Expenses not deductible for tax	<b>5,343</b>	1,630
Temporary differences not recognized	<b>318</b>	2,135
Utilization of previously unrecognized tax losses	–	(246)
Over-provision in prior year	<b>(383)</b>	(155)
Others	<u>570</u>	<u>363</u>
Income tax expense	<u><u>15,555</u></u>	<u><u>33,440</u></u>

## 8 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 an interim 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 year ended 31 December 2016.

## 9 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 during the year.

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<u>38,688</u>	<u>94,709</u>
	<b>No. of shares</b>	No. of shares
Weighted average number of ordinary shares in issue	<u>2,033,229,071</u>	<u>2,022,362,301</u>
Basic earnings per share (HK cents)	<u><u>1.90</u></u>	<u><u>4.68</u></u>

(b) **Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit for the year attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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 schemes into ordinary shares.

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<b>38,688</b>	94,709
	<b>No. of shares</b>	No. of shares
Weighted average number of ordinary shares in issue	<b>2,033,229,071</b>	2,022,362,301
Adjustments for share options converted, lapsed and cancelled in the period up to 26 June 2015 ( <i>Note 23</i> )	–	13,194,493
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b>2,033,229,071</b>	2,035,556,794
Diluted earnings per share (HK cents)	<b>1.90</b>	4.65

The effects of the share options granted on 19 August 2015 and 29 December 2016 (*Note 23*) which are outstanding on 31 December 2016 are not included in the computation of diluted earnings per share for the year ended 31 December 2016 as those are anti-dilutive.

## 10 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2015					
Cost	8,632	10,620	9,330	2,937	31,519
Accumulated depreciation	(7,206)	(8,332)	(7,064)	(1,855)	(24,457)
Net carrying amount	<u>1,426</u>	<u>2,288</u>	<u>2,266</u>	<u>1,082</u>	<u>7,062</u>
For the year ended					
31 December 2015					
Opening net carrying amount	1,426	2,288	2,266	1,082	7,062
Exchange adjustments	(94)	(117)	(126)	(87)	(424)
Additions	596	5,652	50	–	6,298
Depreciation	(607)	(1,324)	(1,250)	(358)	(3,539)
Closing net carrying amount	<u>1,321</u>	<u>6,499</u>	<u>940</u>	<u>637</u>	<u>9,397</u>
As at 31 December 2015					
Cost	8,334	15,104	8,761	2,668	34,867
Accumulated depreciation	(7,013)	(8,605)	(7,821)	(2,031)	(25,470)
Net carrying amount	<u>1,321</u>	<u>6,499</u>	<u>940</u>	<u>637</u>	<u>9,397</u>
For the year ended					
31 December 2016					
Opening net carrying amount	1,321	6,499	940	637	9,397
Exchange adjustments	9	(31)	21	8	7
Additions	1,006	1,559	2,937	–	5,502
Disposals	–	–	–	(64)	(64)
Depreciation	(654)	(2,047)	(1,413)	(328)	(4,442)
Closing net carrying amount	<u>1,682</u>	<u>5,980</u>	<u>2,485</u>	<u>253</u>	<u>10,400</u>
As at 31 December 2016					
Cost	9,368	16,636	11,693	1,927	39,624
Accumulated depreciation	(7,686)	(10,656)	(9,208)	(1,674)	(29,224)
Net carrying amount	<u>1,682</u>	<u>5,980</u>	<u>2,485</u>	<u>253</u>	<u>10,400</u>

