

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

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.

INTERIM RESULTS

The board (the “Board”) of Directors is pleased to present the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2017, together with the unaudited comparative figures for the corresponding period in 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Notes	Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2017	2016	2017	2016
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leveraged foreign exchange and other trading income	4	107,729	70,260	157,965	161,021
Cash dealing income/(losses)	4	57	712	(16)	2,919
Fee and commission income		23,058	13,822	37,389	28,951
Other income/(losses)	5	637	(1,031)	1,772	(3,320)
Total income		131,481	83,763	197,110	189,571
Referral expenses and other charges		68,548	35,721	114,770	70,472
Staff costs	6	13,179	13,832	24,995	33,519
Depreciation and amortisation		3,077	1,856	6,164	3,650
Lease payments under land and buildings		3,326	2,767	6,836	5,557
Administrative and other operating expenses	7	19,867	17,002	36,011	29,017
Total expenses		107,997	71,178	188,776	142,215
Operating profit		23,484	12,585	8,334	47,356
Finance cost		(544)	(5)	(1,156)	(20)
Profit before tax		22,940	12,580	7,178	47,336
Income tax expense	8	(965)	(2,988)	(4,089)	(13,308)
Profit for the period		21,975	9,592	3,089	34,028
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Currency translation difference		5,109	1,433	6,732	5,366
Other comprehensive income for the period, net of tax		5,109	1,433	6,732	5,366
Total comprehensive income for the period		27,084	11,025	9,821	39,394
Earnings per share for profit attributable to the equity holders of the Company for the period					
– Basic (HK cents per share)	10	1.08	0.47	0.15	1.67
– Diluted (HK cents per share)	10	1.08	0.47	0.15	1.67

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2017

		Unaudited	Audited
		30 June	31 December
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	10,724	10,400
Intangible assets	<i>12</i>	24,696	27,447
Deferred tax assets		1,989	1,876
		<u>37,409</u>	<u>39,723</u>
Current assets			
Other receivables, prepayments and deposits	<i>13</i>	17,651	10,875
Tax prepayment		5,812	6,224
Amounts due from other related parties	<i>21</i>	8	–
Derivative financial instruments	<i>14</i>	92,873	77,377
Balances due from agents		36,512	57,556
Cash and bank balances and client trust bank balances	<i>15</i>	1,056,170	890,403
Total current assets		<u>1,209,026</u>	<u>1,042,435</u>
Total assets		<u>1,246,435</u>	<u>1,082,158</u>
EQUITY AND LIABILITIES			
Share capital	<i>19</i>	20,332	20,332
Reserves		367,731	360,282
Retained earnings		137,240	133,903
Total equity		<u>525,303</u>	<u>514,517</u>

		Unaudited	Audited
		30 June	31 December
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
Current liabilities			
Finance lease obligations		–	18
Current income tax liabilities		6,107	2,201
Other payables and accrued liabilities	<i>16</i>	35,439	31,785
Amounts due to other related parties	<i>21</i>	3	–
Borrowing	<i>17</i>	5,758	55,835
Derivative financial instruments	<i>14</i>	16,919	3,047
Clients' balances	<i>18</i>	656,052	473,904
		<u>720,278</u>	<u>566,790</u>
Non-current liabilities			
Deferred tax liabilities		<u>854</u>	<u>851</u>
		<u>854</u>	<u>851</u>
Total liabilities		<u><u>721,132</u></u>	<u><u>567,641</u></u>
Total equity and liabilities		<u><u>1,246,435</u></u>	<u><u>1,082,158</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Unaudited						
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>Note 19(b)</i>	Share option reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2017	20,332	180,464	171,892	17,692	(9,766)	133,903	514,517
Comprehensive income							
Profit for the period	-	-	-	-	-	3,089	3,089
Other comprehensive income for the period	-	-	-	-	6,732	-	6,732
	20,332	180,464	171,892	17,692	(3,034)	136,992	524,338
Total transactions with owners, recognised directly in equity:							
Share option scheme (<i>Note 20</i>)	-	-	-	717	-	248	965
Balance at 30 June 2017	20,332	180,464	171,892	18,409	(3,034)	137,240	525,303
	Unaudited						
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>Note 19(b)</i>	Share option reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2016	20,330	180,276	171,892	9,551	(11,794)	95,155	465,410
Comprehensive income							
Profit for the period	-	-	-	-	-	34,028	34,028
Other comprehensive income for the period	-	-	-	-	5,366	-	5,366
	20,330	180,276	171,892	9,551	(6,428)	129,183	504,804
Total transactions with owners, recognised directly in equity:							
Share option scheme (<i>Note 20</i>)	-	-	-	756	-	-	756
Issue of new ordinary shares upon exercise of share option (<i>Note 20</i>)	2	188	-	(60)	-	60	190
Balance at 30 June 2016	20,332	180,464	171,892	10,247	(6,428)	129,243	505,750

