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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: 6877)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

ANNUAL RESULTS

The board of directors (the “Board”) of the Company announces the audited consolidated annual results of the Group for the year ended 31 December 2018, together with comparative figures for the corresponding year of 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Leveraged foreign exchange and other trading income	3	372,940	397,025
Cash dealing income	3	3,309	1,136
Fee and commission income		56,446	108,775
Other income	4	38,416	7,996
Total income		471,111	514,932
Referral expenses and other charges		(175,772)	(299,247)
Staff costs	5	(101,669)	(56,931)
Depreciation of property, plant and equipment and amortisation of intangible assets	10 & 11	(14,681)	(12,521)
Lease payments under land and buildings		(14,228)	(13,395)
Administrative and other operating expenses	6	(84,576)	(96,404)
Total expenses		(390,926)	(478,498)

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Operating profit		80,185	36,434
Finance cost		(28,428)	(1,415)
Profit before tax		51,757	35,019
Income tax expense	7	(17,508)	(7,665)
Profit for the year		34,249	27,354
Other comprehensive (expense)/income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation difference		(15,105)	3,858
Other comprehensive (expense)/income for the year, net of tax		(15,105)	3,858
Total comprehensive income for the year		19,144	31,212
Earnings per share for profit attributable to the equity holders of the Company for the year			
– Basic (HK cents per share)	9	1.68	1.35
– Diluted (HK cents per share)	9	1.44	1.35

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	9,454	9,719
Intangible assets	<i>11</i>	43,835	34,496
Deferred tax assets	<i>17</i>	1,719	1,367
Total non-current assets		55,008	45,582
Current assets			
Other receivables, prepayments and deposits	<i>12</i>	9,692	11,824
Tax prepayment		4,625	11,211
Derivative financial instruments	<i>13</i>	67,400	139,567
Balances due from agents	<i>14</i>	21,751	88,551
Cash and bank balances and client trust bank balances	<i>15</i>	980,766	1,104,050
Total current assets		1,084,234	1,355,203
Total assets		1,139,242	1,400,785
EQUITY AND LIABILITIES			
Equity			
Share capital	<i>21</i>	20,333	20,333
Reserves		347,541	365,190
Retained earnings		203,832	161,704
Total equity		571,706	547,227

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Current liabilities			
Finance lease obligations	16	42	47
Tax payable		2,633	—
Other payables and accrued liabilities	18	31,643	53,272
Derivative financial instruments	13	5,374	30,646
Clients' balances	19	331,731	766,182
		<hr/>	<hr/>
Total current liabilities		371,423	850,147
		<hr/>	<hr/>
Non-current liabilities			
Finance lease obligations	16	146	205
Deferred tax liabilities	17	4,902	3,206
Convertible bonds	20	191,065	—
		<hr/>	<hr/>
Total non-current liabilities		196,113	3,411
		<hr/>	<hr/>
Total liabilities		567,536	853,558
		<hr/>	<hr/>
Total equity and liabilities		1,139,242	1,400,785
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 31 December 2018, 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 consolidated financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

1.2 Significant event

Pursuant to subscription 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 (the "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 (the "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 (the "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. See Note 20.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together the “Group”) have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and applicable requirements of the Hong Kong Companies Ordinance (Chapter 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 *Financial Instruments*;
- HKFRS 15 *Revenue from Contracts with Customers*;
- Classification and Measurement of Share-based Payments Transactions – Amendments to HKFRS 2;
- Annual improvements 2014-2016 cycle; and;
- Interpretation 22 Foreign Currency Transactions and Advanced Consideration.

The impact of adoption of HKFRS 9 is set out in Note 2.2 and all other standards and amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current and future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group’s assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16, 'Leases', was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. At 31 December 2018, the Group had non-cancellable operating lease commitments of HK\$37.4 million (2017: HK\$19.2 million).

The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results and it is expected that right of use asset and lease liabilities of these lease commitments will be required to be recognised in the consolidated balance sheet. The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Impact of adoption of HKFRS 9

This note explains the impact of the adoption of HKFRS 9 Financial Instruments on the Group's financial statements.

(a) Adoption of HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original HK\$'000	Difference ^{Note} HK\$'000	New HK\$'000
Current financial assets					
Other receivables and deposits	Amortised cost	Amortised cost	5,863	(40)	5,823
Derivative financial instruments	FVPL ⁽¹⁾	FVPL	139,567	–	139,567
Balance due from agents	Amortised cost	Amortised cost	88,551	(574)	87,977
Cash and bank balances and client trust bank balances	Amortised cost	Amortised cost	1,104,050	(426)	1,103,624
Current financial liabilities					
Finance lease obligations	Amortised cost	Amortised cost	47	–	47
Other payables	Amortised cost	Amortised cost	41,452	–	41,452
Derivative financial instruments	FVPL	FVPL	30,646	–	30,646
Clients' balances	Amortised cost	Amortised cost	331,731	–	331,731
Non-current financial liability					
Finance lease obligations	Amortised cost	Amortised cost	205	–	205

⁽¹⁾ FVPL – Financial assets/liabilities measured at fair value through profit or loss

^{Note} The remeasurement effects are due to the change of impairment provision by adoption of HKFRS 9.

