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KVB Kunlun

KVB KUNLUN FINANCIAL GROUP LIMITED

昆侖國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8077)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

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

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

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

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

INTERIM RESULTS

The board (the “**Board**”) of Directors announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2013.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Note	Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Leveraged foreign exchange and other trading income	4	46,023	27,010	70,296	43,268
Cash dealing income	4	2,371	2,583	5,224	4,333
Other income	5	15,320	12,185	20,081	14,103
Total income		63,714	41,778	95,601	61,704
Fees and commission expenses		18,058	14,456	28,026	22,806
Staff costs	6	8,137	7,707	14,977	16,109
Depreciation and amortisation		658	580	1,294	1,109
Lease payments under land and buildings		1,471	1,377	3,082	2,885
Administrative and other operating expenses	7	12,139	6,936	16,545	11,569
Total expenses		40,463	31,056	63,924	54,478
Operating profit		23,251	10,722	31,677	7,226
Finance cost		(45)	(41)	(71)	(69)
Profit before tax		23,206	10,681	31,606	7,157
Income tax expense	8	(8,233)	(1,339)	(10,657)	(2,100)
Profit for the period		14,973	9,342	20,949	5,057
Other comprehensive income					
Currency translation difference		(7,741)	(2,609)	(6,263)	2,394
Other comprehensive income for the period, net of tax		(7,741)	(2,609)	(6,263)	2,394
Total comprehensive income for the period		7,232	6,733	14,686	7,451
Earnings per share for profit attributable to the equity holders of the Company for the period – Basic and diluted (HK cents per share)	10	0.90	0.59	1.26	0.33
Dividends	9	16,000	–	16,000	–

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2013

		Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	11	5,263	5,894
Intangible assets	12	296	329
Deferred tax assets		402	438
		<u>5,961</u>	<u>6,661</u>
Current assets			
Tax prepayments		–	1,742
Other assets and prepayments	13	11,896	8,662
Amounts due from fellow subsidiaries	19	93	201
Amount due from ultimate holding company	19	53	–
Derivative financial instruments	14	62,092	36,571
Balances due from agents		17,776	14,037
Cash and bank balances and client trust bank balances	15	361,541	340,132
Total current assets		<u>453,451</u>	<u>401,345</u>
Total assets		<u>459,412</u>	<u>408,006</u>
EQUITY AND LIABILITIES			
Share capital	18	100	100
Reserves		213,267	235,530
Retained earnings/(accumulated losses)		18,071	(2,878)
Total equity		<u>231,438</u>	<u>232,752</u>

		Unaudited	Audited
		30 June	31 December
		2013	2012
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Finance lease obligations		117	151
Current income tax liabilities		5,824	328
Other payables and accrued liabilities	<i>16</i>	21,231	15,247
Amounts due to fellow subsidiaries	<i>19</i>	15	698
Amounts due to ultimate holding company	<i>19</i>	–	3,683
Derivative financial instruments	<i>14</i>	22,191	7,178
Clients' balances	<i>17</i>	178,273	147,590
		<u>227,651</u>	<u>174,875</u>
Non-current liabilities			
Finance lease obligations		152	197
Deferred tax liabilities		171	182
		<u>323</u>	<u>379</u>
Total liabilities		<u>227,974</u>	<u>175,254</u>
Total equity and liabilities		<u>459,412</u>	<u>408,006</u>
Net current assets		<u>225,800</u>	<u>226,470</u>
Total assets less current liabilities		<u>231,761</u>	<u>233,131</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Unaudited					
	Share capital HK\$'000	Share Premium HK\$'000	Capital reserve (Note) HK\$'000	Currency translation reserve HK\$'000	Retained earnings HK\$'000	Total Equity HK\$'000
At 1 January 2013	100	56,991	171,892	6,647	(2,878)	232,752
Comprehensive income						
Profit for the period	-	-	-	-	20,949	20,949
Other comprehensive income for the period	-	-	-	(6,263)	-	(6,263)
Total comprehensive income at 30 June 2013	100	56,991	171,892	384	18,071	247,438
Dividends	-	(16,000)	-	-	-	(16,000)
	100	40,991	171,892	384	18,071	231,438
	Unaudited					
	Share capital HK\$'000	Share Premium HK\$'000	Capital reserve (Note) HK\$'000	Currency translation reserve HK\$'000	Retained earnings HK\$'000	Total Equity HK\$'000
At 1 January 2012	-	-	171,892	2,061	12,871	186,824
Comprehensive income						
Profit for the period	-	-	-	-	5,057	5,057
Other comprehensive income for the period	-	-	-	2,394	-	2,394
Total comprehensive income at 30 June 2012	-	-	171,892	4,455	17,928	194,275
Proceeds from shares issued	100	56,991	-	-	-	57,091
	100	56,991	171,892	4,455	17,928	251,366

