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## BUSINESS

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### OVERVIEW

We are a financial investment services corporation which specialises in serving the overseas Chinese and Japanese communities through our offices in New Zealand, Australia and Hong Kong. Our primary focus is on the provision of leveraged forex and other trading, while the provision of cash dealing and securities trading referral services also forms part of our business model. Our leveraged forex and other trading products include 32 currency pairs, four indices and five commodities.

Our income mainly represents income derived from the provision of leveraged forex and other trading services and cash dealing services. The following table sets out the breakdown of our Group's income during the Track Record Period:

	Year ended 31 December			
	2011		2012	
	<i>HK\$'000</i>	<i>% of total income</i>	<i>HK\$'000</i>	<i>% of total income</i>
Leveraged forex and other trading	107,526	69.3	86,951	70.6
Cash dealing	12,602	8.1	9,310	7.5
Other	35,114	22.6	26,961	21.9
<b>Total</b>	<b>155,242</b>	<b>100.0</b>	<b>123,222</b>	<b>100.0</b>

### Leveraged forex and other trading income

Forex trading is one of the fastest-growing areas of retail trading in the financial services industry. In a forex trade, participants buy one currency and simultaneously sell another currency. We refer to the two currencies in a forex trade as a currency pair. The first currency in the pair is the base currency and the second is the counter currency. An investor speculates that one currency will appreciate in relation to the counter currency in the pair. Our clients make a profit or suffer a loss depending on the difference between the exchange rates at which our clients open and close their positions. Inherently, the magnitude of price changes in respect of forex, indices and commodities are usually not apparent in any single trading day under normal market conditions. Leverage, being a scheme to make the trading more attractive, is added to our forex and other trading services to amplify the profit or loss on price changes. Such profit or loss is amplified by the leverage ratio granted to our clients. In providing leverage to our clients, our Group does not lend money or provide credit to our clients for purchase of the contract sum since there is no physical settlement of the contract sum in underlying currency and only the difference in respect of price changes is required to be settled.

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Our leveraged forex and other trading income is mainly generated as follows:

- (a) for the trades of one client which are naturally hedged against and offset the trades of another client, we receive the bid/offer spreads we offer to both clients in the two offsetting transactions; and
- (b) for the trades which are hedged with one of the market makers, we receive the difference between the retail bid/offer spreads we offer to our clients and the wholesale bid/offer spreads from market makers.

### **Cash dealing income**

Besides our leveraged business, our Group also provides cash dealing services to KVB FX, KVB FX Pty and KVB CA, being all our cash dealing business clients as at the Latest Practicable Date and the subsidiaries of KVB Holdings which were engaged in the money changing business, during the Track Record Period for the purpose of hedging their cash positions and meeting settlement obligations. The business model of cash dealing is the same as the leveraged forex and other trading except for the amplifying effect, range of products and settlement amounts. Leveraged forex and other trading is traded up to 200 times of the amount of margin deposits whereas cash dealing is traded without any leverage. Leveraged forex and other trading includes forex, indices and commodities, whereas cash dealing only deals with products like physical forex. Leveraged forex and other trading would have settlement of net profit or loss rather than the full nominal value of forex in contract whereas cash dealing would have its full nominal value of forex in contract settled. We are rewarded the spread between the price quoted to KVB FX, KVB FX Pty and KVB CA and the price offered by market makers.

### **Other income**

Our other income is principally derived from (a) the provision of management services to related companies which are based on sharing of actual cost or actual cost plus markup; (b) fees and commission income incidental to the business operations of leveraged forex and other trading based on the added fees and commissions charged on forex and other trading business, which consists of commission charged on our clients trading through mini-accounts (as the scale of transaction is usually very small), commission charges imposed on certain clients referred by referral parties and fees received from our clients for additional services rendered like remittance charge on withdrawal of money; and (c) securities referral service based on approximately 0.4% to 0.7% of the dollar amounts of the transactions of our clients executed by the executing brokers.

By providing securities trading referral services, we refer our clients interested in trading securities to executing brokers. Our clients may trade a variety of products including securities, indices, warrants, bonds and mutual funds with the executing brokers and all trades are referred to and executed with the executing brokers. We receive commission rebates from the executing brokers based on the size of our clients' trades. For the two years ended 31 December 2011 and 31 December 2012, income derived from our Group's securities trading referral services accounted for approximately 0.4% and 0.4% of our Group's total income, respectively.

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### OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

#### **Experience in serving the overseas Chinese and Japanese communities through our offices in New Zealand, Australia and Hong Kong**

Since the commencement of our business in 2003, our Group has been specialising in serving the overseas Chinese and Japanese communities through our offices in New Zealand, Australia and Hong Kong. Our senior management team, the majority of which are ethnic Chinese but with overseas nationality, is able to understand the needs of our overseas Chinese clients, i.e. our Chinese clients residing outside the PRC. We understand that effective communication with our clients is crucial to the success of our Group. Therefore, our online trading platform, ForexStar, has been made available in various languages including Chinese, English and Japanese to overcome any language barriers. Further, our Group has maintained native Chinese and Japanese sales staff since 2003 to serve our overseas Chinese and Japanese clients in Auckland, Sydney and Melbourne. We believe our experience in such a niche and vibrant overseas Chinese and Japanese leveraged trading market distinguishes us from our competitors. Given our success in serving our overseas Chinese and Japanese clients through our offices in New Zealand, Australia and Hong Kong, we plan to increase our client base by serving overseas Chinese and Japanese clients in other major cities around the world.