## 11 INTANGIBLE ASSETS

	<b>Computer software HK\$'000</b>	<b>Trading right (Note) HK\$'000</b>	<b>Total HK\$'000</b>
As at 1 January 2015			
Cost	11,610	–	11,610
Accumulated amortisation	<u>(6,527)</u>	<u>–</u>	<u>(6,527)</u>
Net carrying amount	<u><u>5,083</u></u>	<u><u>–</u></u>	<u><u>5,083</u></u>
For the year ended 31 December 2015			
Opening net carrying amount	5,083	–	5,083
Exchange adjustments	(524)	–	(524)
Additions	4,982	–	4,982
Amortisation	<u>(1,862)</u>	<u>–</u>	<u>(1,862)</u>
Closing net carrying amount	<u><u>7,679</u></u>	<u><u>–</u></u>	<u><u>7,679</u></u>
As at 31 December 2015			
Cost	15,416	–	15,416
Accumulated amortisation	<u>(7,737)</u>	<u>–</u>	<u>(7,737)</u>
Net carrying amount	<u><u>7,679</u></u>	<u><u>–</u></u>	<u><u>7,679</u></u>
For the year ended 31 December 2016			
Opening net carrying amount	<b>7,679</b>	–	<b>7,679</b>
Exchange adjustments	<b>131</b>	–	<b>131</b>
Additions	<b>21,666</b>	<b>1,675</b>	<b>23,341</b>
Amortisation	<u>(3,704)</u>	<u>–</u>	<u>(3,704)</u>
Closing net carrying amount	<u><u>25,772</u></u>	<u><u>1,675</u></u>	<u><u>27,447</u></u>
As at 31 December 2016			
Cost	<b>37,274</b>	<b>1,675</b>	<b>38,949</b>
Accumulated amortisation	<u>(11,502)</u>	<u>–</u>	<u>(11,502)</u>
Net carrying amount	<u><u>25,772</u></u>	<u><u>1,675</u></u>	<u><u>27,447</u></u>

*Note:* The balance represents the fee paid pursuant to the membership agreement with TPME, as mentioned in Note 1 to the consolidated financial statements, which is not subject to amortization and is assessed for impairment annually.

## 12 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Rental and utility deposits	<b>4,525</b>	4,825
Prepayments	<b>3,962</b>	1,733
Other receivables	<b>2,388</b>	506
Total	<b>10,875</b>	7,064

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

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Current assets</b>		
Derivative foreign exchange contracts	<b>77,377</b>	224,859
<b>Current liabilities</b>		
Derivative foreign exchange contracts	<b>(3,047)</b>	(3,414)
Total	<b>74,330</b>	221,445

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 2016 and 2015 are HK\$3,707,941,000 and HK\$10,566,270,000 respectively.

## 14 BALANCES DUE FROM AGENTS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Balances due from:		
– securities agents	<b>10,950</b>	41,859
– TPME	<b>46,606</b>	–
Total	<b>57,556</b>	41,859

The carrying amounts of the Group's balances due from agents approximate to their fair values. Except for balances due from TPME, the Group is free to withdraw the funds from accounts maintained with these agents at any time.



**15 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash and bank balances	<b>317,554</b>	371,655
Fixed deposits with banks	<b>160,282</b>	95,373
Client trust bank balances	<b>412,567</b>	308,997
	<b>890,403</b>	776,025

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 2016 and 2015, fixed deposits of HK\$158,920,000 and HK\$94,014,000 respectively are pledged to banks for banking facilities. No overdraft facility was utilised by the Group as at 31 December 2016 and 2015. No bank deposits are collateral deposits by the Group placed with market makers as at 31 December 2016 (2015: Nil).

For the purposes of the consolidated cash flow statements, cash and cash equivalents comprises of the following:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash and bank balances	<b>317,554</b>	371,655
Fixed deposits with bank with original maturity within three months	<b>1,362</b>	1,359
	<b>318,916</b>	373,014

## 16 FINANCE LEASE OBLIGATIONS

Lease liabilities are effectively secured as the rights to the lease asset revert to the lessor in the event of default.