Note: The balance represents the difference between the book value of the net assets of KVB Kunlun New Zealand Limited, KVB Kunlun Pty Ltd and KVB Kunlun International (HK) Limited over the par value of the shares issued by LXL Capital II Limited (“**LXL II**”), LXL Capital III Limited (“**LXL III**”) and LXL Capital IV Limited (“**LXL IV**”) in exchange for these subsidiaries under the reorganisation as described in Note 1.2.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

		Unaudited	
		Six months ended 30 June	
		2013	2012
	<i>Note</i>	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities		(25,595)	31,555
Net cash used in investing activities		(240)	(942)
Net cash (used in)/generated from financing activities		(16,059)	50,749
Net (decrease)/increase in cash and cash equivalents		(41,894)	81,362
Cash and cash equivalents at 1 January		248,650	178,052
Effect of foreign exchange rate changes, net		(6,649)	2,438
Cash and cash equivalents at 30 June	<i>15</i>	200,107	261,852

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 CORPORATE INFORMATION AND REORGANISATION

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 3bbb of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the GEM of the Stock Exchange since 3 July 2013.

The Company is an investment holding company and its subsidiaries are principally engaged in leveraged foreign exchange and other trading, cash dealing business, and other service.

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

1.2 Reorganisation

In preparing for the listing of shares of the Company on the GEM of the Stock Exchange (the "Listing"), the Company underwent the reorganisation, pursuant to which the group companies owned by the controlling shareholders were transferred to the Company. The reorganisation involved the following:

- (a) On 9 November 2010, the Company was incorporated in the Cayman Islands by Codan Trust Company (Cayman) Limited. On the same date, 100% equity interest was transferred to Mr Li Zhi Da ("Mr Li").
- (b) On 8 April 2011, LXL Capital I Limited ("LXL I") was incorporated as a wholly owned subsidiary of the Company.
- (c) On 8 April 2011, LXL II, LXL III and LXL IV were incorporated and each of them allotted and issued 100 nil-paid shares to LXL I.
- (d) On 4 May 2012, pursuant to a sale and purchase agreement:
 - (i) The entire issued share capital of the Company was transferred from Mr Li to KVB Kunlun Holdings Limited for a consideration of HK\$1.
 - (ii) The Company acquired the entire share capital of KVB Kunlun International (HK) Limited from Mr Li and the estate of Ms Tsui by crediting as fully paid at par the 100 nil-paid LXL IV shares allotted and issued to LXL I on 8 April 2011 (as mentioned in (c) above).
 - (iii) The Company acquired the entire share capital of KVB Kunlun New Zealand Limited from KVB Kunlun Holdings Limited by crediting as fully paid at par the 100 nil-paid LXL II shares allotted and issued to LXL I on 8 April 2011 (as mentioned in (c) above).
 - (iv) The Company acquired the entire share capital of KVB Kunlun Pty Limited from KVB Kunlun Holdings Limited by crediting as fully paid at par the 100 nil-paid LXL III shares allotted and issued to LXL I on 8 April 2011 (as mentioned in (c) above).

Such transfers were completed by 7 May 2012.

2 BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

For the purpose of this report, the interim financial information of the Group has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The condensed consolidated interim statements of comprehensive income, condensed consolidated interim statements of changes in equity and condensed consolidated interim cash flow statements of the Group for the years ended 31 December 2012 and six-month ended 30 June 2013 have been prepared on a consolidated basis and include the interim financial information of the companies under the common control of the Controlling Shareholders and now comprising the Group as if the current group structure had been in existence throughout the years ended 31 December 2012 and six-month ended 30 June 2013. The consolidated balance sheet of the Group as at 31 December 2012 and the condensed consolidated balance sheet of the Group as at 30 June 2013 have been prepared to present the assets and liabilities of the companies now comprising the Group as at these dates, as if the current group structure had been in existence as at these dates.

The net assets and results of the Group are consolidated using the existing book values from the controlling shareholders’ perspective.

2.2 Basis of preparation

The interim financial information for the six months ended 30 June 2013 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The interim financial information should be read in conjunction with the accountant’s report included in the prospectus for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA.