Our Directors consider that although our Group has a relatively small active overseas Chinese client base in Hong Kong, Hong Kong remains an important hub for our Group since our Hong Kong dealing room, together with our New Zealand dealing room, provides 24-hour dealing services to our overseas Chinese and Japanese clients. Our Hong Kong dealing room was set up in 2005 and has since been providing services to our overseas Chinese and Japanese clients.

We have established our client bases among the overseas Chinese and Japanese in the Australasian leveraged trading markets for approximately nine years and have developed good relationships as well as a good reputation within the local Chinese community. Some of our loyal clients have been trading with us for approximately nine years.

In 2009, we were awarded the winner of Import of Services by the HKABA as a recognition of our services and success in Australia. Further, we were awarded the “Best Chinese Services Award 2011” (2011年最佳華語服務獎) at the award ceremony of Forex Market Conference and Forex Industry Chart 2011 (2011年外匯市場高峰論壇暨外匯行業財經風雲榜頒獎典禮).

We believe that given our operating history of approximately 10 years, our proven track record and established reputation will be difficult for new competitors to attain.

#### **Advanced technological know-how**

We believe technology is the cornerstone of the modern financial services industry and one of our advantages over our competitors is our multi-functional online trading platform. In 2003, we launched our online trading platform, ForexStar, through our technological know-how by integrating

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the dealer terminal provided by a third party software development company, which was not yet widely used at that time. With the use of ForexStar, much of our manpower has been saved as our clients are able to access over-the-counter services on their own via the internet at all times. We will continue to develop a better trading platform to keep abreast of the ever-changing and fast-growing online trading platform technology.

### **High industry entry barrier**

The leveraged forex trading industry is highly regulated and authorisations or licences are required for conducting business in this field. Newcomers who wish to enter the leveraged forex trading industry require a considerable amount of capital, experienced and licensed personnel, various other internal control staff and measures, and authorisations/licences granted by regulatory bodies in the relevant jurisdictions. We pride ourselves on our professional and disciplined approach to the financial markets as we have not experienced any material difficulties in maintaining or renewing any of our authorisations and licences since establishment. Our Directors believe our expertise in serving our overseas Chinese and Japanese clients under such a highly regulated environment will be difficult for newcomers to match.

### **Established risk management procedures**

Our Group has adopted a set of risk management procedures as we consider good risk management is critical to any financial service provider. Under the risk management procedures, the performance of our staff responsible for risk management is critically evaluated as the consequence of failing to identify any single risk could lead to serious consequences to the business and operations of our Group. Our Directors believe our stringent risk management procedures have played an important role in our continued growth.

### **Experienced management team and market expertise**

Our Group is led by a senior management team consisting of our Directors and the senior management personnel of our Group with extensive industry expertise and strong execution capability. Our executive Directors have more than 10 years of experience in the leveraged forex industry.

## **OUR BUSINESS STRATEGIES**

Our business objectives are to become a major financial institution in the financial services market targeting overseas Chinese and Japanese worldwide and a major financial institution in the leveraged trading market, with emphasis on online forex trading and related services. Besides providing our clients in different parts of the world with over-the-counter services through our multi-functional online trading platform, we also aim at providing our clients with financial supporting services through our professional team in major cities around the world.

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The demand for globalised assets from overseas Chinese and the development of the leveraged trading market are greatly boosted by the rapid growth of China's economy and the anticipated internationalisation of RMB, which has provided us with great opportunity. Our Directors believe that we can continuously attract and maintain relationships with diversified and experienced overseas Chinese and Japanese clients through our business model, trading platform, localised professional team and diversified products and services.

We plan to achieve our objectives by implementing the following strategies:

### **Expansion of operations in the worldwide overseas Chinese and Japanese communities**

With our experience and reputable history in serving our overseas Chinese and Japanese clients in the Australasian region, our Group intends to expand our business and the overseas Chinese and Japanese client bases by setting up new branches or subsidiaries in other major cities around the world. Our experience and trading infrastructure have given us a comfortable foundation to expand our business in serving our overseas Chinese and Japanese clients. Our Group intends to set up new branches or subsidiaries in major cities where the Chinese and/or the Japanese reside based on the results of due diligence studies on selected potential locations. Our Group intends to set up two new branches or subsidiaries by 31 December 2015 by utilising up to HK\$36 million of the net proceeds of the Placing, details of which are set out in the section headed "Business Objectives and Future Plans" in this prospectus. Taking into account a number of factors, including but not limited to the historical costs of approximately HK\$18.0 million incurred by our Group such as rental deposits, fixed assets costs and administrative expenses, we estimate that the costs to be incurred in setting up a new branch or subsidiary are approximately HK\$18 million. Therefore, our Directors consider that the amount of HK\$36 million to be allocated for the expansion of our operations is reasonable. Our Group currently has no concrete plan for the locations of our new branches or subsidiaries but our Directors consider that in order to target new Japanese and overseas Chinese clients, Tokyo and Vancouver may be the likely locations for our future expansion subject to our further due diligence studies on, among other things, the market potential, our business networks and the government policies on leveraged forex and other trading business in such cities. Considering that our Group is engaged in the leveraged forex and other trading business generally with high regulatory requirements and the offices are targeted to be located in prime commercial area in major cities, our Directors estimate that, with reference to the relevant costs incurred by KVB HK, KVB NZ and KVB AU, the setting up of a branch or subsidiary in a new location would incur various kinds of costs including, but not limited to, due diligence studies costs on regulatory, tax and accounting requirements, recruitment of financial industry practitioners, rental deposits for offices, computer software and hardware, equipment setting, leasehold improvement and other operating expenses including staff costs, rental expenses, marketing expenses at start-up stage of the new branch or subsidiary.