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gross finance lease liabilities		
– minimum lease payments		
Not later than 1 year	<b>19</b>	46
Later than 1 year and no later than 5 years	<u>–</u>	<u>19</u>
	<b>19</b>	65
Future finance charges on finance leases	<u>(1)</u>	<u>(3)</u>
Present value of finance lease liabilities	<u><b>18</b></u>	<u>62</u>

The present value of finance lease liabilities is as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Not later than 1 year	<b>18</b>	43
Later than 1 year and no later than five years	<u>–</u>	<u>19</u>
	<u><b>18</b></u>	<u>62</u>

The Group leases various vehicles under non-cancellable finance lease agreements. The lease terms are 3 to 5 years and ownership of the assets lie within the Group.

## 17 DEFERRED TAXATION

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Deferred tax assets to be recovered after more than twelve months	<b>1,876</b>	1,893
Deferred tax liabilities to be settled after more than twelve months	<u>(851)</u>	<u>(620)</u>
	<u><b>1,025</b></u>	<u>1,273</u>

The major components of deferred tax assets/(liabilities) recorded in the consolidated balance sheet and the movements during the year are as follows:

	<b>Employee benefits</b> <i>HK\$'000</i>	<b>Depreciation</b> <i>HK\$'000</i>	<b>Other temporary differences</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2015	369	(133)	578	814
Exchange adjustments	(66)	13	(69)	(122)
Credit/(charge) for the year	891	(500)	190	581
	<u>1,194</u>	<u>(620)</u>	<u>699</u>	<u>1,273</u>
At 1 January 2016	<b>1,194</b>	<b>(620)</b>	<b>699</b>	<b>1,273</b>
Exchange adjustments	<b>20</b>	<b>(1)</b>	<b>6</b>	<b>25</b>
(Charge)/credit for the year	<b>(63)</b>	<b>(214)</b>	<b>4</b>	<b>(273)</b>
	<u><b>1,151</b></u>	<u><b>(835)</b></u>	<u><b>709</b></u>	<u><b>1,025</b></u>

## 18 OTHER PAYABLES AND ACCRUED LIABILITIES

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Accrued rental benefit	<b>456</b>	322
Accrued audit fees	<b>2,210</b>	2,041
Other accruals	<b>4,279</b>	5,352
Commission payable	<b>11,873</b>	12,574
Employee entitlements	<b>9,638</b>	33,811
Deferred revenue	<b>193</b>	562
Other payables	<b>3,136</b>	2,701
	<u><b>31,785</b></u>	<u>57,363</u>

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

## 19 BORROWING

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Current</b>		
Bank borrowing	<b>55,835</b>	–
	<u><b>55,835</b></u>	<u>–</u>

The bank borrowing bears an interest rate at 4.35% per annum and are secured by bank deposits of HK\$68,860,848 (2015: Nil). As at 31 December 2016, the bank borrowing is repayable within 1 year.

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

## 20 CLIENTS' BALANCES

The balances represent margin deposits received from clients and the realised profit or loss from their trading activities under normal course of business. The carrying amounts approximate to their fair values.

## 21 SHARE CAPITAL

	<b>Number of shares in issue</b>	<b>Issued share capital HK\$'000</b>
As at 1 January 2015	2,000,000,000	20,000
Issuance of new ordinary shares upon exercise of share options ( <i>Note 23</i> )	<u>33,040,000</u>	<u>330</u>
As at 31 December 2015	<u><u>2,033,040,000</u></u>	<u><u>20,330</u></u>
As at 1 January 2016	<b>2,033,040,000</b>	<b>20,330</b>
Issuance of new ordinary shares upon exercise of share options ( <i>Note 23</i> )	<u>200,000</u>	<u>2</u>
As at 31 December 2016	<u><u>2,033,240,000</u></u>	<u><u>20,332</u></u>

## 22 CAPITAL RESERVE

The balance represents the difference between the book value of the net assets of KVB Kunlun New Zealand Limited, KVB Kunlun Pty Limited 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 as part of the reorganisation completed in 2012.