(ii) *Impairment of financial assets*

The Group has three types of financial assets that are subject to HKFRS 9 expected credit loss assessment:

- Cash and bank balances and client trust bank balances
- Balances due from agents
- Other receivables and deposits

The Group was required to revise its impairment model under HKFRS 9 for each of these classes of assets. HKFRS 9 replaces the incurred loss model in HKAS 39 with the expected credit loss (“ECL”) model. A 12-month expected credit loss allowance of HK\$1,040,000 was made on 1 January 2018. There was no material change in the amount of expected credit loss allowance for the year ended 31 December 2018.

(iii) *Impact on the consolidated financial statements.*

In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. The adjustments were recognised in the opening consolidated balance sheet on 1 January 2018. The following table shows the adjustments recognised for each individual line items. Line items that were not affected by the changes have not been included, and therefore the line items disclosed do not add up to the sub-totals and total below.

	31 December 2017	Impact of adoption of	1 January 2018
Consolidated balance sheet (extract)	As originally presented	HKFRS 9	Restated
	<i>HK\$'000</i>	<i>(Note 2.2(a)(i)) HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Current assets			
Other receivables, prepayment and deposits	11,824	(40)	11,784
Balances due from agents	88,551	(574)	87,977
Cash and bank balances and client trust bank balances	1,104,050	(426)	1,103,624
Total assets	<u>1,400,785</u>	<u>(1,040)</u>	<u>1,399,745</u>
EQUITY AND LIABILITIES			
Equity			
Retained earnings	161,704	(1,040)	160,664
Total equity	<u>547,227</u>	<u>(1,040)</u>	<u>546,187</u>

3 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the executive directors and senior management of the Group. The Group's operating businesses are structured and managed separately according to the natures 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 People's Republic of China ("PRC") business segment engages in provision of trading and settlement of precious metals in PRC.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the years ended 31 December 2018 and 2017.

The segment information provided to the management for the reportable segments for the years ended 31 December 2018 and 2017 is as follows:

For the year ended 31 December 2018

	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	365,363	4	7,573	3,309	-	-	-	376,249
Inter-segment sales	-	119,973	10,484	-	-	-	(130,457)	-
Segment revenue	365,363	119,977	18,057	3,309	-	-	(130,457)	376,249
Fee and commission income	54,067	-	78	-	-	2,301	-	56,446
Other income	1,587	-	17	37	1,657	35,118	-	38,416
Total revenue and other income	<u>421,017</u>	<u>119,977</u>	<u>18,152</u>	<u>3,346</u>	<u>1,657</u>	<u>37,419</u>	<u>(130,457)</u>	<u>471,111</u>
Segment profit/(loss)	63,160	106,070	13,034	2,962	(6,062)	37,419		216,583
Other unallocated staff costs								(35,403)
Other unallocated administrative and operating expenses								(129,423)
Profit before tax								51,757
Income tax expense								(17,508)
Profit for the year								<u>34,249</u>
Other segment information:								
Depreciation of property, plant and equipment and amortisation of intangible assets	-	110	26	-	1,815	12,730		14,681
Lease payments	-	1,492	-	-	1,816	10,920		14,228
Finance cost	-	-	-	-	-	28,428		28,428

For the year ended 31 December 2017

	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	364,042	142	4,472	1,136	28,369	-	-	398,161
Inter-segment sales	-	74,673	9,945	-	-	-	(84,618)	-
Segment revenue	364,042	74,815	14,417	1,136	28,369	-	(84,618)	398,161
Fee and commission income	101,444	-	13	-	-	7,318	-	108,775
Other income/(losses)	309	-	18	25	(2,056)	9,700	-	7,996
Total revenue and other income	<u>465,795</u>	<u>74,815</u>	<u>14,448</u>	<u>1,161</u>	<u>26,313</u>	<u>17,018</u>	<u>(84,618)</u>	<u>514,932</u>
Segment profit/(loss)	50,535	64,064	10,036	(79)	(26)	17,018		141,548
Other unallocated staff costs								(31,579)
Other unallocated administrative and operating expenses								(74,950)
Profit before tax								35,019
Income tax expense								(7,665)
Profit for the year								<u>27,354</u>
Other segment information:								
Depreciation of property, plant and equipment and amortisation of intangible assets	-	66	26	-	1,890	10,539		12,521
Lease payments	-	762	-	-	2,428	10,205		13,395
Finance cost	35	-	-	-	1,217	163		1,415

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

	2018 HK\$'000	2017 HK\$'000
New Zealand	368,672	365,178
Others	<u>7,577</u>	<u>32,983</u>
	<u>376,249</u>	<u>398,161</u>

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

	2018 HK\$'000	2017 <i>HK\$'000</i>
Hong Kong	19,446	13,831
New Zealand	29,794	23,761
Australia	3,240	958
PRC	809	5,665
	53,289	44,215

None of the external customers contributes more than major of the Group's trading income individually in the respective years.

