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KVB KUNLUN FINANCIAL GROUP LIMITED

昆侖國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6877)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The board of directors (the “Board”) is pleased to present the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019, together with the unaudited comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Unaudited	
		Six months ended 30 June	
		2019	2018
	Notes	HK\$'000	HK\$'000
Leveraged foreign exchange and other trading income	3	8,017	233,460
Cash dealing income	3	45	3,259
Fee and commission income	3	3,311	45,220
Other income	3&4	1,103	24,294
Total income		<u>12,476</u>	<u>306,233</u>
Referral expenses and other charges		(15,017)	(139,450)
Staff costs	5	(18,868)	(75,574)
Depreciation and amortisation	10,11,12	(13,691)	(6,918)
Lease payments under land and buildings		(2,318)	(6,993)
Administrative and other operating expenses	6	(26,477)	(44,588)
Total expenses		<u>(76,371)</u>	<u>(273,523)</u>

		Unaudited	
		Six months ended 30 June	
		2019	2018
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
	Operating (loss)/profit	(63,895)	32,710
	Finance cost	(13,050)	(12,241)
	(Loss)/Profit before tax	(76,945)	20,469
	Income tax expense	(159)	(10,044)
	(Loss)/Profit for the period	(77,104)	10,425
	Other comprehensive income/(expense)		
	<i>Items that may be reclassified to profit or loss</i>		
	Currency translation difference	153	(10,123)
	Other comprehensive income/(expense) for the period, net of tax	153	(10,123)
	Total comprehensive (expense)/income for the period	(76,951)	302
	(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company for the period		
	– Basic (HK cents per share)	(3.79)	0.51
	– Diluted (HK cents per share)	(3.79)	0.22

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2019

		Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	7,055	9,454
Intangible assets	<i>11</i>	38,672	43,835
Right-of-use assets	<i>12</i>	27,553	–
Deferred tax assets		1,711	1,719
		<hr/>	<hr/>
Total non-current assets		74,991	55,008
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current assets			
Other receivables, prepayments and deposits	<i>13</i>	19,324	9,692
Amounts due from other related parties		6	–
Tax prepayment		4,621	4,625
Derivative financial instruments	<i>14</i>	10,278	67,400
Balances due from agents		20,689	21,751
Cash and bank balances and client trust bank balances	<i>15</i>	481,507	980,766
		<hr/>	<hr/>
Total current assets		536,425	1,084,234
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total assets		611,416	1,139,242
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
EQUITY AND LIABILITIES			
Equity			
Share capital	<i>19</i>	20,333	20,333
Reserves		346,710	347,541
Retained earnings		127,767	203,832
		<hr/>	<hr/>
Total equity		494,810	571,706
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

		Unaudited	Audited
		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
Current liabilities			
Amounts due to other related parties		382	–
Tax payable		2,626	2,633
Lease liabilities		11,492	42
Other payables and accrued liabilities	<i>16</i>	4,778	31,643
Derivative financial instruments	<i>14</i>	1,917	5,374
Clients' balances	<i>17</i>	74,078	331,731
		<hr/>	<hr/>
Total current liabilities		95,273	371,423
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Non-current liabilities			
Lease liabilities		16,435	146
Deferred tax liabilities		4,898	4,902
Convertible bonds	<i>18</i>	–	191,065
		<hr/>	<hr/>
Total non-current liabilities		21,333	196,113
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total liabilities		116,606	567,536
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Total equity and liabilities		611,416	1,139,242
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

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 Company's immediate parent is CITIC Securities Overseas Investment Company Limited (the "CITIC Securities Overseas"), a company incorporated in Hong Kong and its ultimate holding company is CITIC Securities Company Limited (the "CITIC Securities"), a company incorporated in the People's Republic of China. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company and its subsidiaries are principally engaged in the provision of leveraged foreign exchange and other trading, cash dealing business, and other services.

As at 30 June 2019, 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 listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

1.2 Significant events

- (i) On 25 January 2018, pursuant to subscriptions agreements ("Agreements") entered into by the Company, the Company issued convertible bonds with aggregate principal amount of HK\$200,000,000 on 12 February 2018 ("Issue Date"). The convertible bonds entitled the holders to convert them into ordinary shares of the Company at the conversion price of HK\$0.613 ("Conversion Price") per share of the Company at any time from the day following one year from the Issue Date up to the fifth business day immediately before the second anniversary of the Issue Date ("Maturity Date") and bear interest at 7.5% per annum.

On 7 May 2019, the bonds holders exercised the option of early redemption pursuant to the Agreements to request the Company to redeem the full amount of the convertible bonds with redemption date on 15 May 2019. See Note 18.

- (ii) As a holder of the Australian Financial Services License, the Group received a letter (the "Letter") from Australian Securities and Investments Commission ("ASIC") dated 18 April 2019 to its licensees which reminded licensees that they were obliged to comply with applicable laws of foreign jurisdictions, and recommended that licensees should seek legal advice to ensure that the products and services they offer to their clients comply with applicable foreign laws.

