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金利豐金融集團有限公司
KINGSTON FINANCIAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 01031)

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 September 2016 decreased by approximately 17% to HK\$1,376,862,000 when compared to HK\$1,651,667,000 in the corresponding period of last year.
- Profit attributable to the owners of the Company for the six months ended 30 September 2016 decreased by approximately 19% to HK\$744,420,000 when compared to HK\$923,380,000 in the corresponding period of last year, which was mainly due to the decrease in income from securities brokerage, underwriting and placements business.
- Earnings per share for the six months ended 30 September 2016 decreased by approximately 19% to HK4.29 cents when compared to HK5.32 cents in the corresponding period of last year.

The Board of Directors (“the Board”) of Kingston Financial Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, “the Group”) for the six months ended 30 September 2016 together with comparative figures for the six months ended 30 September 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

| | | Six months ended | |
|--|--------------|-------------------------|-----------------|
| | | 30 September | |
| | | 2016 | 2015 |
| | | (unaudited) | (unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Revenue | 2 | 1,376,862 | 1,651,667 |
| Other income | | 15,061 | 33,496 |
| | | 1,391,923 | 1,685,163 |
| Inventory consumed | | (11,090) | (11,468) |
| Staff costs | 3 | (161,233) | (146,937) |
| Gaming commission | | (48,665) | (56,564) |
| Broker commission | | (23,217) | (94,936) |
| Interest expenses for securities brokerage, underwriting and placements, margin and IPO financing operations | | (121,133) | (91,354) |
| Depreciation | | (59,426) | (72,693) |
| Administrative expenses | | (50,283) | (52,672) |
| Other operating expenses | | (60,757) | (60,615) |
| | | (535,804) | (587,239) |
| Finance income | | 1,743 | 3,878 |
| Finance cost | | (10,128) | (12,795) |
| Fair value gain on held for trading investments | | 42,077 | 13,649 |
| Exchange gain | | 1,213 | 1,998 |
| Share of results of joint ventures | | – | (1) |
| Amortisation | | (7,066) | (7,066) |
| | | 27,839 | (337) |
| Profit before taxation | 4 | 883,958 | 1,097,587 |
| Taxation | 5 | (136,510) | (170,962) |
| Profit for the period | | 747,448 | 926,625 |

| | | Six months ended | |
|---|--------------|-------------------------|------------------|
| | | 30 September | |
| | | 2016 | 2015 |
| | | (unaudited) | (unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Profit for the period | | <u>747,448</u> | <u>926,625</u> |
| Other comprehensive income | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Deficit on revaluation of leasehold land and buildings | 8 | (127,455) | (215,695) |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Unrealised loss arising from change in fair value of available-for-sale investments | | <u>—</u> | <u>(60)</u> |
| Other comprehensive loss for the period, net of tax | | <u>(127,455)</u> | <u>(215,755)</u> |
| Total comprehensive income for the period | | <u>619,993</u> | <u>710,870</u> |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 744,420 | 923,380 |
| Non-controlling interests | | <u>3,028</u> | <u>3,245</u> |
| | | <u>747,448</u> | <u>926,625</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 616,965 | 707,625 |
| Non-controlling interests | | <u>3,028</u> | <u>3,245</u> |
| | | <u>619,993</u> | <u>710,870</u> |
| Earnings per share (cents per share) | 7 | | |
| — Basic | | 4.29 | 5.32 |
| — Diluted | | <u>4.29</u> | <u>5.32</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

| | | 30 September 2016 (unaudited) <i>HK\$'000</i> | 31 March 2016 (audited) <i>HK\$'000</i> |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 2,893,555 | 3,090,037 |
| Deferred tax assets | | 6,107 | 6,107 |
| Statutory deposit for financial services business | | 5,138 | 5,243 |
| Goodwill | | 10,996,683 | 10,996,683 |
| Intangible assets | 9 | 287,355 | 294,421 |
| | | 14,188,838 | 14,392,491 |
| Current assets | | | |
| Inventories | | 2,687 | 2,727 |
| Available-for-sale investments | | 440 | 440 |
| Held for trading investments | | 206,187 | 114,921 |
| Advances to customers in margin financing | 10 | 18,584,761 | 18,443,165 |
| Trade and other receivables | 11 | 203,559 | 198,345 |
| Tax recoverable | | 37,607 | 37,607 |
| Cash and bank balances | | | |
| — held on behalf of customers | | 2,039,559 | 1,569,493 |
| Cash and bank balances | | | |
| — general accounts | | 201,570 | 169,339 |
| | | 21,276,370 | 20,536,037 |
| Current liabilities | | | |
| Trade and other payables | 12 | 2,152,891 | 1,752,015 |
| Amounts due to shareholders | | 2,311,911 | 2,321,911 |
| Loan from a related company | | 8,188,381 | 7,179,238 |
| Subordinated loans | | 700,000 | 700,000 |
| Bank loans | | 1,457,000 | 2,616,000 |
| Tax payable | | 289,006 | 200,559 |
| | | 15,099,189 | 14,769,723 |
| Net current assets | | 6,177,181 | 5,766,314 |
| Total assets less current liabilities | | 20,366,019 | 20,158,805 |