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities			
Profit before tax		7,178	47,336
Adjustments for:			
Depreciation and amortisation	<i>11 & 12</i>	6,164	3,650
Interest income		(1,443)	(847)
Loss on disposal of fixed assets		455	–
Share option expense		965	756
		<hr/>	<hr/>
Cash flows from operating activities before working capital changes		13,319	50,895
Decrease/(increase) in pledged time deposits		68,490	(69,169)
Increase in client trust bank balances		(146,821)	(6,120)
Decrease in balances due from agents		21,044	7,631
(Increase)/decrease in derivative financial instruments		(1,624)	173,863
Increase in other assets and prepayments		(6,539)	(2,438)
Decrease in amounts due from the then immediate holding company		–	122
Increase in amounts due from other related parties		(8)	(5)
Increase/(decrease) in amounts due to other related parties		3	(40)
Increase/(decrease) in clients' balances		182,148	(174,026)
Increase/(decrease) in other payables and accrued liabilities		3,654	(27,292)
		<hr/>	<hr/>
Cash generated from/(used in) operations		133,666	(46,579)
Income tax refund/(paid)		599	(16,042)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		134,265	(62,621)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

		Unaudited	
		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
Cash flows from investing activities			
Interest received		1,206	415
Purchase of property, plant and equipment and intangible assets	<i>11 & 12</i>	<u>(2,900)</u>	<u>(5,024)</u>
Net cash used in investing activities		<u>(1,694)</u>	<u>(4,609)</u>
Cash flows from financing activities			
Repayment of finance lease obligations		(18)	(21)
Repayment of borrowing		(50,642)	–
Proceeds from issuance of ordinary shares upon exercise of share options	<i>20</i>	<u>–</u>	<u>190</u>
Net cash (used in)/generated from financing activities		<u>(50,660)</u>	<u>169</u>
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of period	<i>15</i>	318,916	373,014
Effect of foreign exchange rate changes, net		<u>5,525</u>	<u>5,691</u>
Cash and cash equivalents at end of period	<i>15</i>	<u><u>406,352</u></u>	<u><u>311,644</u></u>

NOTES TO THE INTERIM 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 agreed to acquire 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 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 30 June 2017, 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 interim financial information and underlying notes.

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

1.2 Significant event

On 2 June 2017, the Group received a notice from Tianjin Precious Metals Exchange Limited (“TPME”) that it will adjust its precious metals spot trading business with a view to reduce the trading risks, and it has suspended the opening of new trading positions for all spot commodities traded on the exchange with effect from 12 June 2017 (the “Suspension”). The closing of existing trading positions will not be affected.

As a result of the Suspension, other than the closing of existing positions, the Group will no longer be able to generate revenue from the spot trading business in precious metals on the TPME after 12 June 2017. The Group has not been informed when or if the Suspension will be lifted as at the reporting date.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings.

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

Impact of standards issued but not yet applied by the Group

(i) *HKFRS 9 Financial instruments*

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 has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018.

The group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under HKFRS 9.
- Debt instruments currently classified as held-to-maturity and measured at amortised cost appear to meet the conditions for classification at amortised cost under HKFRS 9.

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. However, at this stage the group does not expect to identify any new hedge relationships. It would appear that the group's current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

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.

(ii) *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 revenue arising from the sale of goods and the rendering of 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. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The group will adopt the new standard from 1 January 2018.

(iii) *HKFRS 16 Leases*

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized 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 recognized. 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 the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of approximately HK\$21.7 million. However, 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 standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, foreign exchange risk, credit risk and liquidity risk.

The interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There has been no change in the risk management policies since year end.

3.1 Foreign currency risk

Exchange rate fluctuation is the most significant risk in leveraged foreign exchange trading. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to New Zealand dollars and Australian dollars. The Group will suffer a loss if it fails to cover a client deal at a better exchange rate. The Group monitors foreign exchange exposure by reviewing the open position of the Group and client trading performance. The risk is measured by the use of sensitivity analysis and cash flow forecasting. Specific risk limits are set to measure and monitor foreign exchange risk. Any excessive foreign exchange risks are passed on to other financial institutions through execution of trades with those institutions. The management sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on an intra-day basis.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group currently does not have a foreign currency policy to hedge its currency exposure arising from the net assets of the Group's foreign operations.