## 23 SHARE OPTION SCHEME

On 10 January 2014, the Board of Directors of the Company had granted 40,000,000 share options to 68 individuals for their subscription of new ordinary shares of HK\$0.01 per share of the Company.

These share options were exercisable at HK\$0.414 per share, with varying vesting period and validity from the date of grant. 40 out of 68 of the Grantees were granted share options which were exercisable for a period of three years and a vesting period of one year from the date of grant. 28 remaining Grantees were granted share options which were exercisable for a period of two years from the date of grant, with a vesting period of two years from the date of grant. All of the share options had no vesting condition. Among the 40,000,000 share options granted, 14,920,000 share options were granted to six Directors of the Company.

The Group had no legal or constructive obligation to repurchase or settle the options in cash.

Subsequent to the acquisition of approximately 60% of the ordinary shares of the Company by CITIC Securities Company Limited, as mentioned in Note 1 to the consolidated financial statements, an unconditional mandatory general cash offer was made by CITIC Securities to the then holders of outstanding options issued by the Company on 29 May 2015 pursuant to Rules 26.1 and 13.5 of the Hong Kong Code on Takeovers and Mergers at a consideration of HK\$0.236 of each of the respective share options for cancellation of the outstanding options (the “Offer”). The offer was closed on 26 June 2015.

Out of the 16,910,000 outstanding share options on 29 May 2015, 12,940,000 options were exercisable and 3,970,000 remain unvested. Subsequent to 29 May 2015:

- 11,720,000 vested options were exercised at a price of HK\$0.414 prior to the Offer closing date;
- the share option holders of 520,000 vested options and 3,870,000 unvested options accepted the offer and received cash consideration made by CITIC Securities at HK\$0.236 per option;
- for the remaining 700,000 vested options remaining unexercised and 100,000 unvested options which the share option holders hereof did not accept the Offer, these options were automatically lapsed and are not exercisable after 29 June 2015, being one month after the Offer becomes or is declared unconditional;

As a result, share option expenses of HK\$351,000 were charged to the consolidated statement of comprehensive income during the year ended 31 December 2015, which included HK\$131,000 arising from the unvested options cancelled, and the corresponding share option reserves balance of HK\$638,000 was transferred to the retained earnings during the same period. There have been no share options outstanding immediately subsequent to the close of the Offer on 26 June 2015.

On 19 August 2015, the Board of Directors of the Company granted 40,000,000 share options to 95 individuals (“Grantees”) for their subscription of new ordinary shares of HK\$0.01 each in the share capital of the Company.

These share options are exercisable at HK\$0.95 per share, with varying vesting period and validity from the date of grant. 35 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date of grant to 18 August 2018. 12 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date falling on the first anniversary of the date of grant to 18 August 2019, with a vesting period of one year from the date of grant. The remaining 48 Grantees were granted options which are exercisable for a period of two years commencing on the date falling on the second anniversary of the date of grant to 18 August 2019, with a vesting period of two years from the date of grant. Among the 40,000,000 share options granted, 12,200,000 share options were granted to the directors and chief executives of the Company.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

Grantee	Date of grant	Outstanding as at 31 December 2015	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding as at 31 December 2016	Exercise price HK\$	Exercise period
Liu Stefan	19 August 2015	8,300,000	-	-	-	8,300,000	0.95	19 August 2015 to 18 August 2018
Ng Chee Hung Frederick	19 August 2015	2,000,000	-	-	-	2,000,000	0.95	19 August 2015 to 18 August 2018
Stephen Gregory McCoy	19 August 2015	1,000,000	-	-	-	1,000,000	0.95	19 August 2015 to 18 August 2018
Zhao Guixin	19 August 2015	300,000	-	-	-	300,000	0.95	19 August 2015 to 18 August 2018
Corenlis Jacobus Keyser	19 August 2015	300,000	-	-	-	300,000	0.95	19 August 2015 to 18 August 2018
Lin Wenhui	19 August 2015	300,000	-	-	-	300,000	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	16,700,000	-	-	(200,000)	16,500,000	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	1,250,000	-	-	-	1,250,000	0.95	19 August 2016 to 18 August 2019
Employees of group companies	19 August 2015	6,740,000	-	(2,440,000)	-	4,300,000	0.95	19 August 2017 to 18 August 2019
Consultants	19 August 2015	950,000	-	(550,000)	-	400,000	0.95	19 August 2016 to 18 August 2019
Consultants	19 August 2015	800,000	-	(250,000)	-	550,000	0.95	19 August 2017 to 18 August 2019
		<u>38,640,000</u>	<u>-</u>	<u>(3,240,000)</u>	<u>(200,000)</u>	<u>35,200,000</u>		