| | 30 September 2016 (unaudited) <i>HK\$'000</i> | 31 March 2016 (audited) <i>HK\$'000</i> |
|---|--|--|
| <i>Notes</i> | | |
| Non-current liabilities | | |
| Bank loans | 1,275,000 | 1,320,000 |
| Deferred tax liabilities | 190,093 | 210,582 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 1,465,093 | 1,530,582 |
| | <hr/> | <hr/> |
| Total liabilities | 16,564,282 | 16,300,305 |
| | <hr/> | <hr/> |
| Net assets | 18,900,926 | 18,628,223 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Capital and reserves | | |
| Share capital — ordinary shares | 272,290 | 272,290 |
| Share capital — non-redeemable convertible preference shares | 75,000 | 75,000 |
| Reserves | 18,538,377 | 18,268,702 |
| | <hr/> | <hr/> |
| Total equity attributable to owners of the Company | 18,885,667 | 18,615,992 |
| Non-controlling interests | 15,259 | 12,231 |
| | <hr/> | <hr/> |
| Total equity | 18,900,926 | 18,628,223 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2016. The accounting policies adopted in the preparation of unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016, except for the adoption of new and revised Standards, Amendments and Interpretations (“new/revised HKFRSs”) issued by the HKICPA, which are effective for accounting periods beginning on or after 1 April 2016, noted below:

| | |
|--------------------------------------|---|
| HKFRSs (Amendments) | Annual Improvements 2012–2014 Cycle |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |

The Directors of the Company reviewed and assessed the application of these standards in the current interim period and concluded that it has had no material effect on the amounts reported in these unaudited interim condensed consolidated financial statements and/or disclosure set out in these unaudited interim condensed consolidated financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

2 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their services, and has seven (six months ended 30 September 2015: seven) reporting operating segments as follows:

Financial services segments:

- Securities brokerage, underwriting and placements segment is the provision of brokerage, underwriting and placements services for dealings in securities on recognised stock exchanges.
- Margin and initial public offering (“IPO”) financing segment is the provision of credits in these transactions.
- Other financial services mainly include provision of corporate finance advisory services, futures brokerage and asset management.

Hotel and gaming segments:

- Hotel ownership and management segment is the operation of hotels and provision of hotel management services.
- Food and beverage segment is the operation of restaurants in hotels.
- Gaming segment is the casino business run by the licence holder Sociedade de Jogos de Macau, S.A. (“SJM”) in hotels.

Securities investment segment:

- Securities investment segment is the trading of listed securities.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a measure of adjusted earnings before interest, income tax, depreciation and amortisation (adjusted EBITDA). Interest income and expenditure and certain income and expenses (including depreciation, amortisation, finance cost, taxation, loss on disposal of property, plant and equipment, exchange gain and share of results of joint ventures) are not included in the result of each operating segment that is reviewed by the management. Other information provided, except as noted below, to the management is measured in a manner consistent with that in the consolidated financial statements.

Revenue between segments are carried out on terms equivalent to those that prevail in arm’s length transactions. The revenue from external customers reported to the management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

Operating segments

The following tables present segment information of the Group provided to the Group's management for the six months ended 30 September 2016 and 2015.

For the six months ended 30 September 2016 (unaudited)

| | Securities brokerage, underwriting and placements <i>HK\$'000</i> | Margin and IPO financing <i>HK\$'000</i> | Other financial services <i>HK\$'000</i> | Financial services business <i>HK\$'000</i> | Hotel ownership and management <i>HK\$'000</i> | Food and beverage <i>HK\$'000</i> | Gaming <i>HK\$'000</i> | Securities investment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|--|---|---|--|--|---|---------------------------|---|--------------------------|
| Segment revenue | | | | | | | | | |
| External customers | 118,450 | 921,681 | 18,348 | 1,058,479 | 73,059 | 13,538 | 231,786 | - | 1,376,862 |
| Inter-segment | 12 | - | 540 | 552 | 24,864 | - | 4,628 | - | 30,044 |
| | <u>118,462</u> | <u>921,681</u> | <u>18,888</u> | <u>1,059,031</u> | <u>97,923</u> | <u>13,538</u> | <u>236,414</u> | <u>-</u> | <u>1,406,906</u> |
| Adjusted EBITDA | <u>105,553</u> | <u>716,267</u> | <u>7,543</u> | <u>829,363</u> | <u>64,095</u> | <u>(5,427)</u> | <u>69,276</u> | <u>42,255</u> | <u>999,562</u> |
| Segment Assets | | | | <u>31,805,848</u> | <u>2,102,279</u> | <u>375,426</u> | <u>632,082</u> | <u>206,187</u> | <u>35,121,822</u> |
| Capital Expenditure | | | | 452 | 4,918 | 895 | 1,514 | - | 7,779 |
| Segment Liabilities | | | | <u>14,292,607</u> | <u>205,333</u> | <u>11,522</u> | <u>29,762</u> | <u>-</u> | <u>14,539,224</u> |