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2017 and 31 December 2016. Included in the tables are the assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

As at 30 June 2017 (Unaudited)

	HK\$ HK\$'000	NZD HK\$'000	AUD HK\$'000	USD HK\$'000	JPY HK\$'000	RMB HK\$'000	Others HK\$'000	Total HK\$'000
Assets								
Other receivables and deposits	3,462	154	104	734	-	1,408	-	5,862
Amounts due from other related parties	-	-	-	8	-	-	-	8
Derivative financial instruments	-	20,402	5,638	66,710	2	121	-	92,873
Balances due from agents	182	1,443	134	14,284	1,938	18,024	507	36,512
Cash and bank balances and client trust bank balances	28,133	10,562	34,599	969,968	7,221	4,836	851	1,056,170
Liabilities								
Other payables	1,523	1,565	577	27,552	1	787	-	32,005
Amounts due to other related parties	-	-	-	3	-	-	-	3
Derivative financial instruments	-	1,433	12	15,471	-	3	-	16,919
Borrowing	-	-	-	-	-	5,758	-	5,758
Clients' balances	-	10,351	26,429	615,305	3,967	-	-	656,052

As at 31 December 2016 (Audited)

	HK\$ HK\$'000	NZD HK\$'000	AUD HK\$'000	USD HK\$'000	JPY HK\$'000	RMB HK\$'000	Others HK\$'000	Total HK\$'000
Assets								
Other receivables and deposits	3,052	179	191	555	-	2,936	-	6,913
Derivative financial instruments	-	23,057	7,001	47,189	-	130	-	77,377
Balances due from agents	163	1,205	23	7,227	1,830	46,627	481	57,556
Cash and bank balances and client trust bank balances	28,203	9,541	36,322	802,601	5,269	8,299	168	890,403
Liabilities								
Finance lease obligation	-	-	18	-	-	-	-	18
Other payables	3,640	1,332	590	14,761	-	1,631	-	21,954
Derivative financial instruments	-	1,671	13	1,351	-	12	-	3,047
Borrowing	-	-	-	-	-	55,835	-	55,835
Clients' balances	-	8,333	30,288	431,815	3,468	-	-	473,904

The following table indicates the impact on the Group's profit before taxation to movements in foreign exchange rate as at 30 June 2017 and 31 December 2016:

Foreign currency risk	Movement in foreign currency	Unaudited 30 June 2017 HK\$'000	Movement in foreign currency	Audited 31 December 2016 HK\$'000
AUD	+/-4%	+/-538	+/-3%	+/-379
JPY	+/-4%	+/-208	+/-3%	+/-109
NZD	+/-4%	+/-768	+/-10%	+/-2,265
RMB	+/-2%	+/-357	+/-6%	+/-31

4 SEGMENT REPORTING

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

Summary details of the business segments are as follows:

- (a) the margin dealing segments engage in the provision of leveraged foreign exchange and other trading services in Hong Kong and New Zealand;
- (b) the unleveraged cash dealing segment engages in the provision of non-leveraged foreign exchange trading services in New Zealand. Unleveraged cash dealing services were provided to corporate clients, in particular, those clients engaged in money changing business for the purpose of hedging their cash positions and meeting settlement obligations. The Group is rewarded by the spread between the price quoted to our clients and the price offered by our market makers; and
- (c) the investment sales segments engage in provision of sale and marketing functions to clients in New Zealand and Australia.
- (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 six months ended 30 June 2017 and 2016.

The segment information provided to the management for the reportable segments for the six months period ended 30 June 2017 and 2016 is as follows:

For the six months ended 30 June 2017 (Unaudited)

	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	128,362	133	(16)	-	1,735	27,735	-	-	157,949
Inter-segment sales	-	43,425	-	9,538	4,076	-	-	(57,039)	-
Segment revenue	128,362	43,558	(16)	9,538	5,811	27,735	-	(57,039)	157,949
Fee and commission income	34,397	-	-	-	2	-	2,990	-	37,389
Other income	377	-	35	-	9	(913)	2,264	-	1,772
Total revenue and other income	<u>163,136</u>	<u>43,558</u>	<u>19</u>	<u>9,538</u>	<u>5,822</u>	<u>26,822</u>	<u>5,254</u>	<u>(57,039)</u>	<u>197,110</u>
Segment profit	(4,587)	39,328	(639)	2,565	3,824	6,805	5,254	-	52,550
Other staff costs									(13,441)
Other unallocated administrative and operating expenses									(31,931)
Profit before tax									7,178
Income tax expense									(4,089)
Profit for the period									<u>3,089</u>
Other segment information:									
Depreciation and amortisation	-	30	-	-	13	979	5,142	-	6,164
Lease payments	-	381	-	-	-	1,518	4,937	-	6,836
Finance cost	-	-	-	-	-	1,156	-	-	1,156