Certain subsidiaries of the Group hold Australian and New Zealand financial services licenses, and as at the date of this announcement, the online forex margin trading platform of the Group's Australian and New Zealand subsidiaries is targeted towards, among others, ethnic Chinese, thus there exists a number of clients with Chinese names ("Existing Ethnic Chinese Clients"). In view of the Letter, the board of directors (the "Board") of the Company has sought legal advice from its lawyer as to the laws of the People's Republic of China (the "PRC").

In line with the advice from the Company's legal advisers on the PRC laws, a detailed survey of the Group's Existing Ethnic Chinese Clients will be conducted with a view to identifying anyone who is, or who may possibly be, classified as a PRC domestic client.

Any person identified as an actual or potential PRC domestic client will then be disengaged as soon as possible ("Identification and Disengagement of PRC Domestic Clients"). The Board believes the commencement of the Identification and Disengagement of PRC Domestic Clients will ensure the Group's legal compliance and is in the interests of the Company and its shareholders as a whole. The Identification and Disengagement of PRC Domestic Clients is still in progress.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2019 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 2018, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax and the adoption of new and amended standards as set out below.

(i) Estimation of income tax

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

(ii) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the following standard is relevant to the Group's financial statements:

- HKFRS 16 *Leases*

The impact of the adoption of the leasing standard is disclosed in Note 2.1 below. The adoption of these standards in the current interim period has no material impact and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2.1 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 2.1.2 below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening Consolidated Balance Sheet on 1 January 2019.

2.1.1 Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 January 2019. The weighted average Group’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. No measurement adjustments is resulted upon the adoption of HKFRS 16.

	1 January 2019 <i>HK\$’000</i>
Operating lease commitments disclosed as at 31 December 2018	37,355
(Less): short-term leases recognised on a straight-line basis as expense	(1,134)
(Less): low-value leases recognised on a straight-line basis as expense	<u>(1,098)</u>
	<u>35,123</u>
Discounted using the Group’s incremental borrowing rate of at the date of initial application	33,403
Add: finance lease liabilities recognised as at 31 December 2018	<u>188</u>
Lease liabilities recognised as at 1 January 2019	<u>33,591</u>
Of which are:	
current lease liabilities	11,334
non-current lease liabilities	<u>22,257</u>
	<u>33,591</u>

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Balance Sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 HK\$'000	1 January 2019 HK\$'000
Office premises	<u>27,553</u>	<u>33,403</u>
Total right-of-use assets	<u>27,553</u>	<u>33,403</u>
	30 June 2019 HK\$'000	1 January 2019 HK\$'000
Current lease liabilities	<u>11,492</u>	<u>11,334</u>
Non-current lease liabilities	<u>16,435</u>	<u>22,257</u>
Total lease liabilities	<u>27,927</u>	<u>33,591</u>

There is no impact on retained earnings on 1 January 2019.

(i) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying HKAS 17 and HK(IFRIC) Interpretation 4 Determining whether an Arrangement contains a Lease.

2.1.2 *The Group's leasing activities and how these are accounted for*

The Group leases various offices. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the followings:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

3 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, commodity and index trading services in Australia, 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 PRC business segment primarily engaged 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 2019 and 2018.

The segment information provided to the management for the reportable segments for the six months period ended 30 June 2019 and 2018 is as follows:

For the six months ended 30 June 2019 (Unaudited)

	New Zealand margin dealing HK\$'000	Hong Kong margin dealing HK\$'000	Australia margin dealing HK\$'000	New Zealand cash dealing 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	10,549	2	(2,534)	45	-	-	-	8,062
Inter-segment sales	-	1,741	-	-	-	-	(1,741)	-
Segment revenue	10,549	1,743	(2,534)	45	-	-	(1,741)	8,062
Fee and commission income	3,175	-	61	-	-	75	-	3,311
Other income/(losses)	1,005	-	4	-	(28)	122	-	1,103
Total revenue and other income	<u>14,729</u>	<u>1,743</u>	<u>(2,469)</u>	<u>45</u>	<u>(28)</u>	<u>197</u>	<u>(1,741)</u>	<u>12,476</u>
Segment (loss)/profit	(8,558)	(1,812)	(4,208)	(299)	(1,481)	197		(16,161)
Other unallocated staff costs								(9,841)
Other unallocated administrative and operating expenses								<u>(50,943)</u>
Loss before tax								(76,945)
Income tax expense								<u>(159)</u>
Loss for the year								<u>(77,104)</u>
Other segment information:								
Depreciation and amortisation	-	19	4	-	291	13,377		13,691
Lease payments	-	235	-	-	760	1,323		2,318
Finance cost	26	-	-	-	-	13,024		13,050

The segment information provided to the management for the reportable segments for the six months period ended 30 June 2019 and 2018 is as follows: *(continued)*

For the six months ended 30 June 2018 (Unaudited)