The accounting policies applied are consistent with those of the accountant’s report included in the prospectus for the year ended 31 December 2012.

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

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

3 FINANCIAL RISK MANAGEMENT

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

The interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the accountant’s report included in the prospectus for the year ended 31 December 2012.

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

3.1 Foreign currency risk

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

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2013 and 31 December 2012. Included in the tables are the assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

As at 30 June 2013 (Unaudited)

	HK\$ HK\$'000	NZD HK\$'000	AUD HK\$'000	USD HK\$'000	JPY HK\$'000	Others HK\$'000	Total HK\$'000
Assets							
Other assets	2,410	376	1,337	442	-	323	4,888
Amounts due from fellow subsidiaries	-	-	-	93	-	-	93
Amounts due from ultimate holding company	-	-	-	53	-	-	53
Derivative financial instruments	-	31,647	3,293	27,152	-	-	62,092
Balances due from agents	-	-	411	16,078	713	574	17,776
Cash and bank balances and client trust bank balances	34,632	49,211	40,094	240,999	(19,076)	15,681	361,541
Liabilities							
Finance lease obligation	-	-	269	-	-	-	269
Other payables	8,635	1,127	1,840	8,520	-	-	20,122
Amounts due to fellow subsidiaries	-	-	-	15	-	-	15
Derivative financial instruments	-	13,165	3	9,023	-	-	22,191
Clients' balances	-	17,278	11,318	149,674	3	-	178,273

As at 31 December 2012 (Audited)

	HK\$ HK\$'000	NZD HK\$'000	AUD HK\$'000	USD HK\$'000	JPY HK\$'000	Others HK\$'000	Total HK\$'000
Assets							
Other assets	2,456	77	245	13	-	305	3,096
Amounts due from fellow subsidiaries	-	-	-	201	-	-	201
Derivative financial instruments	-	8,162	2,516	25,893	-	-	36,571
Balances due from agents	-	-	1,397	12,047	-	593	14,037
Cash and bank balances and client trust bank balances	103,764	22,201	26,771	176,509	2,599	8,288	340,132
Liabilities							
Finance lease obligation	-	-	348	-	-	-	348
Other payables	6,578	1,499	988	5,639	-	31	14,735
Amounts due to ultimate holding company	-	-	-	3,683	-	-	3,683
Amounts due to fellow subsidiaries	-	-	-	698	-	-	698
Derivative financial instruments	-	3,523	16	3,639	-	-	7,178
Clients' balances	-	8,596	10,039	128,674	281	-	147,590

The following table indicates the impact on the Group's profit before taxation to movements in foreign exchange rate as at 30 June 2013 and 31 December 2012:

		Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Foreign currency risk	Movement in foreign currency		
AUD	+/-5%	+/-1,585	+/-978
JPY	+/-5%	-/+918	+/-116
NZD	+/-5%	+/-2,483	+/-841
USD	+/-1%	+/-1,176	+/-723

4 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to Group Executive Team (“GET”). 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. GET 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 trading services in Hong Kong and New Zealand;
- (b) the unleveraged cash dealing segment engages in the provision of non-leveraged foreign exchange trading services in New Zealand. Unleveraged cash dealing services were provided to corporate clients, in particular, those clients engaged in money changing business for the purpose of hedging their cash positions and meeting settlement obligations. The Group is rewarded by the spread between the price quoted to our clients and the price offered by our market makers; and
- (c) the investment sales segments engage in provision of sale and marketing functions to clients in New Zealand and Australia.

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 2013 and 2012.

The segment information provided to the management for the reportable segments for the six months ended 30 June 2013 and 2012 is as follows:

For the six months ended 30 June 2013 (Unaudited)

	New Zealand margin dealing HK\$'000	Hong Kong margin dealing HK\$'000	New Zealand cash dealing HK\$'000	New Zealand investment sales HK\$'000	Australia investment sales HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:								
Foreign exchange and other trading income earned from external customers	70,302	(6)	3,016	–	–	2,208	–	75,520
Inter-segment sales	–	13,866	–	1,689	3,084	–	(18,639)	–
Segment revenue	70,302	13,860	3,016	1,689	3,084	2,208	(18,639)	75,520
Other income	13,287	–	(2,693)	26	14	9,447	–	20,081
Total revenue and other income	<u>83,589</u>	<u>13,860</u>	<u>323</u>	<u>1,715</u>	<u>3,098</u>	<u>11,655</u>	<u>(18,639)</u>	<u>95,601</u>
Segment profit/(loss)	31,777	11,554	(1,554)	(2,479)	(2,933)	11,655		48,020
Other staff costs								(8,446)
Other unallocated administrative and operating expenses								(7,968)
Profit before tax								31,606
Income tax expense								(10,657)
Profit for the period								<u>20,949</u>
Other segment information:								
Depreciation and amortisation	46	155	28	47	293	725	–	1,294
Finance cost	<u>61</u>	<u>–</u>	<u>7</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>–</u>	<u>71</u>