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.

4 OTHER INCOME

	2018 HK\$'000	2017 <i>HK\$'000</i>
Interest income	4,945	2,661
Exchange gains, net	9,410	5,384
Loss on disposal of fixed assets	–	(438)
Fair value gain on the embedded derivative portion of the convertible bonds (<i>Note 20</i>)	26,042	–
Amortisation of deferred losses on conversion component of the convertible bonds (<i>Note 20</i>)	(1,982)	–
Others	1	389
	38,416	7,996

5 STAFF COSTS

	2018 HK\$'000	2017 <i>HK\$'000</i>
Staff costs (including directors' remuneration):		
Salaries, bonus and allowances	94,143	54,144
Pension scheme contributions	1,151	1,319
Staff option expenses (<i>Note 23</i>)	6,375	1,468
	101,669	56,931

6 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2018 HK\$'000	2017 HK\$'000
Management fees paid to the then immediate holding company	696	664
Other office occupation expenses	3,193	4,004
Auditor's remuneration		
– Audit services	3,223	2,966
– Non-audit services	302	679
Information services expenses	4,136	6,417
Professional and consultancy fee	5,558	6,798
Repair and maintenance (including system maintenance)	17,250	13,708
Marketing, advertising and promotion expenses	27,166	22,864
Handling fee expenses	8,349	22,126
Travelling expenses	4,255	3,966
Entertainment expenses	1,055	970
Insurance	768	845
Bank charges	510	975
Staff training	425	388
Client's debit balances written off	347	1,091
Impairment of intangible asset (<i>Note 11</i>)	2,937	1,730
Donations	2,364	1,313
Others	2,042	4,900
	84,576	96,404

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit during the years. Taxation on overseas profits has been calculated on the estimated assessable profit during the years 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% (2017: 28%) in New Zealand, 30% (2017: 30%) in Australia and 25% (2017: 25%) in PRC in accordance with the local tax authorities.

	2018 HK\$'000	2017 HK\$'000
Current tax:		
Charge for the year	16,064	4,992
Over-provision in prior year	(402)	(680)
Others	486	444
Deferred tax:		
Charge for the year (<i>Note 17</i>)	1,360	2,909
Income tax expense	17,508	7,665

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before income tax	<u>51,757</u>	<u>35,019</u>
Tax at the Hong Kong statutory tax rate	8,540	5,778
Effect of different taxation rates in other countries	4,319	1,031
Income not subject to tax	(4,780)	(1,156)
Expenses not deductible for tax	8,116	1,814
Temporary differences not recognised	1,229	434
Over-provision in prior year	(402)	(680)
Others	<u>486</u>	<u>444</u>
Income tax expense	<u><u>17,508</u></u>	<u><u>7,665</u></u>

8 DIVIDENDS

The Board does not declare the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

9 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<u><u>34,249</u></u>	<u><u>27,354</u></u>
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	<u><u>2,033,290,000</u></u>	<u>2,033,241,644</u>
Basic earnings per share (HK cents)	<u><u>1.68</u></u>	<u><u>1.35</u></u>

(b) Diluted earnings per share

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

	2018 HK\$'000	2017 HK\$'000
Profit attributable to equity holders of the Company	34,249	27,354
Finance cost on convertible bonds, net of tax (<i>Note 20</i>)	23,713	–
Fair value gain on the embedded derivative portion of the convertible bonds (<i>Note 4</i>)	1,982	–
Amortisation of deferred losses on conversion component of the convertible bonds (<i>Note 4</i>)	(26,042)	–
Adjusted profit attributable to equity holders of the Company	33,902	27,354
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	2,033,290,000	2,033,241,644
Adjustments for convertible bonds (<i>Note 20</i>)	326,264,273	–
Weighted average number of shares for the purpose for calculating diluted earnings per share	2,359,554,273	2,033,241,644
Diluted earnings per share (HK cents)	1.44	1.35

Note:

Share options are not included in the computation of diluted earnings per share for the years ended 31 December 2018 and 2017 as those were anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2017					
Cost	9,368	16,636	11,693	1,927	39,624
Accumulated depreciation	(7,686)	(10,656)	(9,208)	(1,674)	(29,224)
Net carrying amount	<u>1,682</u>	<u>5,980</u>	<u>2,485</u>	<u>253</u>	<u>10,400</u>
For the year ended 31 December 2017					
Opening net carrying amount	1,682	5,980	2,485	253	10,400
Exchange adjustments	68	125	102	7	302
Additions	54	1,968	–	2,250	4,272
Disposals	–	(4)	(460)	–	(464)
Depreciation	(605)	(2,395)	(1,339)	(452)	(4,791)
Closing net carrying amount	<u>1,199</u>	<u>5,674</u>	<u>788</u>	<u>2,058</u>	<u>9,719</u>
As at 31 December 2017					
Cost	8,602	17,191	11,305	4,067	41,165
Accumulated depreciation	(7,403)	(11,517)	(10,517)	(2,009)	(31,446)
Net carrying amount	<u>1,199</u>	<u>5,674</u>	<u>788</u>	<u>2,058</u>	<u>9,719</u>
For the year ended 31 December 2018					
Opening net carrying amount	1,199	5,674	788	2,058	9,719
Exchange adjustments	(42)	(85)	7	(21)	(141)
Additions	220	1,366	2,828	–	4,414
Depreciation	(549)	(2,404)	(1,043)	(542)	(4,538)
Closing net carrying amount	<u>828</u>	<u>4,551</u>	<u>2,580</u>	<u>1,495</u>	<u>9,454</u>
As at 31 December 2018					
Cost	8,348	17,881	13,637	3,934	43,800
Accumulated depreciation	(7,520)	(13,330)	(11,057)	(2,439)	(34,346)
Net carrying amount	<u>828</u>	<u>4,551</u>	<u>2,580</u>	<u>1,495</u>	<u>9,454</u>

11 INTANGIBLE ASSETS

	Computer software <i>HK\$'000</i>	Trading right (<i>Note</i>) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2017			
Cost	37,274	1,675	38,949
Accumulated amortisation	(11,502)	–	(11,502)
Net carrying amount	<u>25,772</u>	<u>1,675</u>	<u>27,447</u>
For the year ended 31 December 2017			
Opening net carrying amount	25,772	1,675	27,447
Exchange adjustments	778	55	833
Additions	15,676	–	15,676
Amortisation	(7,730)	–	(7,730)
Impairment (<i>Note 6</i>)	–	(1,730)	(1,730)
Closing net carrying amount	<u>34,496</u>	<u>–</u>	<u>34,496</u>
As at 31 December 2017			
Cost	52,702	1,802	54,504
Accumulated amortisation and impairment	(18,206)	(1,802)	(20,008)
Net carrying amount	<u>34,496</u>	<u>–</u>	<u>34,496</u>
For the year ended 31 December 2018			
Opening net carrying amount	34,496	–	34,496
Exchange adjustments	(1,055)	–	(1,055)
Additions	23,474	–	23,474
Amortisation	(10,143)	–	(10,143)
Impairment (<i>Note 6</i>)	(2,937)	–	(2,937)
Closing net carrying amount	<u>43,835</u>	<u>–</u>	<u>43,835</u>
As at 31 December 2018			
Cost	73,797	1,708	75,505
Accumulated amortisation and impairment	(29,962)	(1,708)	(31,670)
Net carrying amount	<u>43,835</u>	<u>–</u>	<u>43,835</u>

Note: The balance represents the fee paid pursuant to the membership agreement with TPME, which is not subject to amortisation and is assessed for impairment annually. On 2 June 2017, the Group received a notice from TPME that it will adjust its precious metals spot trading business with a view to reduce the trading risks, and it will suspend the opening of new trading positions for all spot commodities traded on the exchange with effect from 12 June 2017 (the “Suspension”), as a result, the balance was fully impaired as at 31 December 2017.

12 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2018 HK\$'000	2017 HK\$'000
Rental and utility deposits	4,569	3,954
Prepayments	2,831	5,961
Other receivables	2,332	1,909
Provision for expected credit loss	(40)	—
	<u> </u>	<u> </u>
Total	<u>9,692</u>	<u>11,824</u>

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

13 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK\$'000	2017 HK\$'000
Current assets		
Derivative contracts	67,400	139,567
Current liabilities		
Derivative contracts	(5,374)	(30,646)
	<u> </u>	<u> </u>
Total	<u>62,026</u>	<u>108,921</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 31 December 2018 and 2017 are HK\$9,875,738,000 and HK\$14,292,459,000 respectively.