	New Zealand margin dealing HK\$'000	Hong Kong margin dealing HK\$'000	Australia margin dealing HK\$'000	New Zealand cash dealing 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	229,786	3	3,671	3,259	-	-	-	236,719
Inter-segment sales	-	70,026	1,331	-	-	-	(71,357)	-
Segment revenue	229,786	70,029	5,002	3,259	-	-	(71,357)	236,719
Fee and commission income	42,962	-	47	-	-	2,211	-	45,220
Other income	95	-	10	7	533	23,649	-	24,294
Total revenue and other income	<u>272,843</u>	<u>70,029</u>	<u>5,059</u>	<u>3,266</u>	<u>533</u>	<u>25,860</u>	<u>(71,357)</u>	<u>306,233</u>
Segment profit/(loss)	25,536	63,104	2,419	3,069	(2,026)	25,860		117,962
Other unallocated staff costs								(30,480)
Other unallocated administrative and operating expenses								(67,013)
Profit before tax								20,469
Income tax expense								(10,044)
Profit for the year								<u>10,425</u>
Other segment information:								
Depreciation and amortisation	-	58	13	-	943	5,904		6,918
Lease payments	-	686	-	-	933	5,374		6,993
Finance cost	-	-	-	-	-	12,241		12,241

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	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
New Zealand	10,594	233,045
Others	(2,532)	3,674
	8,062	236,719

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 material differences from the Company's 2018 annual report in the basis of segmentation or in the basis of measurement of segment profit or loss.

4 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	3,195	1,232
Exchange (losses)/gains, net	(862)	7,733
Fair value gain on the embedded derivative portion of the convertible bonds (<i>Note 18</i>)	–	16,181
Amortisation of deferred losses on conversion component of the convertible bonds (<i>Note 18</i>)	(828)	(853)
Loss on redemption of the convertible bonds (<i>Note 18</i>)	(981)	–
Rental reimbursement	521	–
Others	58	1
	1,103	24,294

5 STAFF COSTS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs:		
Salaries and allowances	18,373	68,677
Pension scheme contributions	440	655
Share option expenses (<i>Note 20</i>)	55	6,242
	<u>18,868</u>	<u>75,574</u>

6 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fees paid to the then immediate holding company	310	347
Other office occupation expenses	1,609	1,734
Auditor's remuneration		
– Audit services	1,516	1,669
– Non-audit services	157	164
Information services expenses	1,493	1,917
Professional and consultancy fee	1,827	3,006
Repair and maintenance (including system maintenance)	8,547	6,002
Marketing, advertising and promotion expenses	6,743	14,597
Handling fee expenses	215	7,979
Travelling expenses	1,577	2,388
Entertainment expenses	291	658
Insurance	304	284
Clients' debit balances written off	80	250
Staff training	19	415
Impairment of fixed assets (<i>Note 10</i>)	408	–
Others	1,381	3,178
	<u>26,477</u>	<u>44,588</u>

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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% (2018: 28%) in New Zealand, 30% (2018: 30%) in Australia and 25% (2018: 25%) in PRC respectively in accordance with the local tax authorities.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current tax:		
Charge for the period	–	9,825
Others	<u>159</u>	<u>219</u>
Income tax expense	<u><u>159</u></u>	<u><u>10,044</u></u>

8 DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
(Loss)/Profit attributable to equity holders of the Company	<u><u>(77,104)</u></u>	<u><u>10,425</u></u>
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares in issue	<u><u>2,033,290,000</u></u>	<u><u>2,033,290,000</u></u>
Basic (loss)/earnings per share (HK cents)	<u><u>(3.79)</u></u>	<u><u>0.51</u></u>

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the (loss)/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 and convertible bonds into ordinary shares.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders of the Company	(77,104)	10,425
Finance cost on convertible bonds, net of tax	–	10,205
Fair value gain on the embedded derivative portion of the convertible bonds	–	(16,181)
Amortisation of deferred losses on conversion component of the convertible bonds	–	853
Adjusted (loss)/profit attributable to equity holders of the company	(77,104)	5,302
	Number of shares	Number of shares
Weighted average number of ordinary shares be in issue	2,033,290,000	2,033,290,000
Adjustments for share options	–	2,111,783
Effect of dilutive potential ordinary shares for convertible bonds	–	326,264,273
Weighted average number of shares for the purpose for calculating diluted earnings per share	2,033,290,000	2,361,666,056
Diluted (loss)/earnings per share (HK cents)	(3.79)	0.22

Note:

Certain share options are not included in the computation of diluted (loss)/earnings per share for the six-month period ended 30 June 2018 and 2019 as those were anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Opening net carrying amount	9,454	9,719
Exchange adjustments	(5)	(141)
Additions	218	4,414
Depreciation	(2,204)	(4,538)
Impairment	(408)	–
	<u>7,055</u>	<u>9,454</u>
Closing net carrying amount	<u>7,055</u>	<u>9,454</u>

11 INTANGIBLE ASSETS

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Opening net carrying amount	43,835	34,496
Exchange adjustments	(9)	(1,055)
Additions	514	23,474
Amortisation	(5,668)	(10,143)
Impairment	–	(2,937)
	<u>38,672</u>	<u>43,835</u>
Closing net carrying amount	<u>38,672</u>	<u>43,835</u>

12 RIGHT-OF-USE ASSETS

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Right-of-use assets – office premises	<u>27,553</u>	<u>–</u>
Total	<u>27,553</u>	<u>–</u>

The Groups obtain right to control the use of various office premises for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of terms and conditions including lease payments and lease terms ranging from 3 to 5 years. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements.