For the six months ended 30 June 2016 (Unaudited)

	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	161,018	3	2,919	-	-	-	-	-	163,940
Inter-segment sales	-	54,607	-	6,115	7,942	-	-	(68,664)	-
Segment revenue	161,018	54,610	2,919	6,115	7,942	-	-	(68,664)	163,940
Fee and commission income	28,364	-	-	-	-	-	587	-	28,951
Other income	973	-	54	-	59	11	(4,417)	-	(3,320)
Total revenue and other income	<u>190,355</u>	<u>54,610</u>	<u>2,973</u>	<u>6,115</u>	<u>8,001</u>	<u>11</u>	<u>(3,830)</u>	<u>(68,664)</u>	<u>189,571</u>
Segment profit	43,971	50,225	2,132	1,041	6,261	(2,614)	(3,830)	-	97,186
Other staff costs	-	-	-	-	-	-	-	-	(22,121)
Other unallocated administrative and operating expenses	-	-	-	-	-	-	-	-	(27,729)
Profit before tax	-	-	-	-	-	-	-	-	47,336
Income tax expense	-	-	-	-	-	-	-	-	(13,308)
Profit for the period	-	-	-	-	-	-	-	-	<u>34,028</u>
Other segment information:									
Depreciation and amortisation	-	45	-	-	9	277	3,319	-	3,650
Lease payments	-	476	-	-	-	1,018	4,063	-	5,557
Finance cost	20	-	-	-	-	-	-	-	20

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
New Zealand	128,346	163,937
Others	29,603	3
	157,949	163,940

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

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

There are no differences from the Company's 2016 annual report in the basis of segmentation or in the basis of measurement of segment profit or loss.

5 OTHER INCOME/(LOSSES)

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	717	400	1,443	847
Exchange gain/(losses), net	356	(1,682)	566	(5,007)
Loss on disposal of fixed assets	(455)	–	(455)	–
Others	19	251	218	840
	637	(1,031)	1,772	(3,320)

6 STAFF COSTS

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs:				
Salaries and allowances	12,399	13,175	23,362	32,098
Pension scheme contributions	318	309	668	665
Share option expenses (<i>Note 20</i>)	462	348	965	756
	<u>13,179</u>	<u>13,832</u>	<u>24,995</u>	<u>33,519</u>

7 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Management fees paid to the then immediate holding company (<i>Note 21 (i)</i>)	166	215	331	431
Other office occupation expenses	769	743	1,608	1,464
Auditor's remuneration				
– Audit services	810	611	1,478	1,218
– Non-audit services	160	54	321	106
Information services expenses	1,240	1,085	2,396	1,984
Professional and consultancy fee	879	1,295	2,302	1,842
Repair and maintenance (including system maintenance)	3,184	4,222	6,041	5,376
Marketing, advertising and promotion expenses	5,596	3,095	8,871	5,817
Handling fee expenses	4,693	2,567	7,635	5,099
Travelling expenses	845	1,177	1,663	1,860
Entertainment expenses	66	279	341	449
Insurance	148	151	311	353
Clients' debit balances written off	144	229	147	338
Staff training	322	21	341	863
Others	845	1,258	2,225	1,817
	<u>19,867</u>	<u>17,002</u>	<u>36,011</u>	<u>29,017</u>

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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% (2016: 28%) in New Zealand, 30% (2016: 30%) in Australia and 25% (2016: 25%) in PRC respectively in accordance with the local tax authorities.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:				
Charge for the period	864	2,927	3,904	13,184
Others	101	61	185	124
	<u>965</u>	<u>2,988</u>	<u>4,089</u>	<u>13,308</u>

9 DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2017 (2016: Nil).

10 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 respective periods.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	<u>21,975</u>	<u>9,592</u>	<u>3,089</u>	<u>34,028</u>
	<i>No. of shares</i>	<i>No. of shares</i>	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares in issue	<u>2,033,240,000</u>	<u>2,033,240,000</u>	<u>2,033,240,000</u>	<u>2,033,218,022</u>
Basic earnings per share (HK cents)	<u>1.08</u>	<u>0.47</u>	<u>0.15</u>	<u>1.67</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period 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 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		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to equity holders of the Company	<u>21,975</u>	<u>9,592</u>	<u>3,089</u>	<u>34,028</u>
	<i>No. of shares</i>	<i>No. of shares</i>	<i>No. of shares</i>	<i>No. of shares</i>
Weighted average number of ordinary shares be in issue	<u>2,033,240,000</u>	<u>2,033,240,000</u>	<u>2,033,240,000</u>	<u>2,033,218,022</u>
Weighted average number of shares for the purpose for calculating diluted earnings per share	<u>2,033,240,000</u>	<u>2,033,240,000</u>	<u>2,033,240,000</u>	<u>2,033,218,022</u>
Diluted earnings per share (<i>HK cents</i>)	<u>1.08</u>	<u>0.47</u>	<u>0.15</u>	<u>1.67</u>

Note:

Diluted earnings per share for the six-month period and three-month period ended 30 June 2016 and 30 June 2017 was same as the basic earnings per share as the outstanding share options are anti-dilutive and had no dilutive effect.