For the six months ended 30 June 2012 (Unaudited)

	New Zealand margin dealing HK\$'000	Hong Kong margin dealing HK\$'000	New Zealand cash dealing HK\$'000	New Zealand investment sales HK\$'000	Australia investment sales HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:								
Foreign exchange and other trading income earned from external customers	42,947	122	5,658	–	–	(1,126)	–	47,601
Inter-segment sales	–	11,890	–	1,772	4,629	–	(18,291)	–
Segment revenue	42,947	12,012	5,658	1,772	4,629	(1,126)	(18,291)	47,601
Other income	9,469	–	125	138	227	4,144	–	14,103
Total revenue and other income	<u>52,416</u>	<u>12,012</u>	<u>5,783</u>	<u>1,910</u>	<u>4,856</u>	<u>3,018</u>	<u>(18,291)</u>	<u>61,704</u>
Segment profit/(loss)	5,431	10,634	3,059	75	(1,590)	3,018		20,627
Other staff costs								(9,093)
Other unallocated administrative and operating expenses								(4,377)
Loss before tax								7,157
Income tax expense								(2,100)
Loss for the period								<u>5,057</u>
Other segment information:								
Depreciation and amortisation	19	15	28	37	296	714	–	1,109
Finance cost	7	–	59	–	–	3	–	69

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. The result of its income from external customers in New Zealand and other is as follows:

	Unaudited Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
New Zealand	75,526	47,479
Others	(6)	122
	<u>75,520</u>	<u>47,601</u>

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

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

There are no differences from the accountant's report included in the prospectus for the year ended 31 December 2012 in the basis of segmentation or in the basis of measurement of segment profit or loss.

5 OTHER INCOME

	Unaudited Three months ended 30 June 2013 HK\$'000		Unaudited Six months ended 30 June 2013 HK\$'000	
		2012 HK\$'000		2012 HK\$'000
Provision of management services (<i>Note 19(i)</i>)	318	3,724	1,249	6,208
Fees and commission income	9,256	6,711	13,900	9,878
Interest income	288	446	576	857
Exchange gain/(losses), net	5,331	1,225	4,097	(3,118)
Others	127	79	259	278
	15,320	12,185	20,081	14,103

6 STAFF COSTS

	Unaudited Three months ended 30 June 2013 HK\$'000		Unaudited Six months ended 30 June 2013 HK\$'000	
		2012 HK\$'000		2012 HK\$'000
Staff costs:				
Salaries and allowances	7,900	7,503	14,531	15,577
Pension scheme contributions	237	204	446	532
	8,137	7,707	14,977	16,109

7 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Unaudited Three months ended 30 June 2013 HK\$'000		Unaudited Six months ended 30 June 2013 HK\$'000	
		2012 HK\$'000		2012 HK\$'000
Management fees paid to ultimate holding company (<i>Note 19(iii)</i>)	166	1,509	333	2,187
Management fees paid to fellow subsidiaries (<i>Note 19(iii)</i>)	169	76	169	82
Other office occupation expenses	412	368	801	794
Auditor's remuneration	659	338	877	654
Information services expenses	709	995	1,446	1,802
Professional and consultancy fee	6,660	966	7,748	1,493
Repair and maintenance (including system maintenance)	131	195	281	373
Marketing, advertising and promotion expenses	1,485	604	1,789	869
Travelling expenses	327	643	714	1,107
Entertainment expenses	164	310	403	545
Others	1,257	932	1,984	1,663
	12,139	6,936	16,545	11,569

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit in Hong Kong for each of the respective periods. Taxation on overseas profits has been calculated on the estimated assessable profit for the respective periods at the rates of taxation prevailing in the countries in which the Group operates. The income tax expenses of the Group are charged at a tax rate of 28% in New Zealand and 30% in Australia respectively in accordance with the local tax authorities.