There is no additions to the right-of-use assets during the six-month period ended 30 June 2019. During the six-month ended 30 June 2019, total cash outflow for leases amounted HK\$6.0 million which is included in net cash used in financing activities and the total depreciation charged on the right-of-use assets amounted to HK\$5.8 million.

13 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Rental and utility deposits	4,420	4,569
Prepayments	13,784	2,831
Other receivables	1,160	2,332
Provision for expected credit loss	(40)	(40)
	<u>19,324</u>	<u>9,692</u>
Total	<u>19,324</u>	<u>9,692</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
	2019	2018
	HK\$'000	HK\$'000
Current assets		
Derivative contracts	10,278	67,400
Current liabilities		
Derivative contracts	(1,917)	(5,374)
	<u>8,361</u>	<u>62,026</u>
Total	<u>8,361</u>	<u>62,026</u>

The Group trades in foreign currencies, commodities and other products through its margin trading business. In order to protect against their exposures to fluctuations in foreign exchange rates and commodity prices, the Group has entered into a number of foreign exchange forward transactions and contracts for difference with the Group's bankers in the normal course of business.

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 June 2019 and 31 December 2018 are HK\$2,293,411,000 and HK\$9,875,738,000 respectively.

15 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Cash and bank balances	322,307	550,591
Fixed deposits with banks	94,175	174,816
Client trust bank balances	65,451	255,785
Provision for expected credit loss	(426)	(426)
	481,507	980,766

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 2019 and 31 December 2018, fixed deposits of approximately HK\$90,117,000 and HK\$90,359,000 respectively are pledged to banks for banking facilities. No overdraft facility was utilised by the Group as at 30 June 2019 and 31 December 2018. None of the bank deposits are placed with market makers as collateral as at 30 June 2019 and 31 December 2018.

For the purposes of the condensed consolidated interim statement of cash flows, cash and cash equivalents comprises of the followings:

	Unaudited	Unaudited
	30 June	30 June
	2019	2018
	HK\$'000	HK\$'000
Cash and bank balances	322,307	597,792
Fixed deposits with bank with original maturity within three months	4,058	4,080
	326,365	601,872

16 OTHER PAYABLES AND ACCRUED LIABILITIES

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Accrued rental benefit	32	171
Accrued audit fees	1,632	2,255
Accruals	1,025	3,047
Commission payable	345	6,020
Employee entitlements	1,316	11,458
Other payables	428	2,857
Interest payable	–	5,835
	<u>4,778</u>	<u>31,643</u>

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

17 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.

18 CONVERTIBLE BONDS

Pursuant to subscriptions agreements entered into by the Company on 25 January 2018, the Company issued convertible bonds with aggregate principal amount of HK\$200,000,000 on 12 February 2018 ("Issue Date"). The convertible bonds entitled the holders to convert them into 326,264,273 ordinary shares of the Company at the conversion price of HK\$0.613 ("Conversion Price") per share of the Company at any time from the day following one year from the Issue Date up to the fifth business day immediately before the second anniversary of the Issue Date ("Maturity Date") and bear interest at 7.5% per annum. Unless previously redeemed, converted or cancelled, the Company has to redeem the convertible bonds on Maturity Date at 100% of the outstanding principal amount, together with accrued interest, if any.

The Conversion Price is subject to anti-dilutive adjustments due to change of management and anti-dilution events such as consolidation, sub-division or reclassification, bonus issue, capital distribution, rights issue of shares or options over shares, rights issue of other securities, issue at less than the then current market price, other issue at less than the then current market price, modification of right of conversion, other offer to shareholders and other events. If the Conversion Price pursuant to any adjustment is below the par value of each share, the Conversion Price shall be adjusted to an amount equal to the par value of on share instead.

Save as disclosed above, the terms and definitions of the Convertible Bonds are set out in the respective subscription agreements and disclosed in the Company's announcements dated 25 January 2018 and 12 February 2018.