14 BALANCES DUE FROM AGENTS

	2018 HK\$'000	2017 HK\$'000
Balances due from:		
– agents	21,756	83,969
– TPME	569	4,582
Provision for expected credit loss	(574)	—
	<u> </u>	<u> </u>
Total	<u>21,751</u>	<u>88,551</u>

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

15 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	2018 HK\$'000	2017 HK\$'000
Cash and bank balances	550,591	430,198
Fixed deposits with banks	174,816	87,553
Client trust bank balances	255,785	586,299
Provision for expected credit loss	(426)	—
	<u>980,766</u>	<u>1,104,050</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 statement of cash flows.

As at 31 December 2018 and 2017, fixed deposits of HK\$90,359,000 and HK\$86,015,000 respectively are pledged to banks for banking facilities and office lease bonds. No overdraft facility was utilised by the Group as at 31 December 2018 and 2017. None of the bank deposits are placed with market makers as collateral as at 31 December 2018 and 2017.

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

	2018 HK\$'000	2017 HK\$'000
Cash and bank balances	550,591	430,198
Fixed deposits with bank with original maturity within three months	<u>84,457</u>	<u>1,538</u>
	<u>635,048</u>	<u>431,736</u>

16 FINANCE LEASE OBLIGATIONS

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gross finance lease liabilities – minimum lease payments		
Not later than 1 year	51	56
Later than 1 year and no later than 5 years	<u>155</u>	<u>228</u>
	206	284
Future finance charges on finance leases	<u>(18)</u>	<u>(32)</u>
Present value of finance lease liabilities	<u><u>188</u></u>	<u><u>252</u></u>

The present value of finance lease liabilities is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Not later than 1 year	42	47
Later than 1 year and no later than five years	<u>146</u>	<u>205</u>
	<u><u>188</u></u>	<u><u>252</u></u>

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

17 DEFERRED TAXATION

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Deferred tax assets to be recovered after more than twelve months	1,719	1,367
Deferred tax liabilities to be settled after more than twelve months	<u>(4,902)</u>	<u>(3,206)</u>
	<u><u>(3,183)</u></u>	<u><u>(1,839)</u></u>

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

	Employee benefits <i>HK\$'000</i>	Depreciation <i>HK\$'000</i>	Other temporary differences <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017	1,151	(835)	709	1,025
Exchange adjustments	37	(3)	11	45
Charge for the year	<u>(45)</u>	<u>(1,612)</u>	<u>(1,252)</u>	<u>(2,909)</u>
At 31 December 2017	<u>1,143</u>	<u>(2,450)</u>	<u>(532)</u>	<u>(1,839)</u>
At 1 January 2018	1,143	(2,450)	(532)	(1,839)
Exchange adjustments	(55)	39	32	16
(Charge)/credit for the year	<u>(339)</u>	<u>(1,456)</u>	<u>435</u>	<u>(1,360)</u>
At 31 December 2018	<u>749</u>	<u>(3,867)</u>	<u>(65)</u>	<u>(3,183)</u>

18 OTHER PAYABLES AND ACCRUED LIABILITIES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Accrued rental benefit	171	231
Accrued audit fees	2,255	2,781
Other accruals	3,047	5,257
Commission payable	6,020	27,825
Employee entitlements	11,458	11,820
Other payables	2,857	5,358
Interest payable	<u>5,835</u>	<u>—</u>
	<u>31,643</u>	<u>53,272</u>

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

19 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.

20 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 (the “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 (the “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 (the “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 the 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 the 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 bonds are measured at fair value, where changes in fair value recognised in profit or loss.

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

	Financial liabilities at amortised cost – debt portion HK\$'000	Financial liabilities at fair value through profit or loss – derivative portion HK\$'000	Total HK\$'000
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 (<i>Note 4</i>)	–	(26,042)	(26,042)
Interest expense	28,399	–	28,399
Interest payment	(13,274)	–	(13,274)
Amortisation of deferred losses on conversion component (<i>Note 4</i>)	–	1,982	1,982
At 31 December 2018	177,565	13,500	191,065

21 SHARE CAPITAL

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2017	2,033,240,000	20,332
Issuance of new ordinary shares upon exercise of share options	50,000	1
As at 31 December 2017	2,033,290,000	20,333
As at 1 January 2018 and 31 December 2018	2,033,290,000	20,333

22 CAPITAL RESERVE

The balance represents the difference between the book value of the net assets of KVB Kunlun New Zealand Limited, KVB Kunlun Pty Limited and KVB Kunlun International (HK) Limited over the par value of the shares issued by LXL Capital II Limited, LXL Capital III Limited and LXL Capital IV Limited in exchange for these subsidiaries as part of the reorganisation completed in 2012.