11 PROPERTY, PLANT AND EQUIPMENT

	Unaudited	Unaudited
	30 June	30 June
	2017	2016
	HK\$'000	HK\$'000
Opening net carrying amount	10,400	9,397
Exchange adjustments	239	54
Additions	2,898	3,162
Disposals	(455)	–
Depreciation	(2,358)	(2,091)
	<u>10,724</u>	<u>10,522</u>

12 INTANGIBLE ASSETS

	Unaudited	Unaudited
	30 June	30 June
	2017	2016
	HK\$'000	HK\$'000
Opening net carrying amount	27,447	7,679
Exchange adjustments	1,053	187
Additions (<i>Note (a)</i>)	2	1,862
Amortisation	(3,806)	(1,559)
	<u>24,696</u>	<u>8,169</u>

Note:

- (a) For the period ended 30 June 2016, included in this amount is HK\$1,751,000, which represents the fee paid pursuant to the membership agreement with Tianjin Precious Metals Exchange Limited (“TPME”).

Assets that have an indefinite useful life are not subject to amortisation and are tested annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the period ended 30 June 2017, the Group assessed that no impairment of the asset recognised in respect of the TPME membership is required.

13 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Rental and utility deposits	4,346	4,525
Prepayments	11,789	3,962
Other receivables	1,516	2,388
	<u> </u>	<u> </u>
Total	17,651	10,875
	<u> </u>	<u> </u>

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Current assets		
Derivative foreign exchange contracts	92,873	77,377
Current liabilities		
Derivative foreign exchange contracts	(16,919)	(3,047)
	<u> </u>	<u> </u>
Total	75,954	74,330
	<u> </u>	<u> </u>

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

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 June 2017 and 31 December 2016 are HK\$10,820,254,000 and HK\$3,707,941,000 respectively.

15 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Cash and bank balances	404,860	317,554
Fixed deposits with banks	91,922	160,282
Client trust bank balances	559,388	412,567
	<u>1,056,170</u>	<u>890,403</u>

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

As at 30 June 2017 and 31 December 2016, fixed deposits of approximately HK\$90,430,000 and HK\$158,920,000 respectively are pledged to banks for banking facilities. No overdraft banking facility was utilised by the Group as at 30 June 2017 and 31 December 2016. No bank deposits are collateral deposits placed with market makers as at 30 June 2017 (31 December 2016: nil).

16 OTHER PAYABLES AND ACCRUED LIABILITIES

	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Accrued rental benefit	245	456
Accrued audit fees	1,826	2,210
Accruals	1,675	4,279
Commission payable	27,066	11,873
Employee entitlements	3,420	9,638
Deferred income	14	193
Other payables	1,193	3,136
	<u>35,439</u>	<u>31,785</u>

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

17 BORROWING

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Current		
Bank borrowing	–	55,835
Other borrowing	<u>5,758</u>	<u>–</u>
	<u>5,758</u>	<u>55,835</u>

The bank borrowing bears an interest rate at 4.35% per annum and is secured by bank deposits of HK\$68,860,848 as at 31 December 2016.

The other borrowing bears an interest rate at 10% per annum. As at 30 June 2017, the other borrowing is unsecured and repayable within 1 year.

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

18 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.

19 SHARE CAPITAL AND CAPITAL RESERVE

(a) Share capital

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2016	2,033,040,000	20,330
Issuance of new ordinary shares upon exercise of share options (<i>Note (i)</i>)	<u>200,000</u>	<u>2</u>
As at 30 June 2016	<u>2,033,240,000</u>	<u>20,332</u>
As at 1 January 2017 and 30 June 2017	<u>2,033,240,000</u>	<u>20,332</u>

Note:

- (i) For the six-month period ended 30 June 2016, a total of 200,000 shares were issued to the share option holders who exercised their subscription rights at a price of HK\$0.95 (Note 20).