	Unaudited Three months ended 30 June 2013		Unaudited Six months ended 30 June 2013	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:				
Charge for the period	8,233	1,247	10,657	1,592
Over-provision in prior year	–	–	–	177
Deferred tax:				
Credit for the period	–	92	–	331
Income tax expense	<u>8,233</u>	<u>1,339</u>	<u>10,657</u>	<u>2,100</u>

9 DIVIDENDS

On 21 May 2013 and 3 June 2013, the Company had declared special dividends of HK\$1 and HK\$0.6 per ordinary share based on the outstanding shares as of the respective dates. The total special dividends of HK\$16,000,000 were paid to the then shareholders of the Company.

10 EARNINGS PER SHARE

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

	Unaudited Three months ended 30 June 2013		Unaudited Six months ended 30 June 2013	
	2013	2012	2013	2012
Profit attributable to equity holders of the Company (HK\$'000)	14,973	9,342	20,949	5,057
Weighted average number of ordinary shares deemed to be in issue	<u>1,656,655,000</u>	<u>1,575,617,631</u>	<u>1,656,655,000</u>	<u>1,537,685,303</u>
Basic earnings per share (HK\$ cents)	<u>0.90</u>	<u>0.59</u>	<u>1.26</u>	<u>0.33</u>

The diluted earnings per share for the respective periods are the same as basic earnings per share as there are no dilutive ordinary shares. The basic and diluted earnings per share as presented on the condensed consolidated interim statement of comprehensive income have taken into account the capitalisation issue as described in Note 21.

11 PROPERTY, PLANT AND EQUIPMENT

	Unaudited 30 June 2013 HK\$'000	Unaudited 30 June 2012 HK\$'000
Opening net carrying amount	5,894	5,585
Exchange adjustments	(84)	29
Additions	689	1,628
Depreciation	(1,236)	(1,081)
	<u>5,263</u>	<u>6,161</u>
Closing net carrying amount	<u>5,263</u>	<u>6,161</u>

12 INTANGIBLE ASSETS

	Unaudited 30 June 2013 HK\$'000	Unaudited 30 June 2012 HK\$'000
Opening net carrying amount	329	117
Exchange adjustments	(5)	1
Additions	30	209
Depreciation	(58)	(28)
	<u>296</u>	<u>299</u>
Closing net carrying amount	<u>296</u>	<u>299</u>

13 OTHER ASSETS AND PREPAYMENTS

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Rental, utility and other receivables	4,767	3,052
Prepayments	7,008	5,566
Others	121	44
	<u>11,896</u>	<u>8,662</u>
Total	<u>11,896</u>	<u>8,662</u>

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Current assets		
Derivative foreign exchange contracts	62,092	36,571
Current liabilities		
Derivative foreign exchange contracts	(22,191)	(7,178)
Total	<u>39,901</u>	<u>29,393</u>

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

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 June 2013 and 31 December 2012 are HK\$1,444,015,000 and HK\$1,892,205,000 respectively.

15 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Cash and bank balances	197,218	243,493
Fixed deposits with banks	16,811	24,948
Client trust bank balances	147,512	71,691
	<u>361,541</u>	<u>340,132</u>

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

As at 30 June 2013 and 31 December 2012, certain bank balances amounting to approximately HK\$13,922,000 and HK\$19,791,000 respectively are used to secure the banking facilities granted to the Group. No overdraft facilities were utilised by the Group as at 30 June 2013 and 31 December 2012.

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

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Cash and bank balances	197,218	243,493
Fixed deposits with bank with original maturity within three months	2,889	5,157
	<u>200,107</u>	<u>248,650</u>

16 OTHER PAYABLES AND ACCRUED LIABILITIES

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Accrued rental benefit	825	1,002
Accruals	9,153	5,612
Commission payable	5,522	3,139
Employee entitlements	1,109	512
Temporary deposits from clients	–	413
Other payables	4,622	4,569
	21,231	15,247

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

17 CLIENTS' BALANCES

The balances represent margin deposits received from clients for their trading activities under normal course of business. The carrying amounts approximate to their fair values.

18 SHARE CAPITAL

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Authorised:		
4,000,000,000 (31 December 2012: 4,000,000,000) ordinary shares of HK\$0.01 each	40,000	40,000

Issued and fully paid:

10,000,000 (31 December 2012: 10,000,000) ordinary shares of HK\$0.01 each	100	100
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The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2012	1	–
Issue of shares to shareholders	9,999,999	100
As at 30 June 2012	10,000,000	100
As at 1 January 2013 and 30 June 2013	10,000,000	100