Our Directors consider our professional and disciplined approach to the financial markets will help us conform to the regulatory requirements in the new markets in light of the increasingly stringent regulatory controls, especially after the financial crisis in 2008.

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### **Increase in the range of our financial services and products**

We have dedicated a considerable amount of resources in educating our clients through organising seminars and talks. Generally, clients tend to invest more actively in the leveraged forex market and expect more varieties in the financial services and products as they become more knowledgeable and gain more experience in the leveraged forex market. We intend to perform market studies to explore the commercial viability for our new products and allocate additional capital as margin collaterals to be deposited with existing or new market makers for the increased dealing facilities to expand our dealing capacity and as reserves for fulfilling the regulatory liquid capital requirements to cope with the growth in business through opening of new branches and subsidiaries. Currently, our online trading platform, ForexStar, includes 32 forex currency pairs, four indices and five commodities. We intend to introduce new leveraged forex and other products, such as agricultural futures products and currency options, in the capacity as a principal and as an introducing agent to cater for our clients' needs. Subject to due diligence studies, our Group normally targets to launch new products into the market within half a year after the same or similar products are offered by market makers.

Offshore RMB products are regulated in Hong Kong by the HKMA, the SFC and the clearing agreement between the People's Bank of China and Bank of China (Hong Kong) Limited in relation to Renminbi business (《關於人民幣業務的清算協議》). The signing of the supplementary memorandum of cooperation on the expansion of the RMB trade settlement scheme in July 2010 allows the free circulation of RMB in Hong Kong. Individuals are subject to a daily RMB exchange cap of RMB20,000. RMB funds which have flowed into Hong Kong through trade payments or other channels would become RMB deposits in Hong Kong and can be used and exchanged into other currencies in the Hong Kong market.

Currently, there is no restriction on the trading of RMB as a non-deliverable derivative settled in any international currency. Our expected increase in the number of derivative currency pairs consisting of RMB which may be traded would be highly subject to the availability of the relevant currency pairs from market makers as liquidity providers.

Although the settlement in RMB is still subject to the clearing agreement signed between respective countries and the PRC, our Directors consider that the offshore RMB market will have increasing interaction with onshore counterparts, as restrictions are expected to be lifted over time. It is anticipated that, subject to the loosening of relevant rules and regulations in relation to offshore RMB products, we may allow our clients to open and settle accounts in RMB in the future.

### **Further upgrade of our online trading platform**

Due to the highly volatile nature of the leveraged forex market, trading platform technology becomes vital to the continued success of a financial services institution as clients expect to be provided with trading facilities which are efficient, multi-functional and secured. Therefore, we plan to further enhance our online trading platform by developing and/or integrating further and better trading platforms through our established technological know-how.

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The development strategies of our Group shall catch up with the latest market technological changes and the prevalence of mobile devices in the short term. These strategies include a major upgrade of our trading platform to (a) support the latest mobile devices including smartphone and tablet computer trading platforms by developing the required hardware and software; and (b) provide better visibility in monitoring clients' and our Group's net positions along with enhanced straight through deals coverage. Our Group also plans to implement a major upgrade of our existing trading platform to a new version. To complement the upgrade, our Group will upgrade or redevelop, through cooperating with software suppliers, all existing self-developed applications to support the new version of our trading platform. To improve the response time and capacity in handling massive orders and the security control after the system upgrade, our Group intends to redesign our local area network and wide area network, and requisition new hardware servers and security equipment to increase the supporting bandwidth in the redesigned networks. Our Group expects to reserve resources for more sophisticated new self-developed applications to extend the functionality of our trading platform and maintain competitiveness with technology advancements in the leveraged forex market. Up to the Latest Practicable Date, the aggregate cost of developing our trading platform was approximately HK\$22.8 million. Having considered the future capacity and usage of our trading platform, the hardware required to cater for the increasing needs of our clients and the costs of technological advancement, it is intended that up to HK\$28 million of the net proceeds of the Placing will be allocated for the upgrade of our trading platform.