In the presence of the adjustments to the Conversion Price mentioned above, the convertible bonds may not exchange a fixed number of the Company's own equity instrument for a fixed amount of cash. Therefore, the components of the convertible bonds are accounted for separately as host liability component and conversion option derivative. The fair values of the host liability component and conversion option derivative were determined at the respective date of issue. The host liability component represented the present value of the contractual stream of future cash flows discounted using the prevailing market interest rate of similar non-convertible instruments and carried at amortised cost. The effective interest rate of the liability component is 19.25%. Subsequent to the initial recognition, the liability component is carried at amortised cost while the conversion option derivative embedded in the convertible bond are measured at fair value, which changes in fair value recognised in profit or loss.

On 7 May 2019, the bonds holders exercised the option of early redemption pursuant to the Agreements to request the Company to redeem the full amount of the convertible bonds with redemption date on 15 May 2019.

The components for the issue of the convertible bonds and their movements for the period are set out below:

	Financial liabilities at amortised cost – debt portion <i>HK\$'000</i>	Financial liabilities at fair value through profit or loss – derivative portion <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	177,565	13,500	191,065
Loss/(Gain) on redemption (<i>Note 4</i>)	15,309	(14,328)	981
Interest expense	12,633	–	12,633
Interest payment	(5,507)	–	(5,507)
Principal repayment	(200,000)	–	(200,000)
Amortisation of deferred losses on conversion component (<i>Note 4</i>)	–	828	828
At 30 June 2019	–	–	–
	Financial liabilities at amortised cost – debt portion <i>HK\$'000</i>	Financial liabilities at fair value through profit or loss – derivative portion <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	–	–	–
Issuance of convertible bonds	181,815	42,040	223,855
Deferred losses upon issuance	(19,375)	(4,480)	(23,855)
Fair value gain recognised	–	(26,042)	(26,042)
Interest expense	28,399	–	28,399
Interest payment	(13,274)	–	(13,274)
Amortisation of deferred losses on conversion component	–	1,982	1,982
At 31 December 2018	177,565	13,500	191,065

19 SHARE CAPITAL AND CAPITAL RESERVE

(a) Share capital

	Number of shares in issue	Issued share capital <i>HK\$'000</i>
Ordinary shares Issued and fully paid:		
As at 1 January 2018 (audited), 30 June 2018 (unaudited), 31 December 2018 (audited), and 30 June 2019 (unaudited)	2,033,290,000	20,333

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

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

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

Grantee	Date of grant	Outstanding as at 31 December 2018	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding as at 30 June 2019	Exercise price HK\$	Exercise period
Liu Stefan	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Huang Songyuan	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Wong Yiu Kit Ernest	19 August 2015	250,000	-	-	-	250,000	0.95	19 August 2017 to 18 August 2019
Stephen Gregory McCoy	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Zhao Guixin	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Corenlis Jacobus Keyser	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Lin Wenhui	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	-	-	-	-	-	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	1,000,000	-	-	-	1,000,000	0.95	19 August 2016 to 18 August 2019
Employees of group companies	19 August 2015	3,450,000	-	(1,000,000)	-	2,450,000	0.95	19 August 2017 to 18 August 2019
Consultants	19 August 2015	350,000	-	(50,000)	-	300,000	0.95	19 August 2016 to 18 August 2019
Consultants	19 August 2015	400,000	-	-	-	400,000	0.95	19 August 2017 to 18 August 2019
		<u>5,450,000</u>	<u>-</u>	<u>(1,050,000)</u>	<u>-</u>	<u>4,400,000</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.

No 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 period and validity from the date of grant. 37 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date of grant to 28 December 2019. 9 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date falling on the first anniversary of the date of grant to 28 December 2020, with a vesting period of one year from the date of grant. The remaining 49 Grantees were granted options which are exercisable for a period of two years commencing on the date falling on the second anniversary of the date of grant to 28 December 2020, with a vesting period of two years from the date of grant. Among the 40,000,000 share options granted, 11,750,000 share options were granted to the directors and chief executives of the Company.

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

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

Grantee	Date of grant	Outstanding as at 31 December 2018	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding as at 30 June 2019	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
Huang Songyuan	29 December 2016	3,050,000	-	-	-	3,050,000	0.592	29 December 2016 to 28 December 2019
Wong Yiu Kit Ernest	29 December 2016	250,000	-	-	-	250,000	0.592	29 December 2018 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	15,200,000	-	(750,000)	-	14,450,000	0.592	29 December 2016 to 28 December 2019
Employees of group companies	29 December 2016	900,000	-	(250,000)	-	650,000	0.592	29 December 2017 to 28 December 2020
Employees of group companies	29 December 2016	5,150,000	-	(1,500,000)	-	3,650,000	0.592	29 December 2018 to 28 December 2020
Consultants	29 December 2016	400,000	-	(50,000)	-	350,000	0.592	29 December 2017 to 28 December 2020
Consultants	29 December 2016	100,000	-	-	-	100,000	0.592	29 December 2018 to 28 December 2020
		<u>34,950,000</u>	<u>-</u>	<u>(2,550,000)</u>	<u>-</u>	<u>32,400,000</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.

No share option expenses were recognised in the consolidated statement of comprehensive income during the current period.