(b) Capital Reserve

Capital reserve 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 II”), LXL Capital III Limited (“LXL III”) and LXL Capital IV Limited (“LXL IV”) in exchange for these subsidiaries under the reorganisation of the Group in 2012.

20 SHARE OPTION SCHEME

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 periods 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 2016	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding As at 30 June 2017	Exercise price HK\$	Exercise period
Liu Stefan	19 August 2015	8,300,000	-	-	-	8,300,000	0.950	19 August 2015 to 18 August 2018
Ng Chee Hung Frederick	19 August 2015	2,000,000	-	-	-	2,000,000	0.950	19 August 2015 to 18 August 2018
Stephen Gregory McCoy	19 August 2015	1,000,000	-	-	-	1,000,000	0.950	19 August 2015 to 18 August 2018
Zhao Guixin	19 August 2015	300,000	-	-	-	300,000	0.950	19 August 2015 to 18 August 2018
Corenlis Jacobus Keyser	19 August 2015	300,000	-	-	-	300,000	0.950	19 August 2015 to 18 August 2018
Lin Wenhui	19 August 2015	300,000	-	-	-	300,000	0.950	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	16,500,000	-	(750,000)	-	15,750,000	0.950	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	1,250,000	-	-	-	1,250,000	0.950	19 August 2016 to 18 August 2019
Employees of group companies	19 August 2015	4,300,000	-	(200,000)	-	4,100,000	0.950	19 August 2017 to 18 August 2019
Consultants	19 August 2015	400,000	-	-	-	400,000	0.950	19 August 2016 to 18 August 2019
Consultants	19 August 2015	550,000	-	-	-	550,000	0.950	19 August 2017 to 18 August 2019
		<u>35,200,000</u>	<u>-</u>	<u>(950,000)</u>	<u>-</u>	<u>34,250,000</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\$343,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current period.

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 periods 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 2016	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding as at 30 June 2017	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	-	(100,000)	-	17,800,000	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	-	(750,000)	-	7,750,000	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
		<u>40,000,000</u>	<u>-</u>	<u>(850,000)</u>	<u>-</u>	<u>39,150,000</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 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\$622,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current period.

21 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

For the outstanding balance due from or to related parties, net amount is presented when the Group has a legally enforceable right to set off the recognised amounts, and intends to settle on a net basis.

In addition to the transactions set out in the interim financial information, the Group had the following material transactions and balances with related parties during the period.

	<i>Notes</i>	Unaudited	
		Six months ended 30 June	
		2017	2016
		HK\$'000	HK\$'000
Transactions			
Management fee expense for the provision of information technology support, financial system and websites maintenance services, marketing promotion, customer services and reconciliation to:			
– the then immediate holding company	(i)	331	431
Amount paid for the provision of software development and maintenance services, IT infrastructure project management and maintenance services and IT risk assessment services to:			
– an other related party	(ii)	13,476	4,658
Amount paid for the provision of foreign exchange conversion and settlement services to:			
– other related parties	(iii)	–	289
Amount paid for the trading right to the spot trading and settlement platform provided by:			
– TPME	(iv)	–	1,675
Referral fee paid for introducing and referring prospective clients to the Group:			
– an other related party	(v)	1,740	6
Purchases of fixed assets:			
– an other related party	(vi)	–	970
		<u> </u>	<u> </u>

	<i>Notes</i>	Unaudited	
		Six months ended 30 June	
		2017	2016
		HK\$'000	HK\$'000
Transactions			
Amount paid for the provision of software maintenance, upgrade and support services from:			
– an other related party	<i>(vii)</i>	353	1,260
Amount received for the sharing of the offices to:			
– other related parties	<i>(viii)</i>	1,611	1,536
Cash dealing (losses)/income for the provision of cash dealing services:			
– other related parties	<i>(ix)</i>	(16)	2,919
Annual membership management fee paid to:			
– TPME	<i>(x)</i>	–	571
		–	571
		Unaudited	Audited
		30 June	31 December
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
Outstanding balances			
Due from related parties:			
– TPME	<i>(xi)</i>	18,002	46,606
– other related parties	<i>(xii)</i>	8	–
Due to related parties:			
– other related parties	<i>(xii)</i>	3	–
		3	–

Notes:

- (i) Management fee expenses are charged for the provision of financial system which include the provision of enterprise resources planning system support with reference to the costs incurred.
- (ii) Amounts are paid for provision of software development and maintenance services, IT infrastructure project management and maintenance services and IT risk assessment services.
- (iii) Amounts are paid for provision of foreign exchange conversion and settlement services.
- (iv) Amounts are paid for the trading right to the spot trading and settlement platform for precious metals trading based on the agreement signed between parties.