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Details of the share options granted on 19 August 2015 was as follows:

Weighted average share option price at the grant date:	HK\$0.3133
Risk free interest rate:	0.821%
Expected volatility:	59.08%
Expected dividend yield:	1.63%
Expected exercise multiple:	Directors: 2.8x exercise price Others: 2.2x exercise price

The measurement date of the share options was 19 August 2015, being the date of grant of the share options. The expected dividend yield is determined with reference to historical dividend payment history of comparable listed companies up to the measurement date. The expected volatility of share price is determined with reference to annualised historical weekly volatility of comparable listed companies' share prices as of the valuation date, as extracted from Bloomberg.

A total of HK\$964,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current year.

On 29 December 2016, the Board of Directors of the Company granted 40,000,000 share options to 95 individuals ("Grantees") for their subscription of new ordinary shares of HK\$0.01 each in the share capital of the Company.

These share options are exercisable at HK\$0.592 per share, with varying vesting period and validity from the date of grant. 37 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date of grant to 28 December 2019. 9 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date falling on the first anniversary of the date of grant to 28 December 2020, with a vesting period of one year from the date of grant. The remaining 49 Grantees were granted options which are exercisable for a period of two years commencing on the date falling on the second anniversary of the date of grant to 28 December 2020, with a vesting period of two years from the date of grant. Among the 40,000,000 share options granted, 11,750,000 share options were granted to the directors and chief executives of the Company.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

Grantee	Date of grant	Outstanding as at 31 December 2015	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding as at 31 December 2016	Exercise price HK\$	Exercise period
Liu Stefan	29 December 2016	-	8,000,000	-	-	8,000,000	0.592	29 December 2016 to 28 December 2019
Ng Chee Hung Frederick	29 December 2016	-	1,850,000	-	-	1,850,000	0.592	29 December 2016 to 28 December 2019
Stephen Gregory McCoy	29 December 2016	-	1,000,000	-	-	1,000,000	0.592	29 December 2016 to 28 December 2019
Zhao Guixin	29 December 2016	-	300,000	-	-	300,000	0.592	29 December 2016 to 28 December 2019
Corenlis Jacobus Keyser	29 December 2016	-	300,000	-	-	300,000	0.592	29 December 2016 to 28 December 2019
Lin Wenhui	29 December 2016	-	300,000	-	-	300,000	0.592	29 December 2016 to 28 December 2019
Employees of group companies	29 December 2016	-	17,900,000	-	-	17,900,000	0.592	29 December 2016 to 28 December 2019
Employees of group companies	29 December 2016	-	1,150,000	-	-	1,150,000	0.592	29 December 2017 to 28 December 2020
Employees of group companies	29 December 2016	-	8,500,000	-	-	8,500,000	0.592	29 December 2018 to 28 December 2020
Consultants	29 December 2016	-	500,000	-	-	500,000	0.592	29 December 2017 to 28 December 2020
Consultants	29 December 2016	-	200,000	-	-	200,000	0.592	29 December 2018 to 28 December 2020
		-	40,000,000	-	-	40,000,000		
		-	40,000,000	-	-	40,000,000		