On 22 March 2018, the Board of Directors of the Company granted 40,000,000 share options to 82 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\$0.495 per share, with varying vesting period and validity from the date of grant. 37 out of 82 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date of grant to 21 March 2021. 11 out of 82 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 21 March 2022, with a vesting period of one year from the date of grant. The remaining 34 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 21 March 2022, 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 2018	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding as at 30 June 2019	Exercise price HK\$	Exercise period
Liu Stefan	22 March 2018	10,000,000	-	-	-	10,000,000	0.495	22 March 2018 to 21 March 2021
Huang Songyuan	22 March 2018	3,800,000	-	-	-	3,800,000	0.495	22 March 2018 to 21 March 2021
Wong Yiu Kit Ernest	22 March 2018	1,550,000	-	-	-	1,550,000	0.495	22 March 2018 to 21 March 2021
Stephen Gregory McCoy	22 March 2018	1,000,000	-	-	-	1,000,000	0.495	22 March 2018 to 21 March 2021
Zhao Guixin	22 March 2018	400,000	-	-	-	400,000	0.495	22 March 2018 to 21 March 2021
Corenlis Jacobus Keyser	22 March 2018	400,000	-	-	-	400,000	0.495	22 March 2018 to 21 March 2021
Lin Wenhui	22 March 2018	400,000	-	-	-	400,000	0.495	22 March 2018 to 21 March 2021
Employees of group companies	22 March 2018	12,800,000	-	(150,000)	-	12,650,000	0.495	22 March 2018 to 21 March 2021
Employees of group companies	22 March 2018	1,900,000	-	(250,000)	-	1,650,000	0.495	22 March 2019 to 21 March 2022
Employees of group companies	22 March 2018	4,900,000	-	(2,650,000)	-	2,250,000	0.495	22 March 2020 to 21 March 2022
Consultants	22 March 2018	550,000	-	-	-	550,000	0.495	22 March 2019 to 21 March 2022
		<u>37,700,000</u>	<u>-</u>	<u>(3,050,000)</u>	<u>-</u>	<u>34,650,000</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 22 March 2018 was as follows:

Weighted average share option price at the grant date:	HK\$0.1735
Risk free interest rate:	1.668%
Expected volatility:	56.39%
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 22 March 2018, 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\$55,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2019, together with the unaudited comparative figures for the corresponding period in 2018.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business Review

During the first six months of 2019, we have experienced a market condition with relatively lower overall market volatility and many swings, driven by changing global economic conditions and unexpected geopolitics events. In addition, business operation has been affected by unpredicted moves taken by key regulatory authorities. Overall, both trading volume and revenue had decreased compared with 2018 figures in the same period.

The main market trend during the first half of 2019 was driven by dovish tone and rate cuts applied by central banks in major countries and economic bodies, in response to the eroding economic figures and gloomy outlooks. The Federal Open Market Committee had reviewed their policy and stopped more rate hikes, which led to strong market expectation of rate cuts in the near future. Other significant global events, such as the Brexit deal negotiation during February and March 2019, and suddenly escalated trade conflicts between US and China in May 2019, had all disrupted global economic recovery and imposed significant fluctuations on the market.

Another unforeseeable change faced by the whole retail margin trading industry was tightening of trading rules imposed by major regulatory authorities such as Securities and Futures Commission, Australia Securities and Investments Commission and Financial Markets Authority New Zealand. Such change would normally have dramatic impacts on business operations in the short term, and re-shape the entire industry in the long run. We expect this change to be a major challenge for all market participants in 2019.

For business performance comparison, the top most traded products by our clients in the period under reviewed were EUR/USD, GBP/USD, AUD/USD, gold and crude oil. In the currency market, the price movement of EUR/USD in first six month of 2019 was in a narrower range compared with that of 2018. The highest and the lowest price levels of EUR/USD were observed to be 1.1570 and 1.1107 respectively, at an approximately 463 pips trading range; this is compared with a price movement of 1,046 pips in the same period of 2018, with highest level at 1.2554 and the lowest at 1.1508. GBP/USD was mainly traded within in a price range of 940 pips, which was also smaller than that of 2018. The highest level of GBP/USD was traded at 1.3381, while the lowest level was seen at 1.2441. The price range of GBP/USD in first half of 2018 was 1,327 pips, with highest price at 1.4375 and lowest price at 1.3048. The AUD/USD price moved in a narrower range as well. The highest and lowest prices were observed to be 0.7295 and 0.6741 respectively, at a nearly 554 pips range. This can be compared with the 812 pips range observed from January to June in 2018, between highest level of 0.8136 and lowest level of 0.7324.