23 SHARE OPTION SCHEME

On 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 2017	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding as at 31 December 2018	Exercise price HK\$	Exercise period
Liu Stefan	19 August 2015	8,300,000	–	(8,300,000)	–	–	0.95	19 August 2015 to 18 August 2018
Huang Songyuan	19 August 2015	3,500,000	–	(3,500,000)	–	–	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	1,000,000	–	(1,000,000)	–	–	0.95	19 August 2015 to 18 August 2018
Zhao Guixin	19 August 2015	300,000	–	(300,000)	–	–	0.95	19 August 2015 to 18 August 2018
Corenlis Jacobus Keyser	19 August 2015	300,000	–	(300,000)	–	–	0.95	19 August 2015 to 18 August 2018
Lin Wenhui	19 August 2015	300,000	–	(300,000)	–	–	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	14,050,000	–	(14,050,000)	–	–	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	3,750,000	–	(300,000)	–	3,450,000	0.95	19 August 2017 to 18 August 2019
Consultants	19 August 2015	400,000	–	(50,000)	–	350,000	0.95	19 August 2016 to 18 August 2019
Consultants	19 August 2015	500,000	–	(100,000)	–	400,000	0.95	19 August 2017 to 18 August 2019
		<u>33,650,000</u>	<u>–</u>	<u>(28,200,000)</u>	<u>–</u>	<u>5,450,000</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 were 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 (2017: HK\$381,000) 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 2017	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding as at 31 December 2018	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 2020
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	16,450,000	–	(1,250,000)	–	15,200,000	0.592	29 December 2016 to 28 December 2019
Employees of group companies	29 December 2016	900,000	–	–	–	900,000	0.592	29 December 2017 to 28 December 2020
Employees of group companies	29 December 2016	6,700,000	–	(1,550,000)	–	5,150,000	0.592	29 December 2018 to 28 December 2020
Consultants	29 December 2016	450,000	–	(50,000)	–	400,000	0.592	29 December 2017 to 28 December 2020
Consultants	29 December 2016	200,000	–	(100,000)	–	100,000	0.592	29 December 2018 to 28 December 2020
		<u>37,900,000</u>	<u>–</u>	<u>(2,950,000)</u>	<u>–</u>	<u>34,950,000</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 were as follows:

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

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

A total of HK\$424,000 (2017: HK\$1,087,000) share option expenses were recognised in the consolidated statement of comprehensive income during the current year.

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 then 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 2017	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding as at 31 December 2018	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	–	13,600,000	(800,000)	–	12,800,000	0.495	22 March 2018 to 21 March 2021
Employees of group companies	22 March 2018	–	1,900,000	–	–	1,900,000	0.495	22 March 2019 to 21 March 2022
Employees of group companies	22 March 2018	–	6,150,000	(1,250,000)	–	4,900,000	0.495	22 March 2020 to 21 March 2022
Consultants	22 March 2018	–	800,000	(250,000)	–	550,000	0.495	22 March 2019 to 21 March 2022
		<u>–</u>	<u>40,000,000</u>	<u>(2,300,000)</u>	<u>–</u>	<u>37,700,000</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 were 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\$5,951,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business review

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2018, together with the audited comparative figures for the corresponding year in 2017.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business review

During the year under review, we have experienced a market condition with increased overall market volatility and many swings, driven by changing global economic conditions and unexpected geopolitics events. Significant swings in market volatility can result in increased customer trading losses and higher turnover; therefore, it is difficult to predict volatility and its effects on the financial markets. Overall, the revenue had decreased compared with 2017 figures.

The year started with positive economic outlook for US and other major countries, which had driven global asset values to new highs in early February. The turning point was Trump administration's decision to renegotiate trade terms between US and other major economic bodies (Canada, EU and China, etc.), which led to fear of increased tariffs. As trade-conflicts built up, and Federal Open Market Committee continued to adjust cash rate up to the "neutral level" in response to a fast recovering US economy, the global investors moved quickly towards US assets, which led to depreciation of many major currencies, commodities and indexes against USD. Geopolitics events, such as US sanction on Iran, US-Turkey diplomatic conflict, Saudi Arabic journalist assassination, and Brexit deal negotiation had also imposed unexpected swings on the market.

The top three most traded FX pairs in the year under review were USD/JPY, EUR/USD and GBP/USD. For contracts for difference ("CFD") and commodity products, gold was the most popular product traded by our customers, followed by the crude oil.

In the currency market, the price movement of USD/JPY in 2018 was in a slightly narrower range compared with that of 2017. The highest and the lowest price levels of USD/JPY were observed to be 114.55 and 104.56 respectively, a nearly 999-pips trading range during 2018; this is compared with a price movement of 1,128-pips in 2017, with highest level as 118.6 and the lowest as 107.32.

EUR/USD was mainly traded within in a price range of 1,339-pips, which was slightly narrower than that of 2017. The highest level of EUR/USD was traded at 1.2555, while the lowest level was seen at 1.1216. The price range of EUR/USD in 2017 was 1,751-pips, with highest price at 1.2092 and lowest price at 1.0341.