For the six months ended 30 September 2015 (unaudited)

| | Securities brokerage, underwriting and placements <i>HK\$'000</i> | Margin and IPO financing <i>HK\$'000</i> | Other financial services <i>HK\$'000</i> | Financial services business <i>HK\$'000</i> | Hotel ownership and management <i>HK\$'000</i> | Food and beverage <i>HK\$'000</i> | Gaming <i>HK\$'000</i> | Securities investment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|--|---|---|--|--|---|---------------------------|---|--------------------------|
| Segment revenue | | | | | | | | | |
| External customers | 518,565 | 778,108 | 21,246 | 1,317,919 | 82,251 | 16,206 | 235,291 | - | 1,651,667 |
| Inter-segment | 27 | - | 480 | 507 | 19,209 | - | 4,211 | - | 23,927 |
| | <u>518,592</u> | <u>778,108</u> | <u>21,726</u> | <u>1,318,426</u> | <u>101,460</u> | <u>16,206</u> | <u>239,502</u> | <u>-</u> | <u>1,675,594</u> |
| Adjusted EBITDA | <u>395,160</u> | <u>674,862</u> | <u>11,636</u> | <u>1,081,658</u> | <u>62,465</u> | <u>(4,467)</u> | <u>78,175</u> | <u>14,958</u> | <u>1,232,789</u> |
| Segment Assets | | | | <u>31,516,662</u> | <u>2,758,565</u> | <u>523,449</u> | <u>549,672</u> | <u>38,895</u> | <u>35,387,243</u> |
| Capital Expenditure | | | | 135 | 1,737 | 364 | 199 | - | 2,435 |
| Segment Liabilities | | | | <u>15,085,770</u> | <u>20,314</u> | <u>11,052</u> | <u>21,053</u> | <u>-</u> | <u>15,138,189</u> |

As the assets and liabilities of financial services segments, including securities brokerage, underwriting and placements, margin and IPO financing and other financial services, are regularly reviewed by the directors of the Company in total for the group as a whole, the measure of total assets and liabilities by each operating segments under financial services business is therefore not presented.

3 STAFF COSTS

| | Six months ended | |
|---|-------------------------|-----------------|
| | 30 September | |
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Staff costs (including directors' remuneration) | | |
| — salaries, wages and other benefits | 160,529 | 146,286 |
| — contributions to defined contribution retirement plan | 704 | 651 |
| | <u>161,233</u> | <u>146,937</u> |

4 PROFIT BEFORE TAXATION

The profit before taxation has been arrived at after charging/(crediting) the following:

| | Six months ended | |
|-------------------------|-------------------------|-----------------|
| | 30 September | |
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Operating lease charges | 15,634 | 15,223 |
| Bad debts recovery | (15) | (6,998) |
| | <u>(15)</u> | <u>(6,998)</u> |

5 TAXATION

| | Six months ended | |
|--|-------------------------|-----------------|
| | 30 September | |
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current tax: | | |
| Hong Kong profits tax | 139,305 | 176,893 |
| Macau Complementary Tax | 586 | 625 |
| Over Provision in respect of prior years | (272) | – |
| Deferred tax | (3,109) | (6,556) |
| | <u>136,510</u> | <u>170,962</u> |

Hong Kong profits tax has been provided for six months ended 30 September 2016 and 2015 at a rate of 16.5%.

Macau Complementary Tax has been provided for the six months ended 30 September 2016 and 2015 at a rate of 12%. Details of contingent liabilities for Macau Complementary Tax are disclosed in note 13.

6 DIVIDENDS

The Board has recommended the payment of final dividend of HK2 cents per Share for the year ended 31 March 2016 (year ended 31 March 2015: Nil).

The board has resolved not to declare any interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

7 EARNINGS PER SHARE

| | Six months ended 30 September | |
|----------------------------|--|----------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | <i>HK cent</i> | <i>HK cent</i> |
| Basic earnings per share | <u>4.29</u> | <u>5.32</u> |
| Diluted earnings per share | <u>4.29</u> | <u>5.32</u> |

(a) Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | Six months ended 30 September | |
|--|--|-----------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the purpose of basic earnings per share | <u>744,420</u> | <u>923,380</u> |

| | Six months ended 30 September | |
|---|--|-----------------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| Weighted average number of ordinary shares | 13,614,480,666 | 13,401,365,912 |
| Weighted average number of non-redeemable convertible preference shares | <u>3,750,000,000</u> | <u>3,963,114,754</u> |
| Weighted average number of shares for the purpose of basic earnings per share | <u>17,364,480,666</u> | <u>17,364,480,666</u> |

(b) Diluted earnings per share

Diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in issue during the periods ended 30 September 2016 and 2015.

8 PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings for own use were revalued as at 30 September 2016, 31 March 2016 and 2015. The valuations were carried out by AA Property Services Limited, an independent valuer who holds recognised and relevant professional qualifications and has recent experience in the location and category of the leasehold land and buildings being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date. During the period under review, there were no changes in valuation techniques which were consistent with those adopted in the preparation of the Group's annual report for the year ended 31 March 2016 and 2015.

During the period under review, the after tax revaluation deficit of approximately HK\$127,455,000 (six months ended 30 September 2015: revaluation deficit HK\$215,695,000) has been recognised in other comprehensive income and accumulated in the property revaluation reserve of the Group.

During the period under review, the Group's acquisition of property, plant and equipment amounted to approximately HK\$7,779,000 (six months ended 30 September 2015: approximately HK\$2,444,000).