19 RELATED PARTY TRANSACTIONS

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

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

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

		Unaudited	
		Six months ended 30 June	
		2013	2012
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Transactions			
Management fee income for the provision of group management, information technology, marketing and administration support from:			
– fellow subsidiaries	(i)	1,249	6,208
Commission income shared from:	(ii)	–	34
– a fellow subsidiary			
Management fee expense for the provision of information technology support, financial system and websites maintenance services, marketing promotion, customer services and reconciliation to:			
– ultimate holding company	(iii)	333	2,187
– fellow subsidiaries		169	82
		Unaudited	Audited
		30 June 2013	31 December
		<i>HK\$'000</i>	<i>2012</i>
			<i>HK\$'000</i>
Outstanding balances			
Due from related parties:	(iv)		
– fellow subsidiaries		93	201
– ultimate holding company		53	–
Other assets and prepayments:	(v)		
– travel advances to key management		25	814
Due to related parties:	(vi)		
– fellow subsidiaries		15	698
– ultimate holding company		–	3,683

Notes:

- (i) Management fee income is determined with reference to the cost of provision of group management, information technology, marketing and administration support services plus mark up.
- (ii) Commission income is charged with reference to the profit sharing arrangement with independent third parties.
- (iii) Management fee expenses are charged for the provision of information technology support, marketing, customer services and reconciliation, financial system and web sites maintenance services with reference to the costs incurred.

- (iv) Amounts due from related parties are unsecured, non-interest bearing and repayable on demand.
- (v) Travel advances to key management are unsecured, non-interest bearing and repayable on demand.
- (vi) Amounts due to related parties are unsecured, non-interest bearing and repayable on demand.

20 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Contracted but not provided for	<u>915</u>	<u>915</u>

(b) Operating lease commitments

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

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

	Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
Within one year	14,451	15,207
One to five years	<u>14,290</u>	<u>22,208</u>
	<u>28,741</u>	<u>37,415</u>

21 SUBSEQUENT EVENTS

Pursuant to resolutions in writing passed by the shareholders of the Company on 27 June 2013, conditional upon the share premium account of the Company being credited as a result of the placing of the shares of the Company as disclosed in the prospectus of the Company dated 11 June 2013 (the “**Placing**”), the Directors were authorised to allot and issue a total of 1,646,655,000 shares credited as fully paid at par to the holders of shares whose names appear on the register of members of the Company at the close of business on 2 June 2013 in proportion to their then existing respective shareholdings by way of capitalisation of the sum of HK\$16,466,550 standing to the credit of the share premium account of the Company.

On 3 July 2013, 343,345,000 shares of HK\$0.01 each of the Company were issued at an issue price of HK\$0.452 each by way of the Placing.

All the above shares of the Company issued rank pari passu with other shares of the Company in issue in all respects.

The Company successfully listed its shares on the GEM of the Stock Exchange on 3 July 2013.

22 APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the Board on 8 August 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business review

During the period under review, the foreign exchange market was very volatile. The gold price started to drop from approximately US\$1,696/ounce in January 2013 to below US\$1,200/ounce in the middle of June 2013. The AUD/USD also retreated from 1.0500 level, to below 0.9200 and reached 0.9108 in June 2013, the lowest level since September 2012. The AUD/USD and XAU/USD are two of the most popular trading pairs; the unexpected large market volatility has boosted the profit margin of the margin leveraged foreign trading business of the Group.

During the period under review, the Group launched a marketing campaign to expand its local market share in addition to its well-developed referral client base over the past years. As a result of this campaign, the number of direct clients increased by 68.5% for the period under review compared with the six months ended 30 June 2012.

During the period under review, the Group launched two new commodities under leveraged trading, namely corn and soybean contracts for difference (CFD). This is in line with the market trend that investors invest in commodities in a way to safeguard the value of their wealth.

The net deposit of the margin leveraged trading clients of the Group has been increased 70.0% compared with the six months ended 30 June 2012. This has also enhanced the Group's leveraged margin trading profitability.

Total income

The total income of the Group increased by approximately 54.9% to approximately HK\$95.6 million for the six months ended 30 June 2013 from approximately HK\$61.7 million for the six months ended 30 June 2012.

A. *Leveraged foreign exchange and other trading income*

The leveraged foreign exchange and other trading income of the Group increased by approximately 62.5% to approximately HK\$70.3 million for the six months ended 30 June 2013 from approximately HK\$43.3 million for the six months ended 30 June 2012. This is mainly due to the higher market volatility during the six months ended 30 June 2013 as compared to that during the six months ended 30 June 2012.