### **Strategic growth through mergers and acquisitions**

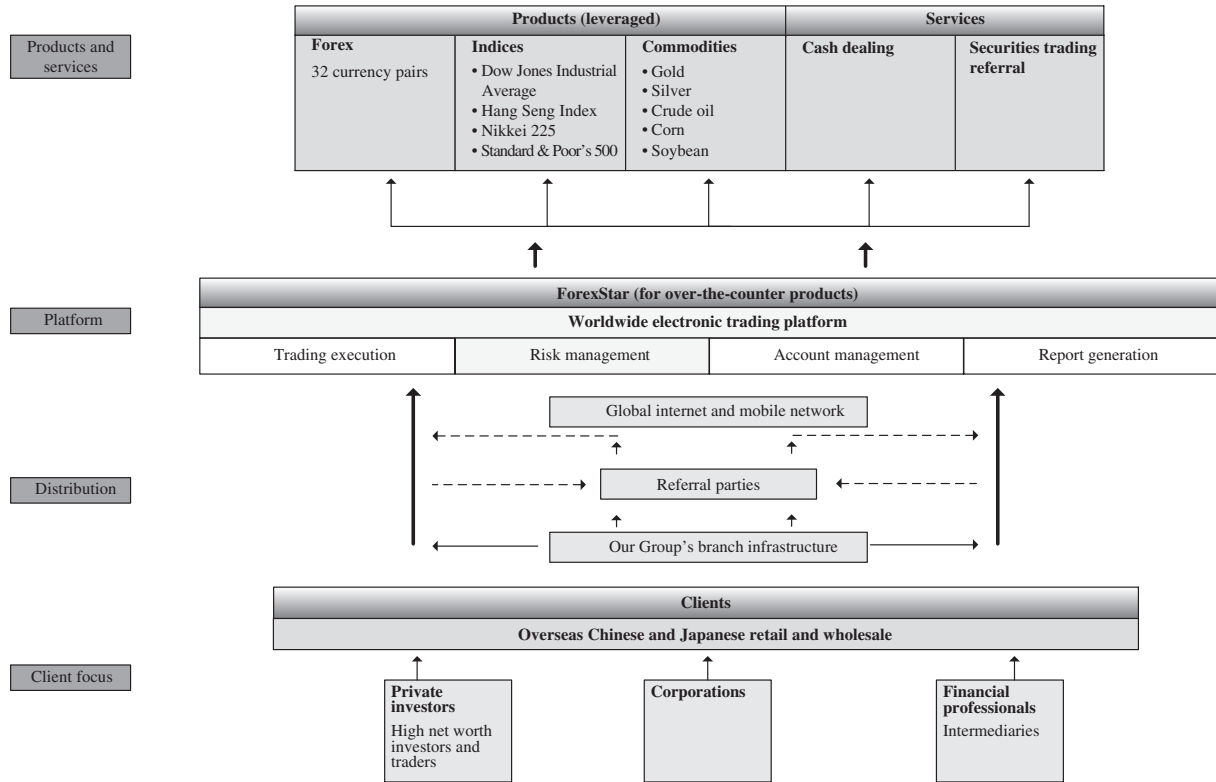
Our Group intends to pursue opportunities such as mergers with and acquisitions of suitable licensed financial institutions in other major cities around the world to complement our existing business and operation and increase our market share. Our Directors believe that successful mergers or acquisitions will bring synergy to our Group and enhance our Company's value to our Shareholders. Our Group had not identified any target for our strategic growth through mergers and acquisitions as at the Latest Practicable Date.

### **OUR SERVICES**

Our Group specialises in providing a range of financial products and services in New Zealand, Australia and Hong Kong. The core business of our Group is the provision of leveraged forex trading. In addition to our own sales and marketing team, we have access to other potential clients through referral parties. Through these sales and marketing channels, not only can we provide trading services to our direct clients but we can also extend our trading services to clients of other institutions through commission rebate arrangements. With the aim of providing comprehensive services to our clients, we also provide other financial investment services, including cash dealing and securities trading referral services.

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The diagram below illustrates the business model of our Group:



The table below sets out the breakdown of our Group's income during the Track Record Period:

	Year ended 31 December			
	2011		2012	
	<i>HK\$'000</i>	<i>% of total income</i>	<i>HK\$'000</i>	<i>% of total income</i>
Leveraged forex and other trading	107,526	69.3	86,951	70.6
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Other	35,114	22.6	26,961	21.9
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### A. Leveraged forex and other trading

Forex trading is one of the fastest-growing areas of retail trading in the financial services industry. In a forex trade, participants buy one currency and simultaneously sell another currency. We refer to the two currencies in a forex trade as a currency pair. The first currency noted in the pair is the base currency and the second is the counter currency. An investor speculates that one currency



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will appreciate in relation to the counter currency in the pair. Our clients make a profit or suffer a loss depending on the difference between the exchange rates at which our clients open and close their positions. Inherently, the magnitude of price changes in respect of forex, indices and commodities are usually not apparent in any single trading day under normal market conditions. Leverage, being a scheme to make the trading more attractive, is added to our forex and other trading services to amplify the profit or loss on price changes. Such profit or loss is amplified by the leverage ratio granted to our clients. In providing leverage to our clients, our Group does not lend money or provide credit to our clients for purchase of the contract sum since there is no physical settlement of the contract sum in underlying currency and only the difference in respect of price changes is required to be settled.

Leveraged forex is not traded on any organised exchange. It is traded on a contractual basis between clients and market makers. In response to a request for quotation, market makers will quote the bid and ask prices simultaneously. The clients can then decide whether to choose to buy (long) or sell (short) a contract at that price. Our Group facilitates these trades by providing our clients with our online trading platform, ForexStar, which allows them to buy and sell in 32 currency pairs. Other than leveraged forex trading, we also offer leveraged trading to our clients to buy and sell four indices, namely Dow Jones Industrial Average, Hang Seng Index, Nikkei 225 and Standard & Poor's 500, and five commodities, namely gold (denominated in both RMB and USD), silver (denominated in both RMB and USD), crude oil (denominated in USD), corn (which was introduced in 2013) and soybean (which was introduced in 2013). While currency pairs remained our most popular product during the Track Record Period, the trading volume of commodities soared and took up a significant proportion of our total trading volume during the Track Record Period due to market expectation on appreciation of commodity prices during such period as investors often turn to investing in commodities as a way to safeguard the value of their wealth in times of financial crises such as the recent European debt crisis where investors may lose confidence in the purchasing power of currencies. The currency pairs, indices and commodities contributed to approximately 60.3%, 0.0% and 39.7%, respectively, to the total trading volume of our Group for the year ended 31 December 2011 and approximately 50.4%, 0.0% and 49.6%, respectively, to the total trading volume of our Group for the year ended 31 December 2012.