9 INTANGIBLE ASSETS

The intangible assets represented the costs of the 15 subsurface mineral permits/leases. The permits were granted by the Saskatchewan Ministry of Energy and Resources, currently known as the Ministry of the Economy of Saskatchewan, in 2008 for subsurface minerals in mining Elk Point, Saskatchewan, Canada with area of approximately 3,989.95 square kilometers.

The intangible assets is amortised on a straight-line basis over its estimated useful life of 24 years.

10 ADVANCES TO CUSTOMERS IN MARGIN FINANCING

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|--|---|---|
| Directors of subsidiaries and their associates | 67,180 | 149,979 |
| Other margin clients | 18,538,223 | 18,313,828 |
| Less: Allowance for doubtful debt | (20,642) | (20,642) |
| | <u>18,584,761</u> | <u>18,443,165</u> |

The movements in impairment loss on advances to customers in margin financing, all assessed individually, are as follows:

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|-------------------------------------|---|---|
| At the beginning of the period/year | 20,642 | 12,647 |
| Impairment loss recognised | – | 7,995 |
| At the end of the period/year | <u>20,642</u> | <u>20,642</u> |

Advances to customers in margin financing are repayable on demand and carry interest at approximately Hong Kong Dollar Prime rate plus 3%. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. At 30 September 2016, total market value of securities pledged as collateral in respect of the loan to margin clients was approximately HK\$70,462,426,000 (31 March 2016: HK\$86,196,514,000).

No aging analysis is disclosed for advances to customers in margin financing as, in the opinion of the directors, an aging analysis is not meaningful in view of the business nature of securities dealings and margin financing.

11 TRADE AND OTHER RECEIVABLES

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|--|---|---|
| Trade receivables from financial services segments | 82,077 | 73,341 |
| Trade receivables from hotel and gaming segments | 64,319 | 66,628 |
| Other receivables, deposits and prepayments | 57,163 | 58,376 |
| | <u>203,559</u> | <u>198,345</u> |

Trade receivables from financial services segments

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|--|---|---|
| Accounts receivable arising from the ordinary course of business of dealing in securities: | | |
| Cash clients | 10,326 | 36,074 |
| Clearing House | 56,207 | 9,744 |
| Brokers and dealers | 626 | 630 |
| Accounts receivable arising from the ordinary course of business of dealing in futures contracts: | | |
| Clearing house | 7,725 | 21,657 |
| Accounts receivable arising from the ordinary course of business of provision of: | | |
| Corporate finance advisory services | 7,193 | 5,236 |
| | <u>82,077</u> | <u>73,341</u> |

The settlement terms of accounts receivable attributable to dealing in securities are one or two days after trade date, and those of accounts receivable attributable to dealing in futures are one day after trade date. All accounts receivable from cash clients are not past due at the reporting dates for which the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

Accounts receivable from clearing houses, brokers, dealers and corporate finance clients are current.

Trading limits are set for customers. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management.

No aging analysis is disclosed for trade receivables from financial services segments as, in the opinion of the directors, an aging analysis is not meaningful in view of the business nature of securities dealings.

Trade receivables from hotel and gaming segments

The Group generally allows an average credit period of 30 days to its customers. The following is an aging analysis of trade receivables at the end of the reporting period:

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|-----------------------------|---|---|
| 0–30 days | 39,362 | 47,062 |
| 31–60 days | 11,633 | 10,972 |
| 61–90 days | 7,185 | 1,823 |
| Over 90 days | <u>29,523</u> | <u>30,155</u> |
| | 87,703 | 90,012 |
| Allowance for doubtful debt | <u>(23,384)</u> | <u>(23,384)</u> |
| | <u>64,319</u> | <u>66,628</u> |

12 TRADE AND OTHER PAYABLES

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|---|---|---|
| Trade payables from financial services segments | 2,079,015 | 1,667,334 |
| Trade payables from hotel and gaming segments | 12,648 | 14,834 |
| Other payables and accruals | <u>61,228</u> | <u>69,847</u> |
| | <u>2,152,891</u> | <u>1,752,015</u> |

Trade payables from financial services segments

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|---|---|---|
| Accounts payable arising from the ordinary course of business of dealing in securities: | | |
| Cash clients | 1,143,804 | 937,144 |
| Margin clients | 914,233 | 703,703 |
| | 2,058,037 | 1,640,847 |
| Dividend payable to clients | 8,814 | 17 |
| Accounts payable arising from the ordinary course of business of dealing in futures contracts: | | |
| Clients | 9,453 | 24,435 |
| Accounts payable arising from the ordinary course of business of provision of: | | |
| Corporate finance advisory services | 56 | 97 |
| Asset management services | 2,655 | 1,938 |
| | 2,079,015 | 1,667,334 |

The settlement terms of accounts payable attributable to dealing in securities are one or two days after the trade date, and those of accounts payable attributable to dealing in futures are one day after trade date.

No aging analysis is disclosed for payables to margin clients as, in the opinion of the directors, an aging analysis is not meaningful in view of the business nature of securities dealings and margin financing.

As at the 30 September 2016, included in accounts payable was an amount of HK\$2,039,559,000 (31 March 2016: HK\$1,569,493,000) payable to clients and other institutions in respect of trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities.