B. *Cash dealing income*

The cash dealing income of the Group increased by approximately 20.6% from approximately HK\$4.3 million for the six months ended 30 June 2012 to HK\$5.2 million for the six months ended 30 June 2013. The increase was mainly attributable to the higher market volatility and higher transaction volume for market maker hedge and natural hedge in the money changing business of KVB Kunlun Holdings Limited, which is the controlling shareholder of the Company, and its subsidiaries (collectively, the “**Non-listed Group**”).

C. Other income

Other income of the Group increased by approximately 42.4% to approximately HK\$20.1 million for the six months ended 30 June 2013 from approximately HK\$14.1 million for the six months ended on 30 June 2012.

The fees and commission income of the Group increased from approximately HK\$9.9 million for the six months ended 30 June 2012 to approximately HK\$13.9 million for the six months ended 30 June 2013. The major component of fees and commission is the commission charged to the referred clients from leveraged forex and dealing counterparties based on the trading volume. The increase was mainly due to (i) the increase in the trading volume of referred clients; and (ii) the new and reclassification of the commission income from margin dealing counterparties during the period under review compared with the six months ended 30 June 2012.

During the six months ended 30 June 2013, the Group recorded an exchange gain of approximately HK\$4.1 million while there was an exchange loss of approximately HK\$3.1 million during the six months ended 30 June 2012. 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, and specifically due to the appreciation of USD and the exchange rate of NZD/USD changed from approximately 0.8222 as at 31 December 2012 to 0.7784 as at 30 June 2013.

The management fee income of the Group decreased to approximately HK\$1.2 million for the six months ended 30 June 2013 from approximately HK\$6.2 million for the six months ended 30 June 2012. This is mainly due to the Group no longer receiving management fee income from the Non-listed Group as a result of further business separation from the Non-Listed Group.

Fees and commission expenses

The fees and commission expenses of the Group increased by approximately 22.9% to approximately HK\$28.0 million for the six months ended 30 June 2013 from approximately HK\$22.8 million for the six months ended 30 June 2012. The increase was mainly due to the increase in trading volume of the clients of the Group referred by referral parties.

Staff costs

The staff cost of the Group decreased by approximately 7.0% to approximately HK\$15.0 million for the six months ended 30 June 2013 from approximately HK\$16.1 million for the six months ended 30 June 2012. The decrease was mainly due to the tightened staff cost control to further strengthen the Group's profitability.

Depreciation and amortisation

Depreciation and amortisation increased by approximately 16.7% to approximately HK\$1.3 million for the six months ended 30 June 2013 from approximately HK\$1.1 million for the six months ended 30 June 2012. The increase was mainly due to newly capitalised office equipment and leasehold improvements for the period under review.

Lease payments under land and buildings

Lease payments under land and buildings increased by approximately 6.8% to approximately HK\$3.1 million for the six months ended 30 June 2013 from approximately HK\$2.9 million for the six months ended 30 June 2012 as the lease of the Beijing office of the Group was renewed in November 2012 with an increase in rent.

Administrative and other operating expenses

The administrative and other operating expenses of the Group increased by approximately 43.0% to approximately HK\$16.5 million for the six months ended 30 June 2013 from approximately HK\$11.6 million for the six months ended 30 June 2012. This increase was primarily due to the increase in the listing expenses of approximately HK\$6.8 million during the six months ended 30 June 2013 as compared with the six months ended 30 June 2012 of approximately HK\$1.4 million.

Net profit and net profit margin

For the reasons set forth above, the Group achieved net profit of approximately HK\$20.9 million for the six months ended 30 June 2013. The net profit margin of approximately 8.2% for the six months ended 30 June 2012 increased to approximately 21.9% for the six months ended 30 June 2013. In summary, the increase in profitability of the Group was primarily contributed by:

- higher market volatility resulting in higher leverage foreign exchange trading income and other trading income;
- higher commission rebate income from referred client and dealing counter parties; and
- exchange gain of foreign currency assets due to USD appreciation as at period end of the review.

SIGNIFICANT INVESTMENTS, THEIR PERFORMANCE AND FUTURE PROSPECTS

The Group does not have any significant investments.

LIQUIDITY AND FINANCIAL RESOURCES

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

GEARING RATIO

The gearing ratio calculated on the basis of net debts (financial lease obligation and amounts due to fellow subsidiaries) over the total shareholders' fund as at 30 June 2013 was approximately 0.12% (31 December 2012: 2.0%).