The amount of currency covered by a contract is agreed upon between our clients and our Group. Our clients' profit and loss of a contract depends on how the exchange rate of the base currency against the counter currency changes after a position is opened. Before the contract is closed out, any profit or loss would only be unrealised. The net profit or loss would be realised upon closing out of the contracts. Only the net profit or loss would be delivered in the settlement currency and no physical delivery of the underlying assets such as currencies or commodities will be delivered to our clients. Hence, even if our clients have unrealised profit on one day, this may turn into a loss the day after. The formula for calculating profit and loss is as follows:

*Contract amount per foreign currency contract x Number of contracts x (Price of closing the position - Price of opening the position)*

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For example, if a client buys a contract of NZD against USD (contract amount: NZD100,000) at an exchange rate of 0.8000 and closes the position at 0.8200, according to the above formula, the client's profit will be:

$$\text{NZD100,000} \times 1 \times (0.8200 - 0.8000) = \text{US\$2,000}$$

To prevent clients' default risk with our Group, our clients are requested to place an initial margin deposit to secure the possible maximum trading amounts they can conduct before they are allowed to open any positions. The maximum trade size equals the initial margin deposit multiplied by the leverage ratio. The initial margin deposit acts as a collateral to secure the net loss of the contract, but not the nominal value of the contract. The minimum initial margin deposit required for opening a leveraged forex contract may be as little as 0.5% of the nominal amount of each contract. Stop-out level refers to the minimum level of net equity which is required to keep a contract open. Major components of net equity include any floating profit, any floating loss, cash deposits, cash withdrawals and the amount carried forward on the account. Floating profit or loss refers to unrealised profit or loss calculated by marking to market a leveraged forex contract. The leverage ratio is not being offered to our clients for purchase of the physical currency, indices or commodities, rather, our Group regards it as a tool by which our clients can amplify their resulting profits or losses. Rather than making actual physical payment of the nominal value of one currency in exchange for the nominal value of another currency under contract, only the real-time mark-to-market profit or loss on the two currencies will be relevant to the equity value of the trading accounts. The stop-out level of our Group may be as little as 0.5% of the contract amount of each contract. Details of the leverage ratio granted to our clients and the stop-out level are set out in the paragraph headed "Risk management" in this section.

Suppose a client opens a leveraged forex contract, and the subsequent price movement is unfavourable to that open contract, the floating loss may cause the net equity to fall below the stop-out level. Our trading system will close out the position on that client's behalf without his/her/its consent. Under extreme circumstances, i.e. when the market is very volatile with hefty price fluctuations, our clients may risk losing more than their initial margin deposits and any subsequent margin deposits put in to keep the contracts open.

The example below illustrates the calculation of profit or loss of a client entering into a leveraged forex contract:

If client account balance (i.e. net equity) is at US\$10,000, leverage ratio is 20 times (or initial margin level is 5%) and stop-out ratio is 1% (i.e. 20% of the initial margin required), and assuming there is no other outstanding contracts, the initial margin for opening a buy contract of EUR against USD (contract amount: EUR100,000) is calculated according to the following formula:

*Contract amount of a EUR against USD contract x Number of contracts x Initial margin level x Exchange rate of EUR against USD*

*i.e. EUR100,000 x 1 x 5% x 1.4100 = US\$7,050*

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*As the net equity (i.e. US\$10,000) is higher than the initial margin level of US\$7,050, the client can buy the EUR against USD contract.*

*Net equity of an account with open position is calculated according to the following formula:*

*Account opening balance +/- Floating profit/loss +/- Swap cost*

*Floating profit/loss is calculated according to the following formula:*

*Contract amount of the EUR against USD contract x Number of contracts x (Current exchange rate - Exchange rate of opening the position)*

*In the example:*

*Account opening balance: US\$10,000*

*Current exchange rate of EUR against USD: 1.3523 (for simplicity sake, assuming the movement occurred in one trading day, i.e. no swap cost involved)*

*Floating profit/loss: EUR100,000 x 1 x (1.3523 - 1.4100) = - US\$5,770 (i.e. floating loss)*

*Net equity: US\$10,000 - US\$5,770 = US\$4,230*

Other products offered by our Group including indices and commodities work in the same way as forex products.

Our Directors believe that we provide our clients with access to forex liquidity at competitive rates. Our Group maintains relationships with established market makers and leading international wholesale forex trading partners, which give us access to a pool of potential liquidity and ensure that we are able to execute our clients' trades and hedge our net positions in certain currency pairs we offer at competitive rates.

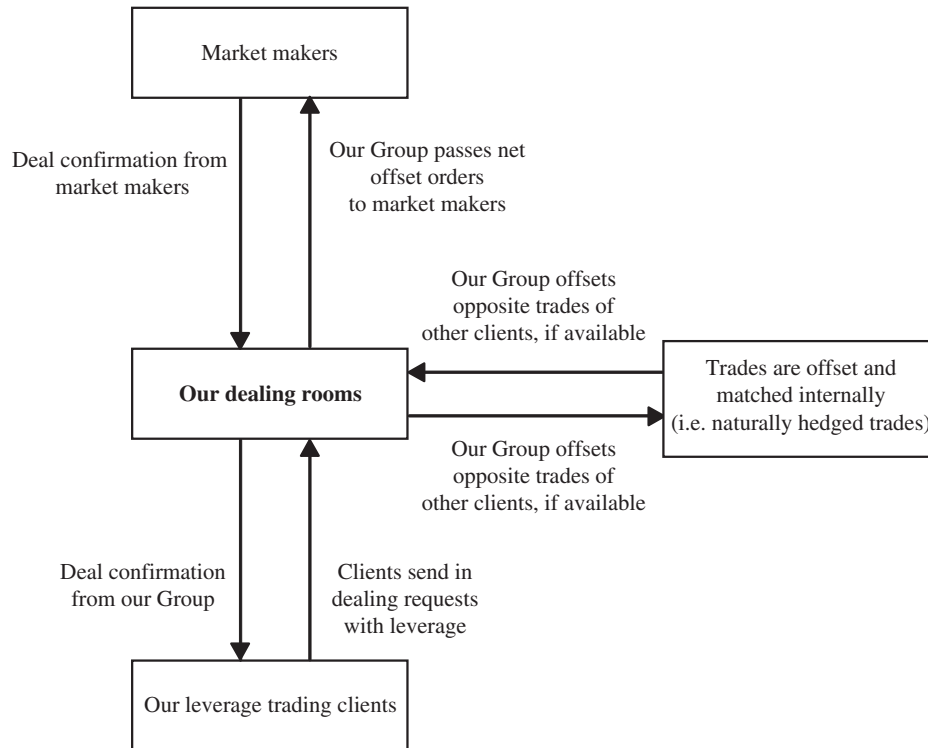
Our Group is committed to offering quality services to cater for our clients' needs. Our Group currently provides 24-hour dealing services which provide flexibility to our clients to conduct leveraged forex trading. Our trading platform matches our client's order request with the spot currency pairs offered by market makers. We do not normally intervene in the trade, other than to apply our markup. Our markup is based on market conditions and risk exposure and does not normally change irrespective of how the client trade is executed or its profitability. The same process is used when a client liquidates a position. Our platform processes the trade by applying a uniform spread to the mid-price calculated from the preferred data feed.