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Details of the share options granted on 29 December 2016 was as follows:

Weighted average share option price at the grant date:	HK\$0.2385
Risk free interest rate:	1.443%
Expected volatility:	70.97%
Expected dividend yield:	0%
Expected exercise multiple:	Directors: 2.8x exercise price Others: 2.2x exercise price

The measurement date of the share options was 29 December 2016, being the date of grant of the share options. The expected dividend yield is determined with reference to historical dividend payment history of comparable listed companies up to the measurement date. The expected volatility of share price is determined with reference to annualised historical weekly volatility of comparable listed companies' share prices as of the valuation date, as extracted from Bloomberg.

A total of HK\$7,237,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current year.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

#### **Business review**

During the year under review, we have seen declines in revenue and client's net deposits while there were a slight increase in trading volumes as compared to 2015. The overall market volatility also remained at similar levels to 2015. During 2016, the foreign exchange ("FX") market continued with dramatic and unexpected turns which were difficult to predict. Generally, customer trading volumes tend to increase in periods of elevated volatility. However, significant swings in market volatility also result in increased customer trading losses and higher turnover. It is difficult to foresee volatility and the subsequent effect on the FX market.

During the beginning of the year, the market was concerned that mainland China would allow a sharp CNY devaluation, and that the Bank of Japan announced a move into negative interest rate territory to meet economic targets. We had the sterling surprise associated with the June 23 Brexit referendum. Later in the year, and with Donald Trump's victory in the US presidential election, the market quickly reacted on the anticipation of future US policy. US dollar reached the 13-year highest point following the interest rate hikes by the US Federal Reserve. Gold was the most popular product traded by our customers, followed by USCRUDE, EUR/USD, USD/JPY and GBP/USD. Gold mainly traded within a price range of \$1,375 – \$1,062 USD/ounce, compared to the range of \$1,307 – \$1,046 USD/ounce during 2015. Crude oil price had a big turn from the downtrend during the year. We have seen the lowest point at \$26 USD/barrel in February and the highest point was at \$54.51 USD/barrel in December as compared to a sharp drop in price from \$53 to \$37 USD/barrel in the year of 2015. Meanwhile, EUR/USD was trading within a price range of 1,260 pips, with the highest point at 1.1615 and the lowest at 1.0351, compared to 1,650-pips range in the year of 2015.

On 2 June 2016, Zhuhai Hengqin Kunlun Financial Exchange Limited ("KVB ZHHQ"), a wholly-owned subsidiary of the Company, became a principal member of the Tianjin Precious Metals Exchange ("TPME"). TPME is a precious metals exchange based in Tianjin, China and will provide KVB ZHHQ with a spot trading and settlement platform. Currently the available products for trading are silver, platinum, palladium, nickel, copper and aluminum. This arrangement will broaden the Company's customer base and strengthen the Group's exposure in the Mainland China market, which we believe, will enhance our trading volume and future profitability.

The retail margin FX trading market is highly competitive. This includes international multi-product trading firms, other online trading firms, and financial institutions. We expect the market to remain very competitive in the foreseeable future. We are constantly looking for ways to improve our customer service level and meet the needs of our clients, by providing more trading opportunities in the global financial markets.

## **Total income**

The total income of the Group decreased by approximately 10.9% to approximately HK\$362.6 million for the year ended 31 December 2016 from approximately HK\$406.8 million for the year ended 31 December 2015.

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

The leveraged foreign exchange and other trading income of the Group decreased by approximately 10.8% to approximately HK\$306.0 million for the year ended 31 December 2016 from approximately HK\$343.1 million for the year ended 31 December 2015. This was mainly due to the lower market volatility during the year ended 31 December 2016 as compared to the year ended 31 December 2015.

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

The cash dealing income of the Group decreased by approximately 63.1% from approximately HK\$11.5 million for the year ended 31 December 2015 to HK\$4.3 million for the year ended 31 December 2016. The decrease was mainly attributable to lower trading volume.

