



KOALA Financial Group Limited
樹熊金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

Third Quarterly Report 2019



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

The board of directors (the “**Board**”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the nine months ended 30 September 2019, together with the comparative figures as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the nine months ended 30 September 2019

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	3	11,350	14,460	28,239	36,944
Cost of sales and services		(582)	(777)	(1,890)	(2,156)
Gross profit		10,768	13,683	26,349	34,788
Other income and gains		1,093	1,789	2,734	7,326
Selling and distribution expenses		(5)	(14)	(53)	(49)
Administrative expenses		(4,970)	(5,859)	(18,143)	(17,050)
Other operating expenses		(5,333)	(2,134)	(6,215)	(2,134)
Finance costs		(263)	(237)	(799)	(3,100)
Profit before tax		1,290	7,228	3,873	19,781
Taxation charge	4	(47)	(1,164)	(474)	(3,234)
Profit for the period		1,243	6,064	3,399	16,547
Other comprehensive income item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		-	485	-	504
Other comprehensive income for the period		-	485	-	504
Total comprehensive income for the period		1,243	6,549	3,399	17,051

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Profit for the period attributable to:					
Owners of the Company		385	4,981	2,777	14,428
Non-controlling interests		858	1,083	622	2,119
		1,243	6,064	3,399	16,547
Total comprehensive income for the period attributable to:					
Owners of the Company		385	5,263	2,777	14,720
Non-controlling interests		858	1,286	622	2,331
		1,243	6,549	3,399	17,051
Earnings per share	5				
- Basic and diluted (in cents)		0.01	0.18	0.10	0.55

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the nine months ended 30 September 2019

	Attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium account	Convertible bonds reserve	Share option reserve	Exchange fluctuation reserve	Accumulated losses			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2018	24,570	551,182	74,286	7,410	(292)	(449,728)	207,428	(6,238)	201,190
Total comprehensive income for the period	-	-	-	-	292	14,428	14,720	2,331	17,051
Issue of shares upon conversion of convertible bonds	3,263	102,217	(74,286)	-	-	-	31,194	-	31,194
Disposal of subsidiaries	-	-	-	-	-	-	-	11,385	11,385
At 30 September 2018	27,833	653,399	-	7,410	-	(435,300)	253,342	7,478	260,820
At 1 January 2019	27,833	653,399	-	7,410	-	(438,103)	250,539	7,026	257,565
Total comprehensive income for the period	-	-	-	-	-	2,777	2,777	622	3,399
At 30 September 2019	27,833	653,399	-	7,410	-	(435,326)	253,316	7,648	260,964

Notes to Condensed Consolidated Financial Statements

For the nine months ended 30 September 2019

1. GENERAL

The Company is a limited liability company incorporated in the Cayman Islands, and the issued shares of which are listed on GEM of the Stock Exchange.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in the exchange for goods and services.

The accounting policies and method of computation used in preparing the financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2018.

The Group has adopted certain new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the “HKFRSs”) that are effective for the current accounting period. The adoption of the new/revised HKFRSs has no material impact on the Group’s financial statements.

The Group has not early adopted the new/revised HKFRSs, that have been issued but are yet effective, and are potentially relevant to the Group’s financial statements.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. REVENUE

Revenue, which is also the Group's turnover recognised for the period, represents the aggregate of the income from provision of securities placing and brokerage services, interest income from loans receivable and rental income from leasing of investment properties, analysed as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue				
Provision of securities placing and brokerage services	4,983	10,767	14,450	26,151
Interest income from loans receivable	6,232	3,558	13,384	10,388
Rental income from leasing of investment properties	135	135	405	405
Total revenue	11,350	14,460	28,239	36,944

4. TAXATION CHARGE

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current tax				
Hong Kong Profit Tax	47	1,164	474	3,234

The Inland Revenue (Amendment) (No. 3) Ordinance 2018 was enacted on 29 March 2018 introducing the two-tiered profits tax rates regime.

Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of a corporation will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. For the nine months ended 30 September 2019, Hong Kong Profits Tax of the nominated Group company is calculated in accordance with the two-tiered profits tax rates regime. The assessable profits of other Group companies in Hong Kong will continue to be taxed at the tax rate of 16.5%.

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Earnings Earnings for the purposes of basic and diluted earnings per share	385	4,981	2,777	14,428
	Number of shares '000	Number of shares '000	Number of shares '000	Number of shares '000
Number of shares Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	2,783,360	2,783,360	2,783,360	2,604,065

The computation of diluted earnings per share does not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price for shares of the Company all of the periods ended 30 September 2019 and 30 September 2018.

6. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period, the Group's businesses were organised in four operation's segments namely (i) Securities brokerage, underwriting and placements; (ii) Money lending; (iii) Securities investment and (iv) Investment in properties.

Securities Brokerage, Underwriting and Placements

In November 2016, the Group completed the acquisition of 80% equity interest in KOALA Securities Limited ("**KOALA Securities**"). As at 30 September 2019, KOALA Securities is licensed to carry on Type 1 (Dealing in Securities) and Type 4 (Advising on Securities) regulated activities under the SFO. The Group is optimistic about the market condition of the securities brokerage, share placements, underwriting services and other related businesses. The Group will continue to allocate resources to this business segment. The Board expects such segment will become one of the major growth drivers to the Group.

Revenue from this business segment during the period was approximately HK\$14.5 million, representing a decrease of approximately HK\$11.7 million as compared to approximately HK\$26.2 million in the corresponding period of 2018. It accounted for approximately 51.2% (2018: 70.8%) of the Group's revenue during the period. The decrease in revenue was mainly due to the decrease in number of placing and underwriting engagement as a result of the recent downturn of the equity market in Hong Kong.