- (v) Referral fee paid for introducing and referring prospective clients to the Group in accordance with the fee agreement.
- (vi) Amounts are paid for the purchases of fixed assets based on the agreement signed between parties.
- (vii) Amounts are paid for the provision of software maintenance, upgrade and support services based on the terms on agreement signed between parties.
- (viii) Amounts are received for the sharing of the offices based on the agreement signed between parties.
- (ix) Cash dealing income is recognised when cash dealing transactions have been completed by market makers with reference to prevailing exchange rate.
- (x) Annual membership management fee is charged based on the agreement signed between parties.
- (xi) Deposits placed are unsecured and non-interest bearing.
- (xii) Amounts due from/to related parties were unsecured, non-interest bearing and repayable on demand.

22 COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group leases offices under non-cancellable operating lease commitments existing at the end of each of the respective periods. Leases were negotiated for an average term of 3 to 6 years.

The Group is required to give six months' notice for termination of these leases.

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Within one year	12,871	15,342
One to five years	8,806	12,889
	21,677	28,231

23 APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the Board on 4 August 2017.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business Review

During the first six months in 2017, as the overall volatility was reduced in the foreign exchange (“FX”) and commodity market, we experienced a period of unfavorable trading conditions. This resulted in a decrease in gross trading revenue. However, new client registrations and total client trading volume increased during the period under review, by comparing to the figures of the first half year of 2016.

XAU/USD was the most popular product traded by our clients, followed by EUR/USD, USCRUDE, USD/JPY and GBP/USD.

Gold mainly traded within a price range of \$150 USD/ounce. The highest price of Gold was traded at \$1,296 USD/ounce and the lowest at \$1,146 USD/ounce under the period of review. The price range of gold narrowed when compared with the same period in 2016. In the first six month of 2016, the price range of gold was \$296 USD/ounce, the highest at 1,358 USD/ounce, and the lowest at \$1,062 USD/ounce. Crude Oil was traded at the highest price of \$55.25 USD/barrel and the lowest at \$42.05 USD/barrel in first six month of 2017, within a price range of \$13.20 USD/barrel. The price range in the same period of 2016 was \$25.68 USD/barrel, USCRUDE was traded at the highest price of \$51.64 USD/barrel and the lowest at \$26.04 USD/barrel.

In the currency market, the price of the EUR/USD was traded in a similar price range in the first six month of 2017, compared with the movement in the same period in 2016. The highest and the lowest level of the EUR/USD were seen to be 1.1445 and 1.0340 respectively, a nearly 1,105-pips trading range in the first six month of 2017, compared to the movement of the price in first six month of 2016 presented a nearly 905-pips trading range, the highest was 1.1615 and the lowest was 1.0710.

The retail margin FX trading market is highly competitive. These include international multi-product trading firms, other online trading firms, and other financial institutions. We expect the market to remain very competitive in this year and 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.

Six months ended 30 June 2017 compared with six months ended 30 June 2016

Total income

The total income of the Group increased by approximately 4.0% to approximately HK\$197.1 million for the six months ended 30 June 2017 from approximately HK\$189.6 million for the six months ended 30 June 2016.

A. *Leveraged foreign exchange and other trading income*

The leveraged foreign exchange and other trading income of the Group decreased by approximately 1.9% to approximately HK\$158.0 million for the six months ended 30 June 2017 from approximately HK\$161.0 million for the six months ended 30 June 2016. This is mainly due to lower market volatility during the six months ended 30 June 2017 as compared to the six months ended 30 June 2016.

B. *Cash dealing (losses)/income*

The Group recorded cash dealing losses of about HK\$0.02 million for the six months ended 30 June 2017 while there was cash dealing income of approximately HK\$2.9 million for the six months ended 30 June 2016. The decrease was mainly due to lower trading volume as compared to the six months ended 30 June 2016 and revaluation loss on open positions as at 30 June 2017.

C. *Fee and commission income*

The fee and commission income of the Group increased by approximately 29.1% from approximately HK\$29.0 million for the six months ended 30 June 2016 to approximately HK\$37.4 million for the six months ended 30 June 2017. The increase was mainly due to increase in commission earning benefited from the increase in trading volume in respect of leveraged foreign exchange.

D. *Other income/(losses)*

The Group recorded other income of approximately HK\$1.8 million for the six months ended 30 June 2017 as compared to other losses of approximately HK\$3.3 million for the six months ended 30 June 2016.

During the six months ended 30 June 2017, the Group recorded an exchange gain of approximately HK\$0.6 million while there was an exchange loss of approximately HK\$5.0 million during the six months ended 30 June 2016. This was mainly due to the period-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB Kunlun New Zealand Limited, a wholly-owned subsidiary of the Company.