Trade payables from hotel and gaming segments

The following is an aging analysis of trade payables at the end of the reporting period:

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|--------------|---|---|
| 0–30 days | 7,426 | 8,859 |
| 31–60 days | 4,885 | 2,460 |
| 61–90 days | 107 | 738 |
| Over 90 days | 230 | 2,777 |
| | 12,648 | 14,834 |

13 COMMITMENTS AND CONTINGENT LIABILITIES

| | 30 September 2016 (unaudited) HK\$'000 | 31 March 2016 (audited) HK\$'000 |
|---|---|---|
| Capital commitments in respect of the acquisition of property, plant and equipment: | | |
| — contracted but not provided for in the financial statements | <u>4,740</u> | <u>2,450</u> |
| | <u>4,740</u> | <u>2,450</u> |

Since April 2014, two wholly owned subsidiaries of the Group started to receive tax notices and demand notes issued by Macau Financial Services Bureau assessing its Macau Complementary Tax for the year of assessment from 2009 to 2012 and demanding tax payments of approximately HK\$87,092,000 in aggregate for the gaming revenue generated by them in these years (“Tax Assessment”). Subsequently these two subsidiaries made the payments of the aforesaid HK\$87,092,000 in accordance to the requirements but also lodged objection letters to the Financial Service Bureau and submitted petitions to the Macau court for making appeals against the Tax Assessment according to stipulated appeal procedures.

As advised by local tax consultant and lawyer, the directors considered that the Group has valid grounds for the appeals and believed that the gaming revenue generated through these two subsidiaries’ Service Agreement with SJM is not subject to Macau Complementary Tax since it was derived from SJM gaming revenue, which is exempted pursuant to Macau Law. Accordingly, no provision of taxation is considered necessary given the chances for the chargeability is remote. If the Group’s appeals for the Tax Assessment are successful, any prepaid tax amount will be refunded by the Financial Services Bureau. On the other hand, if the appeals fail and the same basis of taxation applies for subsequent years of assessment, the Group will be subject to Macau Complementary Tax liabilities of approximately HK\$185,776,000 in aggregate for its mass market business in Macau since 2009 up to the period ended 30 September 2016. Pursuant to the Macau Complementary Tax law, the assessment on an estimated assessable profit in a year of assessment will lapse in five consecutive years after that year of assessment, thus no tax liability was expected for the year of assessment before 2009.

The Company had no other material contingent liabilities at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the Board of Directors (the “Board”) of Kingston Financial Group Limited (the “Company”), I am pleased to announce the interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2016 (the “Period”).

OVERVIEW

The Group is principally engaged in the provision of a wide range of financial services which include securities brokerage, underwriting and placements, margin and initial public offering financing, corporate finance advisory services, futures brokerage and asset management services. The Group also provides gaming and hospitality services in Macau.

The Group’s unaudited turnover was approximately HK\$1,376,862,000 for the Period, representing a decrease of approximately 17% as compared to approximately HK\$1,651,667,000 for the six months ended 30 September 2015 (the “Previous Period”).

The unaudited net profit attributable to the owners of Company for the Period amounted to approximately HK\$744,420,000, representing a decrease of approximately 19% as compared to approximately HK\$923,380,000 for the Previous Period. The decrease was mainly attributed to the decrease in income from securities brokerage, underwriting and placements business. Basic earnings per share for the Period decreased by approximately 19% to HK4.29 cents when compared to HK5.32 cents in the Previous Period.

BUSINESS AND FINANCIAL REVIEW

Coming off a turbulent 2015 for the markets and the Renminbi currency, the new worries have undermined investors’ confidence in China’s economic growth. The market expects China’s GDP growth in 2016 to fall to 6.5%, which is the bottom end of the government’s original target of 6.5%–7%. According to the National Statistics Bureau, the slowdown in private-sector investment has been astonishing, from 10.1% growth in 2015 to just 2.8% in the first half of 2016. As the main driver of economic activity, private and public investments remain an important source of overall economic expansion. With uncertainties clouding the market environment, a wide range of industries are encumbered by overcapacity and businesses are hoarding cash.

Global markets have been highly sensitive to hints that China’s slowdown is worsening, while Britain’s progress to withdraw from the European Union has not only ushered in a period of more uncertainty in the European market but also the global economy. It has dampened the outlook for China’s exports and increased volatility in capital flows.

Stepping into year 2016, the Hong Kong stock market has been disrupted by the slow growth in China and weak economic recovery globally. The weakened global and national economy served to threaten overall sentiment in Hong Kong, and the Hang Seng index was unable to draw any significant support from the mainland GDP. For the six months ended 30 September 2016, the average daily turnover of the Hong Kong securities market was HK\$65.4 billion,

representing a drastic decrease of 51% as compared to HK\$133.4 billion for the Previous Period. Despite the unsatisfactory performance of the financial services sector in general, the Group has been able to place itself as one of the most competitive participants in the industry.

Looking ahead, it is anticipated that the imminent launch of cross-border Shenzhen-Hong Kong Stock Connect should create gleaming opportunities for the Hong Kong economy and stock market, thus reinforcing Hong Kong's status as an international finance center in China's multilayered capital markets. It might also bring synergistic value to further develop the Group's business in the region.

As for Macau, the general operation has been affected by the slowing economy in China and anti-graft drive. The Group's hotel and gaming business revenue fell in line with the decline in the industry. During the Period, total gross revenue of Macau's gaming industry dropped approximately 21% to approximately MOP15 billion as compared to approximately MOP19 billion for the Previous Period.