Money Lending

In February 2016, the Group, through an indirect wholly-owned subsidiary of the Group, obtained a money lender's licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). In developing the Group's money lending business, the Group targets corporations and individuals with financing needs. The Group will only advance new loans to those borrowers whose have good financial credit rating and all overdue balances are reviewed regularly by our senior management. The Board remains optimistic about the growth potentials in the money lending market of Hong Kong, and will take measures accordingly to improve our overall operational efficiency and strengthen our revenue base.

During the period, the Group recorded loan interest income of approximately HK\$13.4 million (2018: HK\$10.4 million) from granting loans to both corporate and individual clients. It accounted for approximately 47.4% (2018: 28.1%) of the Group's revenue during the period. The outstanding principal amount of loan receivables as at 30 September 2019 was HK\$55.4 million. During the period, the Group did not record any doubtful or bad debt in its money lending activities.

Securities Investment

This business activity started in the third quarter of 2015. The investment scope includes short-term investments in listed securities in Hong Kong and other recognised overseas securities markets as well as other related investment products offered by banks and financial institutions. The Board expects that this business activity can generate additional investment returns on available funds of the Company from time to time.

As at 30 September 2019, the Group managed a portfolio of listed equity investment with fair value of approximately HK\$27.7 million which are classified as held-for-trading investments. During the period, the Group recorded a loss on fair value change of listed equity investments of approximately HK\$6.2 million (2018: gain of HK\$2.7 million) and a realised gain of approximately HK\$2.4 million (2018: gain of HK\$3.2 million).

Investment in Properties

In the third quarter of 2016, the Group had acquired commercial properties for investment purpose. The properties are located in Hong Kong. It is currently leased by a listed company. The Group believes that these properties could generate stable rental income to the Group.

During the period, the rental income was approximately HK\$0.4 million (2018: HK\$0.4 million). It accounted for approximately 1.4% (2018: 1.1%) of the Group's revenue during the period.

FINANCIAL REVIEW

For the nine months ended 30 September 2019, the revenue of the Group decreased to approximately HK\$28.2 million (2018: HK\$36.9 million), representing a decrease of approximately 23.6% when compared with that of 2018. Such decrease was mainly attributable to the decrease in the service income from securities placing and brokerage as a result of the deteriorating economic situation.

For the nine months ended 30 September 2019, the Group's other operating expenses were approximately HK\$6.2 million (2018: HK\$2.1 million). The decrease in other operating expenses was mainly attributable to the fair value loss of approximately HK\$6.2 million on listed equity investment this period in comparing to the fair value gain of approximately HK\$2.7 million on the corresponding period of last year.

For the nine months ended 30 September 2019, the Group's administrative expenses were approximately HK\$18.1 million (2018: HK\$17.1 million), which increased approximately 6.4% as compared with the corresponding period of last year.

For the nine months ended 30 September 2019, the Group's finance costs amounted to approximately HK\$0.8 million (2018: HK\$3.1 million), representing a significant decrease of approximately 74.2%. The decrease in finance costs was mainly caused by a full conversion of convertible bonds by the bondholder on 30 May 2018.

Due to the above reasons, the Group recorded a net profit of approximately HK\$3.4 million for the nine months ended 30 September 2019, representing a significant decrease as compared with a net profit of approximately HK\$16.5 million for the same period of 2018.

LOOKING AHEAD

Looking forward, the Board will continue to develop current businesses and at the same time proactively explore new business areas and seek suitable investment opportunities.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better return for its shareholders.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

None of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 September 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2019, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Ms. Wong Ka Man	Beneficial owner	530,667,261	-	530,667,261	19.07%

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 September 2019.

SHARE OPTIONS

The share option scheme effective on 8 July 2002 (the “**2002 Share Option Scheme**”) was terminated and a new share option scheme (the “**New Share Option Scheme**”) was adopted and became effective for a period of 10 years commencing from 15 June 2012. Shares options granted prior to the expiry of the 2002 Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the 2002 Share Option Scheme.

As at 30 September 2019, the Company had 21,200,000 (31 December 2018: 21,200,000) share options outstanding under the 2002 Share Option Scheme, which represented approximately 0.8% (31 December 2018: 0.8%) of its issued share capital on that date. No share option was granted under the New Share Option Scheme.

The following table discloses movements in the Company’s share options during the period:

Name or category of participant	Exercisable period	Exercise price per share of the Company HK\$	Outstanding at 1 January 2019	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 September 2019
Others							
In aggregate	25 November 2010 to 24 November 2020	0.666	21,200,000	-	-	-	21,200,000

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the nine months ended 30 September 2019.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code on Corporate Governance Practice as defined in the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting processes and internal controls. The audit committee comprises exclusively of independent non-executive Directors.

The Group's unaudited results for the nine months ended 30 September 2019 have been reviewed by the audit committee, which was of the opinion that such financial statements complied with the applicable accounting standards and that adequate disclosures have been made.

By Order of the Board
KOALA Financial Group Limited
Kwan Kar Ching
Chairlady

Hong Kong, 13 November 2019

As at the date of this report, the Board comprises five Directors namely Ms. Kwan Kar Ching and Ms. Hsin Yi-Chin, being the executive Directors and Mr. Hung Cho Sing, Mr. Luk Kin Ting and Ms. Ng Yau Kuen, Carmen, being the independent non-executive Directors.