FOREIGN CURRENCY EXPOSURE

During the period under review, the Group recorded an exchange gain of approximately HK\$4.1 million (2012: a loss of approximately HK\$3.1 million). This was mainly due to the month-end translation of monetary assets denominated in foreign currency into local reporting currency by the subsidiary of the Group in New Zealand. The main contributor to this result was the appreciation of USD and the exchange rate of NZD/USD changed from approximately 0.8222 as at 31 December 2012 to 0.7784 as at 30 June 2013.

The foreign currency risk is managed proactively by regular review of the currency positions in the basket of currency mix. In order to minimise the exposure of the Group to risk, the Group has hedge strategy based on prevailing market conditions and working capital requirements of sub-companies.

CAPITAL STRUCTURE

During the period under review, the capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

NEW PRODUCTS AND SERVICES

The Group did not launch any new products or services during the period under review.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2013, the Group did not have any material acquisitions and disposals.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the Group engaged a total of 59 employees (30 June 2012: a total of 63). Total staff costs including Directors' remuneration for the six months period under review amounting to approximately HK\$15.0 million (30 June 2012: HK\$16.1 million). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees.

The Group provides retirement benefits in accordance with the relevant laws and regulations in the place where the staff is employed.

The Company has adopted a share option scheme pursuant to which the Directors and employees of the Group are entitled to participate.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2013, certain bank balances of the Group amounting to approximately HK\$13.9 million were used to secure the banking facilities and the offices lease bonds.

As at 30 June 2013, the Group did not have any material contingent liabilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND THEIR EXPECTED SOURCES OF FUNDING

The future investment plans of the Group are detailed in the section headed “Business Objectives and Future Plans” in the prospectus of the Company dated 11 June 2013 (the “**Prospectus**”).

As disclosed in the Prospectus, the Company expects to:

- (i) expand operations in the worldwide overseas Chinese and Japanese communities;
- (ii) increase in the range of the financial services and products of the Group;
- (iii) further upgrade the online trading platform of the Group; and
- (iv) strategically grow through mergers and acquisitions.

The source of funding for these investment plans is from the net proceeds of the placing of the Company (as disclosed in the Prospectus) of approximately HK\$125.3 million. The Directors presently intend that the net proceeds will be applied as follow:

	Amount (HK\$)
Expansion of operations in the worldwide overseas Chinese and Japanese communities	36,000,000
Increase in the range of the financial services and products of the Group	35,000,000
Further upgrade of the online trading platform of the Group	28,000,000
Strategic growth through mergers and acquisitions	21,000,000
	<hr/>
	120,000,000
	<hr/> <hr/>

The Directors plan to use the remaining net proceeds of approximately HK\$5.3 million for general working capital purposes.

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

As confirmed by Quam Capital Limited, the compliance adviser of the Company, none of Quam Capital Limited and its directors, employees and associates is materially interested in any contract or arrangement subsisting on 3 July 2013, being the first date of trading of the shares of the Company immediately after the period under review, which is significant in relation to the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) on 19 December 2012 with written terms of reference in compliance with the requirements as set out in Rule 5.28 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lin Wenhui, Ms. Zhao Guixin and Mr. Cornelis Jacobus Keyser. Mr. Lin Wenhui is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited consolidated results of the Group for the six months ended 30 June 2013 and has provided advice and comments thereon in conjunction with the auditor of the Company.

INTERIM DIVIDEND

Save for the special dividend declared on 21 May 2013 and 3 June 2013 respectively as disclosed in note 9 to the condensed consolidated interim financial information, the Board does not recommend the payment of any dividend for the period under review (2012: Nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Pursuant to a resolution passed by the Board on 18 December 2012, the Company has adopted all the requirements of the code provisions of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules as its code provisions. As the shares of the Company were not yet listed on the GEM as at 30 June 2013, the Company is not required to disclose the details of compliance with the applicable code provisions of the Corporate Governance Code by the Group during the period in accordance with Rule 18.78(4) of the GEM Listing Rules.

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

As the shares of the Company were not yet listed on the GEM as at 30 June 2013, the Company is not required to disclose the details of purchase, sale or redemption of the shares of the Company by the Group during the period in accordance with Rule 18.78(2) of the GEM Listing Rules.

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

Hong Kong, 8 August 2013

As at the date of this announcement, the executive Directors are Mr. Liu Stefan and Mr. Ng Chee Hung Frederick; the non-executive Directors are Mr. Li Zhi Da and Mr. Stephen Gregory McCoy; and the independent non-executive Directors are Ms. Zhao Guixin, Mr. Cornelis Jacobus Keyser and Mr. Lin Wenhui.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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