### ***C. Fee and commission income***

The fees and commission income of the Group increased from approximately HK\$48.8 million for the year ended 31 December 2015 to approximately HK\$55.4 million for the year ended 31 December 2016. The increase was mainly due to the increase in commission earning benefited from the increase in trading volume.

### ***D. Other (losses)/income***

During the year ended 31 December 2016, the Group recorded an exchange loss of approximately HK\$5.8 million, the recorded exchange loss for year ended 31 December 2015 was approximately HK\$1.3 million. This was mainly due to the year-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.

There was no management fee income of the Group for the year ended 31 December 2016 whereas approximately HK\$1.3 million was recorded for the year ended 31 December 2015. This was mainly due to the Group no longer receiving management fee income from KVB Kunlun Holdings Limited and its subsidiaries which do not belong to the Group (collectively, the “Non-Listed Group”) as a result of further business separation from the Non-Listed Group.

## **Referral expenses and other charges**

The referral expenses and other charges of the Group increased by approximately 33.2% to approximately HK\$160.4 million for the year ended 31 December 2016 from approximately HK\$120.5 million for the year ended 31 December 2015. The increase was mainly due to increase in the trading volume of the clients referred by services providers.

### **Staff costs**

The staff costs of the Group decreased by approximately 25.5% to approximately HK\$60.1 million for the year ended 31 December 2016 from approximately HK\$80.7 million for the year ended 31 December 2015. The decrease was mainly due to decrease in staff entitlements.

### **Depreciation and amortization**

Depreciation and amortization increased by approximately 50.8% to approximately HK\$8.1 million for the year ended 31 December 2016 from approximately HK\$5.4 million for the year ended 31 December 2015. The increase was mainly due to the upgrade of computer software, hardware and the newly capitalized office equipment for the year under review.

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

Lease payments under land and buildings increased by approximately 34.9% to approximately HK\$12.5 million for the year ended 31 December 2016 from approximately HK\$9.3 million for the year ended 31 December 2015. The increase was mainly due to the increased rental expenses in Hong Kong office, as it no longer shares office space with other companies in the Non-Listed Group and paid full rent in 2016. In addition, KVB ZHHQ started renting new office premises since October 2015 and August 2016 respectively.

### **Administrative and other operating expenses**

The administrative and other operating expenses of the Group increased to approximately HK\$66 million for the year ended 31 December 2016 from approximately HK\$60.8 million for the year ended 31 December 2015. This increase was primarily due to the increase in computer services expenses by approximately HK\$4.6 million during the year ended 31 December 2016 as compared with the year ended 31 December 2015. The main contributor to this increase was new maintenance service acquired in 2016. Customer promotion expenses also increased by approximately HK\$3 million during the year ended 31 December 2016 as compared with the year ended 31 December 2015 as the result of active reimbursement of client transaction fee occurred in 2016.

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

For the reasons set forth above, the Group achieved a net profit of approximately HK\$38.7 million for the year ended 31 December 2016 compared with the net profit of approximately HK\$94.7 million for the year ended 31 December 2015. The net profit margin for the year ended 31 December 2016 was approximately 10.7%.

In summary, the decrease in profitability of the Group was primarily contributed by:

- lower market volatility resulted in lower leveraged foreign exchange and other trading income.

- higher fee and commission expenses due to an increase in trading volumes which rebate is required to be paid to the service providers.
- capital revaluation loss due to the year-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB Kunlun New Zealand Limited.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

As at 31 December 2016, cash and bank balances held by the Group amounted to HK\$477.8 million (2015: HK\$467.0 million). The bank borrowing of the Group as at 31 December 2016 was approximately HK\$55.8 million (2015: Nil).