For CFD and commodities, both gold and crude oil were traded within wider price ranges than that of the same period in 2018. The highest price of gold was traded at \$1,439.21 USD/ounce and the lowest at \$1,266.35 USD/ounce under the period of review, which was in a range of \$172.86 USD/ounce. The 2018 first half year price range, in comparison, was \$154.50 USD/ounce; with highest price at \$1,365.90 USD/ounce, and lowest at \$1,211.40 USD/ounce. The crude oil price in first six months of 2018 was traded in a range of \$16.39 USD/barrel, with highest price at \$74.46 USD/barrel and lowest at \$58.07 USD/barrel. The price movement of crude oil in first half year of 2019 was increased to \$22.25 USD/barrel, with highest price traded at \$66.60 USD/barrel and lowest traded at \$44.35 USD/barrel.

For a highly competitive market that involves many international multi-product trading firms, online trading firms, and financial institutions, 2019 is definitely a very challenging year for any FX margin trading business. Despite such a challenging environment, we believe the Group, as a multi-nation based industry leader, has the ability and resources to steer through this difficult time, and constantly looking for ways to improve our customer service level, meet the needs of our clients, and providing more trading opportunities in the global financial markets.

Six months ended 30 June 2019 compared with six months ended 30 June 2018.

Total income

The total income of the Group decreased by approximately 95.9% to approximately HK\$12.5 million for the six months ended 30 June 2019 from approximately HK\$306.2 million for the six months ended 30 June 2018.

A. *Leveraged foreign exchange and other trading income*

The leveraged foreign exchange and other trading income of the Group decreased by approximately 96.6% to approximately HK\$8.0 million for the six months ended 30 June 2019 from approximately HK\$233.5 million for the six months ended 30 June 2018. The decrease was mainly attributed by the lower trading volume during the six months ended 30 June 2019 as compared to the six months ended 30 June 2018.

B. *Cash dealing income*

The Group recorded cash dealing income of approximately HK\$0.05 million for the six months ended 30 June 2019 as compared to that of about HK\$3.3 million for the six months ended 30 June 2018. It is mainly caused by the decreased trading volumes.

C. *Fee and commission income*

The fee and commission income of the Group decreased by approximately 92.7% from approximately HK\$45.2 million for the six months ended 30 June 2018 to approximately HK\$3.3 million for the six months ended 30 June 2019. The decrease was mainly due to lower trading volume.

D. Other income

The Group recorded other income of approximately HK\$1.1 million for the six months ended 30 June 2019 as compared to other income of approximately HK\$24.3 million for the six months ended 30 June 2018.

As at 30 June 2019, there was a loss on redemption of approximately HK\$1.0 million on the convertible bonds issued on 12 February 2018.

During the six months ended 30 June 2019, the Group recorded an exchange loss of approximately HK\$0.9 million as compared to an exchange gain of approximately HK\$7.7 million during the six months ended 30 June 2018. 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 decreased by approximately 89.2% to approximately HK\$15.0 million for the six months ended 30 June 2019 from approximately HK\$139.5 million for the six months ended 30 June 2018. The decrease was mainly due to the decrease in trading volume of the clients of the Group referred by service providers and decreased transaction fees paid to remittance channels.

Staff Costs

The staff cost of the Group decreased by approximately 75.0% to approximately HK\$18.9 million for the six months ended 30 June 2019 from approximately HK\$75.6 million for the six months ended 30 June 2018. There was no special bonus paid and share options granted during the six months ended 30 June 2019.

Depreciation & amortization

Depreciation and amortization increased to approximately HK\$13.7 million for the six months ended 30 June 2019 from approximately HK\$6.9 million for the six months ended 30 June 2018. This increase was mainly due to new assets capitalization in late 2018 and adoption of HKFRS16.

Lease payments under land and buildings

Lease payments under land and buildings have decreased by approximately 66.9% to approximately HK\$2.3 million for the six months ended 30 June 2019 from around HK\$7.0 million for the six months ended 30 June 2018. The decrease was mainly because of the adoption of HKFRS16, details of which are set out in Note 2.1 of the “Notes to the Interim Financial Information” of this report.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately 40.6% to approximately HK\$26.5 million for the six months ended 30 June 2019 from approximately HK\$44.6 million for the six months ended 30 June 2018. This was mainly due to decrease of approximately HK\$7.8 million in advertising and marketing and HK\$7.7 million of customer promotion.

Net loss

For the reasons set forth above, the Group had a net loss of approximately HK\$77.1 million for the six months ended 30 June 2019 compared with a net profit of HK\$10.4 million for the first six months in 2018.

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

- a reduction in leveraged foreign exchange and other trading income earned from external customers due to reduced volatility which led to decrease in trading volume of the Group's customers in the reporting period;
- regulatory authorities in different countries, including Australia and Hong Kong, tightened the regulations on leveraged foreign exchange trading which led to investors' re-consideration on their investment portfolio; and
- the global economy has entered a synchronized slowdown during the reporting period which affect investors' attitude towards investment in leveraged foreign exchange and commodity products.

SIGNIFICANT INVESTMENTS, THEIR PERFORMANCE AND FUTURE PROSPECTS

During the six months ended 30 June 2019, the Group did not have any significant investments held, material acquisitions and disposals.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the operation of the Group was financed principally by equity capital, cash generated by the Group's business operations, cash and bank deposits and proceeds from convertible bonds issued by the Company.