Securities Brokerage, Underwriting and Placements

Securities brokerage, underwriting and placement services is one of the main revenue streams of the Group. The Group undertakes the origination, structuring and marketing of placements of equity and equity-related securities. It also provides across-the-board solutions to clients' financing needs. The Group has successfully undertaken the roles of placing agents and underwriters for listed companies in a wide range of industries.

Hong Kong's securities growth has been stifled by repercussions on global financial landscape and Mainland market turbulence, with stocks hovered at a relatively low level. During the Period, the Group's performance was in part affected by this economic climate, with revenue of approximately HK\$118,450,000 in securities brokerage, underwriting and placements, representing a decrease of approximately 77 % as compared to HK\$518,565,000 in the Previous Period, which also accounted for approximately 11 % (the Previous Period: 39%) of the Group's financial service segment revenue.

Margin and IPO Financing

To complement the Group's securities brokerage services, we also provide margin and IPO financing services. Margin financing is made available to clients who have opened margin accounts with the Group to purchase securities with funds borrowed from it to leverage their investments. IPO financing is the grant of loans to clients for subscriptions of shares relating to an IPO.

In spite of the slowdown in the securities industry, the Group continued their stellar performance in margin and IPO financing, with revenue amounted to approximately HK\$921,681,000, representing an increase of approximately 18% as compared to HK\$778,108,000, in the Previous Period, which also accounted for approximately 87% (the Previous Period: 59%) of the Group's financial service segment revenue. Leveraging on the Group's compelling advantages from strong capital base and prudent risk management policies to credit control, the Group managed to achieve steady development in the segment over the years.

Other Financial Services mainly include Corporate Finance Advisory Services, Futures Brokerage and Asset Management

Complementing the securities brokerage, underwriting and placements, and margin and IPO financing, the Group also provides a full range of financing services to its clients including corporate finance advisory services, futures brokerage and asset management.

The Group holds licence under the Securities and Futures Ordinance to engage in advising on corporate finance activities. The scope of services provided includes advising on corporate finance transactions, sponsoring IPOs and advising clients on deal structure and financing strategies in the context of mergers and acquisitions, equity fund raising exercises, takeovers and other notifiable transactions.

The Group provides brokerage services for index futures trading on the Futures Exchange, including After Hours Futures Trading. Clients can place orders online and through telephone.

The Group also provides portfolio management services. The asset management business generates revenue by charging management fees and incentive fees based on the amount of assets under management, and returns of portfolios, respectively.

During the Period, this segment recorded revenue of approximately HK\$18,348,000 (the Previous Period: HK\$21,246,000), representing a decrease of approximately 14%, which also accounted for approximately 2% (the Previous Period: 2%) of the Group's financial service segment revenue.

Hotel Business

In addition to financial services business, the Group is also engaged in hotel business in Macau, which comprises hotel room rental, food and beverage operation catering to international and local markets.

As the only place in China where gambling business is legal, Macau's hotel and casino sector took a major hit from China's anti-corruption campaign and slowing growth. The revenue for the Period amounted to approximately HK\$86,597,000 (the Previous Period: HK\$98,457,000), representing a decrease of approximately 12% as compared to the Previous Period.

Hotel business contributed approximately 27% (the Previous Period: 30%) to the total hotel and gaming business turnover. During the Period, the average occupancy rate of the two hotels, namely Casa Real and Grandview, was approximately 86% (the Previous Period: 83%) and approximately 76% (the Previous Period: 72%) respectively.

Gaming Business

The Group's gaming operation is run by the licence holder Sociedade de Jogos de Macau, S.A. The two casinos continued to provide solid contributions to the Group. While there was a decrease in total gross revenue of Macau's gaming industry, the business continued to provide a stable income to the Group.

Gaming revenue, including gaming revenue and food and beverage sales in casino, amounted to approximately HK\$231,786,000 for the Period, representing a drop of approximately 2% as compared to HK\$235,291,000 approximately of the Previous Period. Gaming revenue accounted for approximately 73% (the Previous Period: 70%) of total hotel and gaming business turnover.

As at 30 September 2016, the Group's gaming operations include 63 (31 March 2016: 61) tables in the two mass market halls, 12 (31 March 2016:14) tables in the VIP rooms and 232 (31 March 2016:238) slot machines and 115 (31 March 2016:134) live baccarat machines in the electronic gaming halls. Live baccarat machines brought additional crowd to the property, achieving synergy with the slot machine business as well.

Other Income

Other income mainly represents handling charges received from securities clients, bad debts recovered and other miscellaneous income. The income decreased by approximately 55% from HK\$33,496,000 in the Previous Period to HK\$15,061,000 in this Period. The decrease was due to the decrease in securities handling charges and bad debts recovered during the Period.

Held for trading investments

During the Period, the Hong Kong equity market experienced fluctuations. The market value of the held for trading investments held by the Group during the Period recorded a revaluation gain of approximately HK\$42,077,000 (the Previous Period: revaluation gain HK\$13,649,000). As at 30 September 2016, the Group was holding held for trading investments of approximately HK\$206,187,000 (31 March 2016: HK\$114,921,000) in market value.