The GBP/USD price moved in a wider range in 2018 than that in 2017. The highest and lowest prices were observed to be 1.4377 and 1.2478 respectively, a nearly 1,899-pips range. This can be compared with the 1,671-pips range observed in 2017, between highest level of 1.3657 and lowest level of 1.1986.

For CFD and commodities, the gold mainly traded within a price range of \$205.76 USD/ounce. The highest price of gold was traded at \$1,366.15 USD/ounce and the lowest at \$1,160.39 USD/ounce under the period of review. The 2017 price range, in comparison, was \$211.44 USD/ounce; with highest price at \$1,357.61 USD/ounce, and lowest at \$1,146.17 USD/ounce.

The crude oil price range had become much wider in 2018, compared with that of 2017. In 2017, the crude oil was traded in a range of \$18.46 USD/barrel, with highest price at \$60.51 USD/barrel and lowest at \$42.05 USD/barrel. The price movement of crude oil in 2018, however, was almost doubled to \$34.54 USD/barrel, with highest price traded at \$76.9 USD/barrel and lowest traded at \$42.36 USD/barrel.

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

Total income

The total income of the Group decreased by approximately 8.5% to approximately HK\$471.1 million for the year ended 31 December 2018 from approximately HK\$514.9 million for the year ended 31 December 2017.

A. Leveraged foreign exchange and other trading income

The leveraged foreign exchange and other trading income of the Group decreased by approximately 6.1% to approximately HK\$372.9 million for the year ended 31 December 2018 from approximately HK\$397.0 million for the year ended 31 December 2017. This was mainly due to the decreased trading volume during the year ended 31 December 2018 as compared to the year ended 31 December 2017.

B. Cash dealing income

The cash dealing income of the Group increased from approximately HK\$1.1 million for the year ended 31 December 2017 to approximately HK\$3.3 million for the year ended 31 December 2018. The increase was mainly attributable to higher market volatility and successful dealing strategy.

C. *Fee and commission income*

The fees and commission income of the Group decreased from approximately HK\$108.8 million for the year ended 31 December 2017 to approximately HK\$56.4 million for the year ended 31 December 2018. The decrease was mainly due to the decrease in commission earning as a result of lower trading volume.

D. *Other income*

The Group recorded other income of approximately HK\$38.4 million for the year ended 31 December 2018 as compared to other income of approximately HK\$8.0 million for the year ended 31 December 2017.

As at 31 December 2018, there was a fair value gain of approximately HK\$26.0 million on the embedded derivative portion of convertible bonds issued on 12 February 2018.

During the year ended 31 December 2018, the Group recorded an exchange gain of approximately HK\$9.4 million, the recorded exchange gain for year ended 31 December 2017 was approximately HK\$5.4 million. This was mainly due to the year-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB Kunlun New Zealand Limited, a wholly-owned subsidiary of the Company.

Referral expenses and other charges

The referral expenses and other charges of the Group decreased by approximately 41.3% to approximately HK\$175.8 million for the year ended 31 December 2018 from approximately HK\$299.2 million for the year ended 31 December 2017. The decrease was mainly due to the decrease in the trading volume of the clients referred by services providers.

Staff costs

The staff costs of the Group increased by approximately 78.6% to approximately HK\$101.7 million for the year ended 31 December 2018 from approximately HK\$56.9 million for the year ended 31 December 2017. The increase was mainly due to special bonus paid and share options granted during the year.

Depreciation and amortisation

Depreciation and amortisation increased by approximately 17.3% to approximately HK\$14.7 million for the year ended 31 December 2018 from approximately HK\$12.5 million for the year ended 31 December 2017. The increase was mainly due to the upgrade of computer software for the year.

Lease payments under land and buildings

Lease payments under land and buildings increased by approximately 6.2% to approximately HK\$14.2 million for the year ended 31 December 2018 from approximately HK\$13.4 million for the year ended 31 December 2017. The increase was mainly due to the increased rental expenses of lease review in some offices.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased to approximately HK\$84.6 million for the year ended 31 December 2018 from approximately HK\$96.4 million for the year ended 31 December 2017. The decrease was mainly due to the significant decrease in handling fee expenses which are partially offset by the increase in marketing expenses and repair and maintenance expenses compared with 2017.

Net profit and net profit margin

For the reasons set forth above, the Group achieved a net profit of approximately HK\$34.2 million for the year ended 31 December 2018 compared with the net profit of approximately HK\$27.4 million for the year ended 31 December 2017. The net profit margin for the year ended 31 December 2018 was approximately 7.3% (2017: 5.3%).