## **GEARING RATIO**

The gearing ratio calculated on the basis of net debts (financial lease obligation, amounts due to other related parties and bank borrowing) over the total shareholders' fund as at 31 December 2016 was approximately 10.86% (2015: 0.03%).

## **FOREIGN CURRENCY EXPOSURE**

During the year under review, the Group recorded an exchange loss of approximately HK\$5.8 million (2015: loss of approximately HK\$1.3 million). This was mainly due to the year 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 USD and the exchange rate of USD/NZD changed from approximately 1.4831 as at 31 December 2015 to 1.4362 as at 31 December 2016. The foreign currency risk is managed proactively by regular review of the currency positions in the basket of currency mix. In order to minimize the exposure of the Group to risk, the Group has hedging strategy based on prevailing market conditions and working capital requirements of subsidiaries.

## **CAPITAL STRUCTURE**

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

## **NEW PRODUCTS AND SERVICES**

The Group launched the following newly listed new products in 2016 in Zhuhai Hengqing Office:

AL1000KG, AL5000KG, CU1000KG, CU5000KG, NI1000KG, NI100KG, XAG15KG, XAG1KG, XAG30KG, XPD100G, XPD1KG, XPT100G and XPT1KG.

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

During the year ended 31 December 2016, the Group did not have any material acquisitions and disposals.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2016, the Group had a total of 86 employees (2015: a total of 89). Total staff costs including Directors' remuneration for the year under review amounting to approximately HK\$60.1 million (2015: HK\$80.7 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 2016, certain bank balances of the Group amounting to approximately HK\$158.9 million (2015: HK\$94.0 million) were used to secure the banking facilities and the offices lease bonds. As at 31 December 2016, the Group did not have any material contingent liabilities.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

During the year under review, the Group had developed new financial services and products through internally generated funding.

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

As confirmed by Lego Corporate Finance Limited, the compliance adviser to the Company, none of Lego Corporate Finance Limited or its directors, employees and close associates (as defined under the GEM Listing Rules) is materially interested in any contract or arrangement during the year ended 31 December 2016, which is significant in relation to the business of the Group.

## **DIRECTORS' AND CONTROLLING SHAREHOLDER'S COMPETING INTERESTS**

As at 31 December 2016, none of the Directors, the controlling Shareholders and 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 and 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 met the external auditors of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control systems and financial reporting matters including the review of this announcement and financial statements of the Group for the year ended 31 December 2016.

## **FINAL DIVIDEND**

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

## **EVENTS AFTER THE REPORTING PERIOD**

There were no major subsequent events since the end of the reporting year and up to the date of this announcement.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 5 May 2017 to Wednesday, 10 May 2017, both days inclusive, during the period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the 2017 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration by no later than 4:00 p.m. (Hong Kong time) on Thursday, 4 May 2017.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

During the year ended 31 December 2016, the Company has complied with all code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 to the Rules Governing the Listing of Securities (the “GEM Listing Rules”) on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except for the following deviations:

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. The Chairman did not hold any meeting with non-executive Directors (including independent non-executive Directors) without the executive Directors present in 2016 due to the tight schedule of the Chairman. In the absence of the Chairman, the Chief Executive Officer is in the position to facilitate the effective contribution of non-executive Directors (including independent non-executive Directors), and ensure their views are communicated and heard by the Board.

Pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and the non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. At the annual general meeting of the Company held on 12 May 2016, Ms. Zhao Guixin, an independent non-executive Director, was unable to attend that meeting due to health reason.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. At the annual general meeting of the Company held on 12 May 2016, Mr. Li Zhi Da, the Chairman and a non-executive Director, was unable to attend that meeting due to health reason.

#### **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions in securities of the Company by the Directors.

Having made specific enquiry with the Directors, all the Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions during the year ended 31 December 2016.

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

For the year ended 31 December 2016, 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, 21 March 2017

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 will remain on the website of GEM of the Stock Exchange at [www.hkgem.com](http://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](http://www.kvblastco.com).*