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The diagram below illustrates the order execution process for our leveraged forex and other trading business:



Our leveraged forex and other trading income is mainly generated as follows:

- (a) for the trades of one client which are naturally hedged against and offset the trades of another client, we receive the bid/offer spreads we offer to both clients in the two offsetting transactions; and
- (b) for the trades which are hedged with one of the market makers, we receive the difference between the retail bid/offer spreads we offer to our clients and the wholesale bid/offer spreads from market makers.

The spreads for USD currency pairs and other cross currency pairs are normally topped at approximately 3 pips to 100 pips offered by market makers. However, the spread which could possibly be earned by us is in turn driven by market volatility as currency prices are correlated to the general macroeconomic conditions. As a general rule, changes in bid/offer spreads are generally accepted to be correlated to market volatility and liquidity as an empirical phenomenon. Accordingly, our Group adjusts the spreads offered to our clients corresponding to the prevailing spreads offered in the market in that the higher the volatility, the higher the spreads we can earn. Our income is also directly related to the trading volume of our clients as it is through the trades initiated by our clients where we are able to earn the spreads as mentioned above. Factors affecting our clients' willingness to trade are driven by market sentiment. Further, the increase in the number of clients may eventually lead to the increase in our trading volume.

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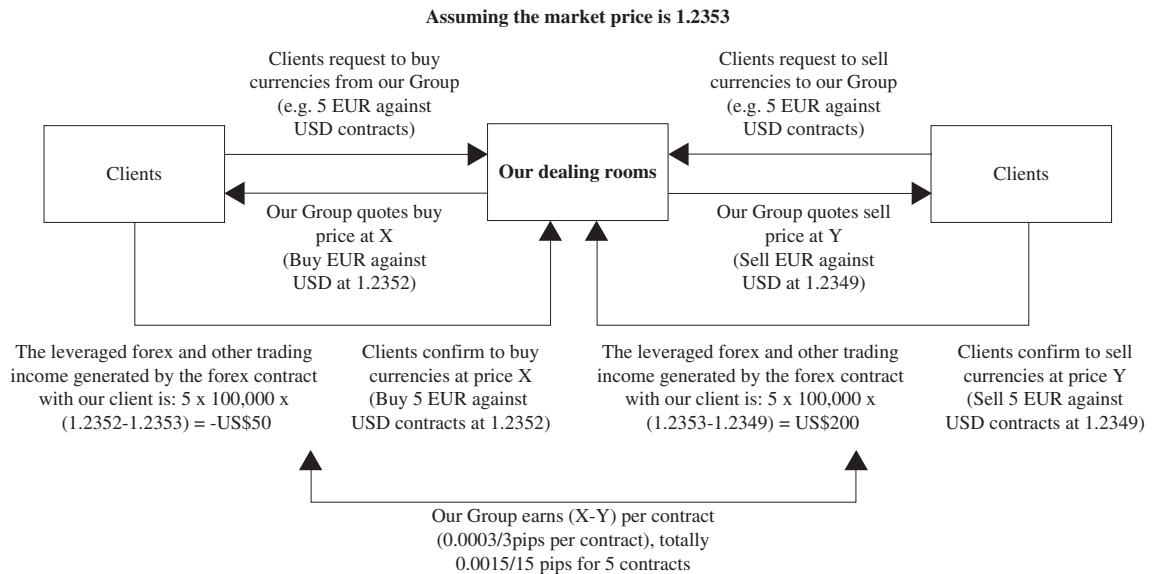
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Our Group generally acts as the market maker to our clients' trades and as the agent for trades conducted by our clients. Our Group provides market liquidity and market pricing for our clients' trades as the market maker. When our clients buy or sell contracts of forex, commodities or indices from our Group, our Group is carrying opposite positions against our clients, therefore, our Group is subject to risk exposure. In order to minimise our risk exposure, our Group will either hedge our positions by natural hedge strategy or market maker hedge strategy under different circumstances. The principle of natural hedge strategy is that a client's position can be offset with other clients' positions in the pool and in that case, our Group acts as the market maker to offer market liquidity and market pricing for our clients. The principle of market maker hedge strategy is to back-off our clients' positions to market makers and under such arrangement, our Group in fact acts as the agent to arrange trades between our clients and market makers. Our Group mainly derives income from the spread differential between two clients under the natural hedge strategy in our role as the market maker and the spread differential between our clients and market makers under the market maker hedge strategy in our role as the agent. Less income will be generated by the trades derived from market maker hedge strategy than those derived from natural hedge strategy because cost markup is charged by market makers under the market maker hedge strategy. However, the application of the natural hedge strategy depends on the timing, pricing and types of trades executed by our clients. All amounts are settled through bank transfer or telegraphic transfer.