Excluding the fair value gain of approximately HK\$26.0 million on the embedded derivative portion of convertible bonds, in summary, the decrease in profitability of the Group was primarily contributed by:

- decrease in transaction volume resulting in decreased trading revenue, and
- increased expenses in a few main items due as disclosed above.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2018, cash and bank balances held by the Group amounted to HK\$725.4 million (2017: HK\$517.8 million). There were no bank borrowings of the Group (2017: nil) and the carrying amount of convertible bonds of the Company amounted to HK\$191.1 million as at 31 December 2018 (2017: nil).

GEARING RATIO

The gearing ratio calculated on the basis of net debts (finance lease obligations and convertible bonds) over the total shareholders' equity as at 31 December 2018 was approximately 33.5% (2017: 0.05%).

FOREIGN CURRENCY EXPOSURE

During the year under review, the Group recorded an exchange gain of approximately HK\$9.4 million (2017: HK\$5.4 million). This was mainly due to the year-end translation of monetary assets denominated in foreign currency into local reporting currency by a 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 year under review, the capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and 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 Shares”) at the initial conversion price of HK\$0.613 per share (subject to adjustment). The closing price of the Ordinary Shares was HK\$0.500 on the Issue Date. Based on the assumption 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. As at 31 December 2018, no Bonds were converted into any Ordinary Shares by the Bondholders, and the aggregate principal amount of the Bonds remained as HK\$200 million.

The Directors consider that the issue of the Bonds would provide strong capital support for the development of the Group’s business and strengthen the Group’s capital base effectively after full conversion of the Bonds.

The net proceeds from the issue of the Bonds is approximately HK\$199.28 million. The Company intended to use the net proceeds for investment in financial assets and working capital purposes. The net proceeds from the issue of the Bonds have been utilized for trades with clients in foreign currencies, commodities and other products through the margin trading business as at the date of this announcement.

Details of the issue of the Bonds were set out in the announcements of the Company dated 25 January 2018 and dated 12 February 2018 respectively.

NEW PRODUCTS AND SERVICES

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

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

During the year ended 31 December 2018, the Group did not have any material acquisitions and disposals.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group engaged a total of 53 employees (2017: a total of 76). Total staff costs including Directors' remuneration for the period under review amounting to approximately HK\$101.7 million (2017: HK\$56.9 million). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees. The Group provides retirement benefits in accordance with the relevant laws and regulations in the place where the staff is employed. The Company has adopted a share option scheme pursuant to which the Directors and employees of the Group are entitled to participate.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2018, certain bank balances of the Group amounting to approximately HK\$90.4 million (2017: HK\$86.0 million) were used to secure the banking facilities and office lease bonds. As at 31 December 2018, the Group did not have any material contingent liabilities.

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.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S COMPETING INTERESTS

As at 31 December 2018, none of the Directors, the controlling Shareholders and their respective close associates (as defined under the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") had any business or interest in a business which competes or may compete with the business of the Group.

REVIEW OF FINANCIAL STATEMENTS

The Company established an audit committee (the “Audit Committee”) on 18 December 2012 with written terms of reference in compliance with the requirements as set out in Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lin Wenhui, Ms. Zhao Guixin and Mr. Cornelis Jacobus Keyser. Mr. Lin Wenhui is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and risk management and internal control systems of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

The Audit Committee has met the external auditors of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control systems and financial reporting matters including the review of this announcement and financial statements of the Group for the year ended 31 December 2018.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, except for the following deviations:

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive Directors without the present of other directors. The then Chairman did not hold any meeting with non-executive Directors (including independent non-executive Directors) without the executive Directors present in 2018 due to his tight schedule.

Pursuant to the code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Li Zhi Da, the then Chairman and a non-executive Director, was unable to attend the 2018 Annual General Meeting due to other commitment.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) during the year ended 31 December 2018 as the code of conduct regarding securities transactions in securities of the Company by the Directors.

Having made specific enquiry with the Directors, all the Directors confirmed that they had complied with the Model Code during the year ended 31 December 2018.

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this Announcement.

ANNUAL GENERAL MEETING

The Annual General Meeting (the "2019 AGM") will be held on Tuesday, 21 May 2019 at 10:30 a.m. at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The Notice of the 2019 AGM will be published on the websites of the Company and the HKExnews and despatched to Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 16 May 2019 to Tuesday, 21 May 2019, both days inclusive, during the period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the 2019 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration by no later than 4:00 p.m. (Hong Kong time) on Wednesday, 15 May 2019.

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

Hong Kong, 18 March 2019

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

Executive Directors

Mr. Liu Stefan
Mr. Huang Songyuan
Mr. Wong Yiu Kit, Ernest

Non-executive Directors

Mr. Stephen Gregory McCoy
Mr. Li Jiong
Mr. Xu Jianqiang

Independent Non-executive Directors

Ms. Zhao Guixin
Mr. Cornelis Jacobus Keyser
Mr. Lin Wenhui