Inventory consumed

Inventory consumed represents the cost of guest supplies and food and beverage consumed upon provision of accommodation and catering services to the customers. During the Period, it amounted to approximately HK\$11,090,000 (the Previous Period: HK\$11,468,000).

Staff costs

Staff costs amounted to approximately HK\$161,233,000 (the Previous Period: HK\$146,937,000), representing an approximately 10% increase. Such an increase was mainly due to increase in compensation and benefits to employee to match market rates. Packages commensurate with employees' qualification and experience were provided to retain good employees in the Group as well as to hire potential talents.

Gaming commission

Gaming commission represents amount paid as an incentive to attract customers. The commission expenses of the Group was in line with market level. During the Period under review, the gaming commission amounted to approximately HK\$48,665,000 (the Previous Period: HK\$56,564,000), representing a 14% decrease. The decrease was in line with the industry performance.

Broker Commission

Broker commission decreased approximately 76% from approximately HK\$94,936,000 in the Previous Period to approximately HK\$23,217,000 in the Period. The decrease matched with the decrease in revenue from securities brokerage, underwriting and placements segments.

Interest expenses for securities brokerage, underwriting and placement, margin and IPO financing operations

To cope with the development of the margin and IPO financing segment, more fundings were obtained during the Period. The related interest expenses increased from approximately HK\$91,354,000 in the Previous Period to approximately HK\$121,133,000 in the Period, representing a 33% increase.

Administrative expenses

Administrative expenses mainly consist of rent and rates, legal and professional fees and Macau property tax. During the Period under review, it amounted to approximately HK\$50,283,000 (the Previous Period: HK\$52,672,000).

Other operating expenses

Other operating expenses mainly represented other operating expenses for gaming facilities, promotion expenses and other hotel room operating expenses. During the Period under review, it amounted to approximately HK\$60,757,000 (the Previous Period: HK\$60,615,000).

Finance cost

During the Period under review, finance cost of approximately HK\$10,128,000 (the Previous Period: HK\$12,795,000) represented the effective interest expenses on the amount due to a shareholder.

Amortisation

The amount of HK\$7,066,000 (the Previous Period: HK\$7,066,000) for the Period represented the amortisation expenses of the intangible assets which has been amortised on a straight-line basis over its estimated useful life of 24 years.

FUTURE PROSPECTS

Financial service segments

The rebalancing of China's economy is likely to be gradual. China's growth outlook remains far higher than for advanced economies and many emerging ones. We look forward to seeing more significant fiscal and monetary stimulus policies in the near future.

The introduction of Shanghai-Hong Kong Stock Connect Scheme has strengthened the link between Hong Kong and the Mainland capital markets. It has also improved market infrastructures for future development.

Succeeding the first cross-border stock trading arrangement, we are convinced that the much anticipated Shenzhen-Hong Kong Stock Connect represents another milestone towards strengthening the interconnectivity between the mutually complementary stock markets in Hong Kong and the Mainland. The Board is of the view that Hong Kong's financial market will benefit from the new program which is expected to bring synergistic effects and contribute to the robust and sustainable growth of the offshore Renminbi ecosystem. The Group is well equipped to embrace the opportunities ahead. Nonetheless, the Group also sets its eyes on the global markets. It will continue to strengthen its presence in the capital markets, and explore more business opportunities to further expand its geographical network.

Hotel and Gaming Business

Given the slowdown in tourist spending and China's campaign against corruption and luxury spending, we remain conservative as to the outlook of Macau's hotel and tourism market. Supported by the steady demand from international and local markets, segment performance is expected to stabilize in the coming year.

Furthermore, the Group will continue to invest in marketing and promotion activities in order to enhance customer experience and attract more new customers.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

As at 30 September 2016, the shareholders' fund and net current assets of the Group amounted to approximately HK\$18,885,667,000 (31 March 2016: HK\$18,615,992,000) and approximately HK\$6,177,181,000 (31 March 2016: HK\$5,766,314,000) respectively. On the same date, the Group had cash and bank balance of approximately HK\$201,570,000 (31 March 2016: HK\$169,339,000) and the current ratio was approximately 1.4 (31 March 2016: 1.4).

As at 30 September 2016, the Group had bank borrowings of approximately HK\$2,732,000,000 (31 March 2016: HK\$3,936,000,000), amounts due to shareholders of approximately HK\$2,311,911,000 (31 March 2016: HK\$2,321,911,000), loan from a related company of approximately HK\$8,188,381,000 (31 March 2016: HK\$7,179,238,000) and subordinated loans of approximately HK\$700,000,000 (31 March 2016: HK\$700,000,000). On the same date, the net gearing ratio, measured on the basis of total borrowings less bank and cash balances over net assets, was approximately 73% (31 March 2016: 75%).

COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments and contingent liabilities of the Group as at 30 September 2016 are set out in note 13 to the financial statements.

CAPITAL STRUCTURE

During the six months ended 30 September 2016, no material fluctuation was noted on the Company's overall capital structure.

CAPITAL COMMITMENTS

At 30 September 2016, the Group had capital commitments of approximately HK\$4,740,000 (31 March 2016: HK\$2,450,000) in respect of acquisition of plant and equipment.