Referral expenses and other charges

The referral expenses and other charges of the Group increased by approximately 62.9% to approximately HK\$114.8 million for the six months ended 30 June 2017 from approximately HK\$70.5 million for the six months ended 30 June 2016. The increase was mainly due to the increase in trading volume of the clients of the Group referred by service providers and increased transaction fees paid to gateways.

Staff Costs

The staff costs of the Group decreased by approximately 25.4% to approximately HK\$25.0 million for the six months ended 30 June 2017 from approximately HK\$33.5 million for the six months ended 30 June 2016. The decrease was mainly due to decreased staff entitlements.

Depreciation & amortization

Depreciation and amortization increased by approximately 68.9% to approximately HK\$6.2 million for the six months ended 30 June 2017 from approximately HK\$3.7 million for the six months ended 30 June 2016. This increase was mainly due to new assets capitalization in late 2016.

Lease payments under land and buildings

Lease payments under land and buildings have increased by approximately 23% to approximately HK\$6.8 million for the six months ended 30 June 2017 from around HK\$5.6 million for the six months ended 30 June 2016. The increase was mainly due to the increased rental expenses at the Beijing office and increased rental at other offices from lease review.

Administrative and other operating expenses

The administrative and other operating expenses of the Group increased by approximately 24.1% to around HK\$36.0 million for the six months ended 30 June 2017 from approximately HK\$29.0 million for the six months ended 30 June 2016. This was mainly due to increased marketing expenses, regulatory & compliance expenses, and customer promotion expenses by approximately HK\$3.1 million, HK\$0.9 million and HK\$2.5 million respectively as compared with the same period in 2016.

Net profit and net profit margin

For the reasons set forth above, the Group achieved net profit of approximately HK\$3.1 million for the six months ended 30 June 2017 compared with a net profit of approximately HK\$34.0 million for the first six months in 2016. The net profit margin for the six months ended 30 June 2017 was approximately 1.57%.

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

- Higher transaction volume resulting in higher referral expenses and other charges; and
- Increased expenditure due to business expansion.

Significant investments, material acquisitions and disposal of subsidiaries during the period under review

During the six months ended 30 June 2017, the Group did not have any material acquisitions and disposal.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2017, cash and bank balance held by the Group amounted to approximately HK\$496.8 million. (As at 31 December 2016: HK\$477.8 million)

GEARING RATIO

The gearing ratio calculated on the basis of net debts (financial lease obligation, amounts due to other related parties and borrowing) over the total shareholders' fund as at 30 June 2017 was approximately 1.10%. (31 December 2016: 10.86%).

FOREIGN CURRENCY EXPOSURE

During the period under review, the Group recorded an exchange gain of approximately HK\$0.6 million (2016: loss of approximately HK\$5.0 million). This was mainly due to the half year end translation of monetary assets denominated in foreign currency into local reporting currency by a 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 1.4362 as 31 December 2016 to 1.3657 as at 30 June 2017. 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 hedge strategy based on prevailing market conditions and working capital requirements of subsidiaries.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2017, certain bank balances of the Group amounting to approximately HK\$90.4 million were used to secure the banking facilities and office lease bonds (31 December 2016: approximately HK\$158.9 million).

As at 30 June 2017, the Group did not have any material contingent liabilities (31 December 2016: nil).

CAPITAL STRUCTURE

During the period 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

During the period under review, there was no new products launched.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group engaged a total of 90 employees (as at 31 December 2016: a total of 86). Total staff costs including Directors' remuneration for the period under review amounting to approximately HK\$25.0 million (2016: HK\$33.5 million). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees. The Group provides retirement benefits in accordance with the relevant laws and regulations in the place where the staff is employed. The Company has adopted a share option scheme pursuant to which the Directors and employees of the Group are entitled to participate.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to develop new financial services and products through internally generated funding.

INTERIM DIVIDEND

The Board does not declare the payment of any dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules throughout the six months ended 30 June 2017, except for the following deviations:

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 10 May 2017, Ms. Zhao Guixin, an independent non-executive Director, was unable to attend that meeting due to health reason.

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 six months ended 30 June 2017, which is significant in relation to the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the six months ended 30 June 2017 or at any time during such period.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S COMPETING INTERESTS

During the six months ended 30 June 2017, none of the Directors and the controlling shareholders' 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 interim results of the Group for the six months ended 30 June 2017 and has provided advice and comments thereon.

PricewaterhouseCoopers as the Company's auditors has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2017 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealing 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 during the six months ended 30 June 2017.

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

Hong Kong, 4 August 2017

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.