As at 30 June 2019, cash and bank balance held by the Group amounted to approximately HK\$416.5 million. (As at 31 December 2018: HK\$725.4 million)

GEARING RATIO

The gearing ratio calculated on the basis of net debts (financial lease obligation, convertible bonds and amounts due to other related parties) over the total shareholders' fund as at 30 June 2019 was approximately 5.72%. (31 December 2018: 33.5%).

FOREIGN CURRENCY EXPOSURE

During the period under review, the Group recorded an exchange loss of approximately HK\$0.9 million (2018: gain of approximately HK\$7.7 million). This was mainly due to the half year end translation of monetary assets denominated in foreign currency into local reporting currency by the subsidiary of the Group in New Zealand. 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.

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, reserves and convertible bonds issued by the Company.

ISSUE OF CONVERTIBLE BONDS

On 12 February 2018 (the "Issue Date"), the Company issued 7.5% convertible bonds (the "Bonds") with an aggregate principal amount of HK\$200 million to BC Global Fund SPC – BC Fintech Fund SP and PA Investment Funds SPC for the account of PA High Technology Fund SP (collectively the "Bondholders").

The Bonds will expire at the second anniversary of the Issue Date. The Company may extend the maturity date for a further term of one year from the maturity date by giving notice in writing to all of the Bondholders on or before the maturity date and with the prior written consent from Bondholders of not less than 50% of the aggregate principal amount of Bonds outstanding. In the event of extension of the maturity date, the interest rate will be adjusted from 7.5% per annum to 12% per annum.

The Bonds are convertible into the Company's ordinary shares of HK\$0.01 each (the "Ordinary Share") at the initial conversion price of HK\$0.613 per share (subject to adjustment). The closing price of the Ordinary Share was HK\$0.500 on the Issue Date. Based on the assumption of full consumption of full conversion of the Bonds at such initial conversion price, a total of 326,264,273 Ordinary Shares will be allotted and issued by the Company.

On 7 May 2019, the bonds holders exercised the option of early redemption pursuant to the agreements entered into between the Company and the Bondholders to request the Company to redeem the full amount of the convertible bonds with redemption date on 15 May 2019.

NEW PRODUCTS AND SERVICES

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

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2019, certain bank balances of the Group amounting to approximately HK\$90.1 million were used to secure the banking facilities and office lease bonds (31 December 2018: approximately HK\$90.4 million).

As at 30 June 2019, the Group did not have any material contingent liabilities (31 December 2018: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group engaged a total of 29 employees (as at 31 December 2018: a total of 53). Total staff costs including Directors' remuneration for the period under review amounting to approximately HK\$18.9 million (2018: HK\$75.6 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

We plan to:

1. expand operations in the worldwide overseas Chinese communities;
2. extend the range of our financial services and products;
3. further upgrade our online trading platform; and
4. develop the high net worth and sophisticated institutional clients segment.

INTERIM DIVIDEND

The Board does not declare the payment of any dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

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

During the six months ended 30 June 2019, 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 14 to the Rules (the "Listing Rules") governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the six months ended 30 June 2019, except for the following deviations:

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Li Zhi Da retired as Chairman of the Board and non-executive Director after the conclusion of the annual general meeting of the Company held on 21 May 2018. After the retirement of Mr. Li, no individual had assumed the position of the Chairman of the Board until Mr. Li Jiong, a non-executive director of the Company, was appointed as the Chairman of the Board on 27 June 2019.

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 27 June 2019, Mr. Xu Jianqiang, a non-executive Director and Ms. Zhao Guixin, Mr. Cornelis Jacobus Keyser and Mr. Lin Wenhui, independent non-executive Directors, were unable to attend that meeting due to other engagements.

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 2019 or at any time during such period.

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 the CG Code contained in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely, Ms. Hu Zhaoxia, Mr. Wu Jianfeng, Mr. Christopher Wesley Satterfield. Ms. Hu Zhaoxia 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 and expressed no disagreement with the accounting treatment adopted by the Company in preparing the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019 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 2019 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.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions of the Company by the Directors. Having made specific enquiry with the Directors, all the Directors confirmed that they had complied with the Model Code during the six months ended 30 June 2019.

By order of the Board
KVB Kunlun Financial Group Limited
Yuan Feng
Executive Director

Hong Kong, 15 August 2019

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

Executive Directors

Mr. Yuan Feng (*Deputy Chief Executive Officer*)

Mr. Wong Yiu Kit Ernest (*Chief Financial Officer*)

Non-executive Directors

Mr. Li Jiong (*Chairman*)

Mr. Stephen Gregory McCoy

Mr. Xu Jianqiang

Independent Non-executive Directors

Mr. Wu Jianfeng

Mr. Christopher Wesley Satterfield

Ms. Hu Zhaoxia

Mr. Jin Shaoliang