EMPLOYEES

As at 30 September 2016, the Group employed a total of approximately 875 (31 March 2016: 873) staff. The total staff cost for the Period was approximately HK\$161,233,000 (the Previous Period: HK\$146,937,000). The employees' remuneration, promotion and salary adjustment are assessed based on their work performance, working and professional experiences and the prevailing market condition.

PLEDGE OF ASSETS

As at 30 September 2016, the Group had pledged marketable securities at a value of approximately HK\$12,645,294,000 and certificates of deposit at a value of HK\$48,750,000 (31 March 2016: marketable securities of HK\$14,222,660,000) to secure certain banking facilities provided to the Group.

In addition, the Group's term loans are secured by:

- the pledge of leasehold land and buildings held for own use with carrying amounts of approximately HK\$2,230,000,000 (31 March 2016: HK\$2,350,000,000);
- shares of a subsidiary;
- corporate guarantee from a subsidiary;
- a charge over operating bank accounts of two subsidiaries;
- assignment of income and receivables arising from commercial operations of two subsidiaries.

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition nor disposal conducted by the Group during the Period under review.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk and uncertainty facing the Group is the market economy of China, Hong Kong and the surrounding regions as significant changes in their economic conditions will have significant impact on China and Hong Kong's stock market, as well as Macau's tourism.

Other risks include credit risks, market risks, liquidity risks and interest rate risks. The Group has been adopting prudent risk management policy to mitigate exposure to various risks.

RISK MANAGEMENT

Credit risk

The Group's Risk Management Committee has put in place credit management policies and procedures which cover the examination of the approval of clients' trading and credit limits, approval and review of the margin lending ratio of individual stock, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. Day-to-day credit monitoring is performed by the Group's Credit and Risk Control Department in accordance with the policies and procedures approved by the Risk Management Committee with toleration and exception reports reviewed by Responsible Officers and senior management of the Group as well as by the Risk Management Committee at regular meetings.

Market risk

If the market value of a margin client's portfolio falls below his margin loan amount and the margin client fails to meet margin calls, the Group will be exposed to the risk that the margin loan being delinquent. Similarly, if the value of the underlying products of a client's futures contract fluctuates such that the outstanding balances in his account falls below the required maintenance margin level, the Group may suffer loss if the client's account incurs loss even after liquidation of the open position. The management of the Group keeps close monitoring of the market condition so that immediate precautionary measures will be taken to reduce such risk that the Group may encounter. Follow up actions such as reducing the margin ratio for the pledged securities and requiring clients to top up their position would be taken if considered appropriate.

Liquidity risk

As part of its ordinary brokerage activities, the Group is exposed to liquidity risk arising from timing difference between settlement with clearing houses or brokers and clients. The goal of liquidity management is to enable the Group to adequately fund such business commitments as well as to comply with relevant financial resources rules applying to various licensed subsidiaries. To address the risk, the Group's Accounts Department and the senior management will review and monitor the Group's liquidity position on daily basis to ensure

the availability of sufficient liquid funds. In addition, the Group has also put in place stand-by banking and other facilities in order to meet any contingency in its operations. The management believes the Group's working capital is adequate to meet its financial obligations.

Interest rate risk

The Group charged interest on its margin clients on the basis of its cost of fund plus mark-up. Financial assets such as margin loans and deposit with banks are primarily at floating rates. Financial liabilities such as bank loans are primarily at floating rates. The Group income and operating cash flows are not subject to significant interest rate risk.

FOREIGN CURRENCY EXPOSURE

As the Group's hotel revenues are mostly denominated in Macau Patacas ("MOP"), and given the exchange rate of MOP has been fairly stable, its exposure to exchange rate risk is considered to be limited.

The Group's financial service business and gaming revenue are mainly denominated in Hong Kong Dollars and hence no significant exchange rate risk is identified.

TREASURY POLICY

The Group may invest its surplus funds or funds not designated for specific purpose or funds designated for specific purpose but application of which is not immediately required (collectively "the Group's Funds") in the form of short term (i.e. less than one year) and liquid stocks through investing the Group's Funds in diversified portfolio of investments products including listed or unlisted securities, unit trust funds, or such other investments as the Board of the Company, or such committees or person as the Board may authorise, may decide from time to time so as to preserve the value of the Group's Funds and/or achieve capital appreciation.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

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

During the six months ended 30 September 2016, there were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Throughout the six months ended 30 September 2016, the Company has complied with all code provisions under the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 September 2016.

AUDIT COMMITTEE

The Audit Committee is composed of all the three Independent Non-Executive Directors of the Company. The Audit Committee has reviewed with management the accounting policies adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30th September, 2016.

PUBLICATION OF INTERIM REPORT

The Company’s 2016 interim report, containing the relevant information required by the Listing Rules will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the board of directors of
Kingston Financial Group Limited
Chu, Nicholas Yuk-yui
Chairman

Hong Kong, 24 November 2016

As at the date of this announcement, the executive Directors are Mr. Chu, Nicholas Yuk-yui (Chairman), Mrs. Chu Yuet Wah (Chief Executive Officer), Mr. Chu, Kingston Chun Ho and Mr. Ho Chi Ho, and the independent non-executive Directors are Dr. Wong Yun Kuen, Mr. Lau Man Tak and Ms. Lo, Miu Sheung Betty.