If trades cannot be perfectly matched under the natural hedge and the net positions exceed the daily/shift loss limit, our dealers will undertake the market maker hedge. Subject to the daily/shift loss limit, our forex contracts are generally offloaded by hedging the positions with market makers where trades are related to clients with initial deposit balances (i.e. the amounts first deposited by our clients when opening accounts with us) exceeding our prescribed limit. Our prescribed limit may change from time to time depending on a number of factors, including market conditions and our Group's business strategies. During the Track Record Period, the prescribed limit ranged from US\$20,000 to US\$80,000. For trades which are related to our clients with initial deposits below our prescribed limit, we allow the trades to be naturally hedged. The trading volume of trades above the prescribed limit for the two years ended 31 December 2011 and 31 December 2012 was approximately US\$32.0 billion and US\$18.3 billion, respectively, and the trading volume of trades below the prescribed limit for the two years ended 31 December 2011 and 31 December 2012 was approximately US\$33.6 billion and US\$58.7 billion, respectively. Details of our hedging strategies are set out in the paragraph headed "Hedging and net position limits" in this section.

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The diagram below illustrates an example of the income model of our Group under the natural hedge strategy:



The accounting entries at the time when the natural hedge is executed are:

(a)	Debit	Leveraged forex and other trading income (unrealised)	US\$50
	Credit	Derivative financial liabilities	US\$50
(b)	Debit	Derivatives financial assets	US\$200
	Credit	Leveraged forex and other trading income (unrealised)	US\$200

The net impact arising from the above transaction is:

Debit	Derivatives financial assets	US\$200
Credit	Leveraged forex and other trading income (unrealised)	US\$150
Credit	Derivative financial liabilities	US\$50

In an optimal case, where buying and selling orders of our clients are fully matched, our Group is rewarded the full differences between our buy side quotation (i.e. 1.2352) and sell side quotation (i.e. 1.2349) as profit, which is recorded as our income.

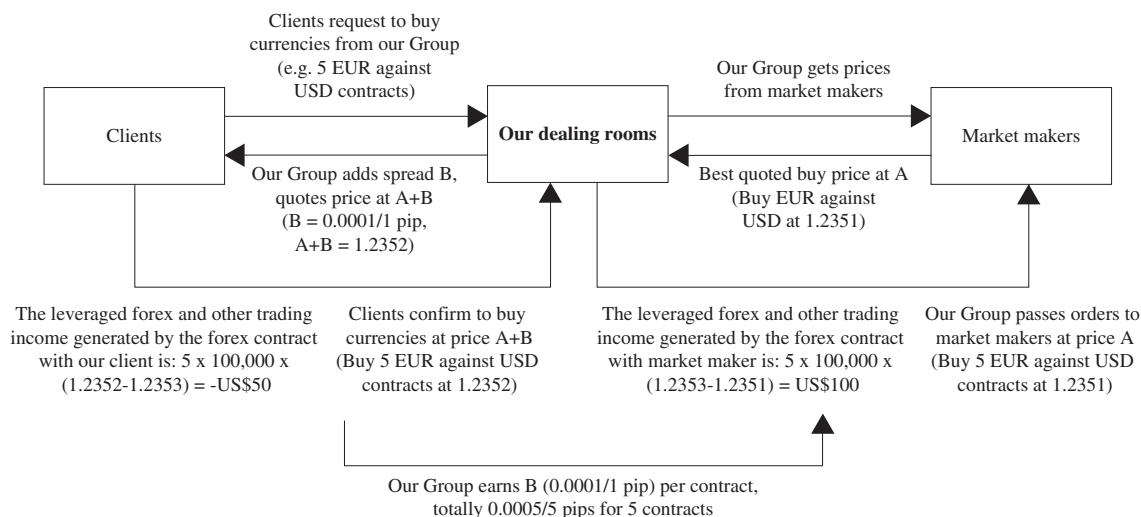
In the above example, through offsetting the relevant buy and sell positions of our clients, our Group is capable of securing a total income of 15 pips on five EUR100,000 contracts or US\$150 from trades with our clients.

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The diagram below illustrates an example of the income model of our Group under the market maker hedge strategy:

Assuming the market price is 1.2353

### Clients request to buy currencies



The accounting entries at the time when the market maker hedge is executed are:

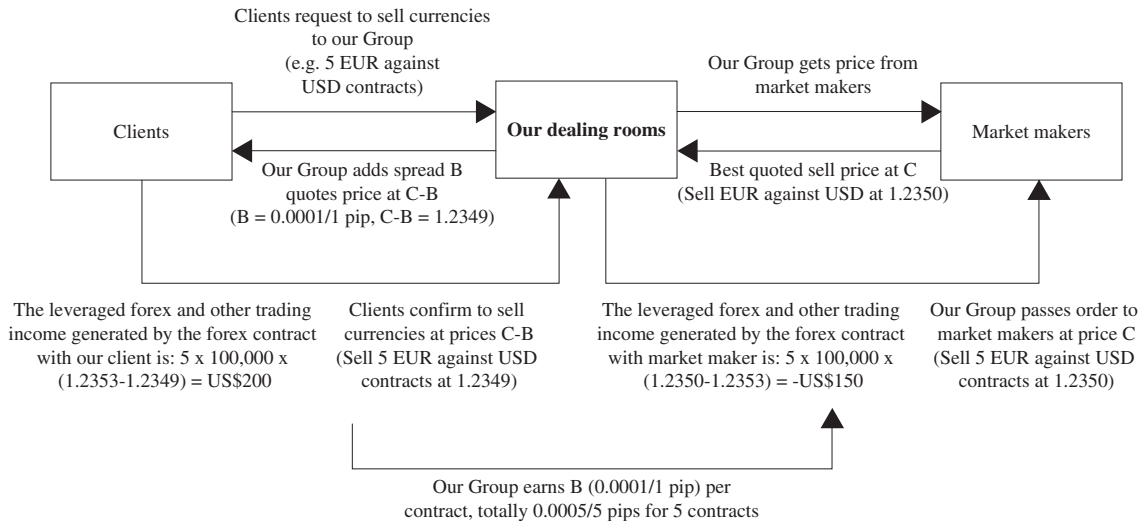
(a)	Debit	Leveraged forex and other trading income (unrealised)	US\$50
	Credit	Derivative financial liabilities	US\$50
(b)	Debit	Derivatives financial assets	US\$100
	Credit	Leveraged forex and other trading income (unrealised)	US\$100

The net impact arising from the above transaction is:

Debit	Derivatives financial assets	US\$100
Credit	Leveraged forex and other trading income (unrealised)	US\$50
Credit	Derivative financial liabilities	US\$50

## BUSINESS

### Clients request to sell currencies



The accounting entries at the time when the market maker hedge is executed are:

(a)	Debit	Derivatives financial assets	US\$200
	Credit	Leveraged forex and other trading income (unrealised)	US\$200
(b)	Debit	Leveraged forex and other trading income (unrealised)	US\$150
	Credit	Derivative financial liabilities	US\$150

The net impact arising from the above transaction is:

Debit	Derivatives financial assets	US\$200
Credit	Leveraged forex and other trading income (unrealised)	US\$50
Credit	Derivative financial liabilities	US\$150

In the event that the buying and selling orders of our clients are not perfectly matched under the natural hedge, in order to mitigate our risk exposure, our Group passes such risks to market makers. Since our Group consolidates smaller orders to larger orders, other market makers generally offer better prices to our Group than those they offer to individual clients. As such, our Group's quotations are still competitive to other market makers.

Our clients, being price takers, enter into contracts of forex, indices and commodities with our Group. Our Group adds markup (e.g. 1 pip or US\$0.0001) to both buy side quotation (i.e. 1.2352) and sell side quotation (i.e. 1.2349) over the buy side quotation (i.e. 1.2351) and sell side quotation (i.e. 1.2350) offered by market makers. In other words, our clients would be buying at a higher price (i.e. 1.2352) from our Group compared with the price offered to us by market makers (i.e. 1.2351) and our clients also sell at a lower price (i.e. 1.2349) to our Group compared with the price we sell on the same product to market makers (i.e. 1.2350).

In the above example, through passing over the relevant buy and sell positions to market makers, our Group is capable of securing a total income of 10 pips on five EUR against USD contracts (both buy and sell) or a total of US\$100 from the trades with both clients.



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## BUSINESS

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As illustrated in the above examples, our Group derives income from the spread differential between two clients under the natural hedge strategy in our role as the market maker and the spread differential between our clients and market makers under the market maker hedge strategy in our role as the agent. Less income will be generated by the trades derived from market maker hedge strategy than those derived from natural hedge strategy because cost markup is charged by market makers under the market maker hedge strategy. However, the application of the natural hedge strategy depends on the timing, pricing and types of trades executed by our clients.

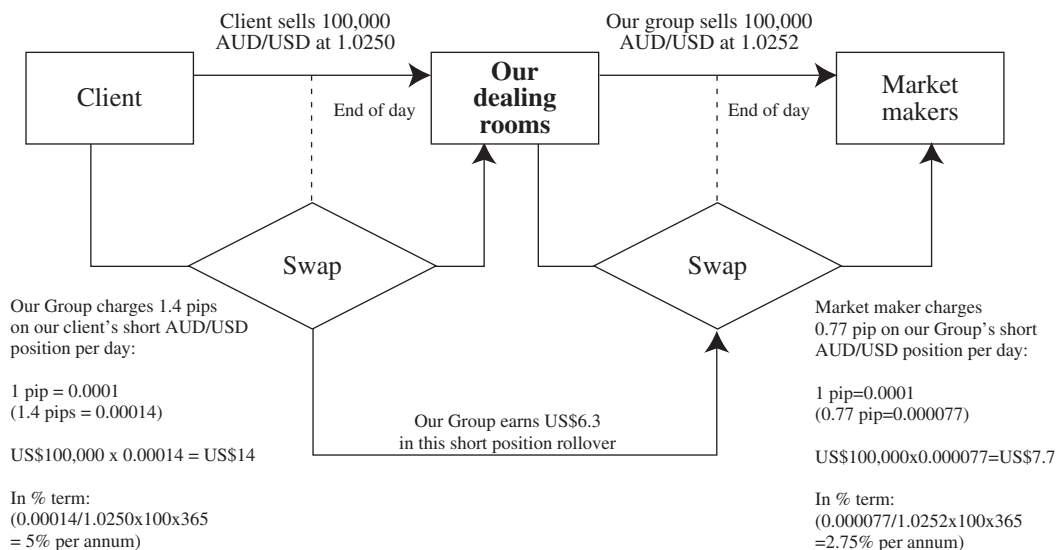
Notwithstanding the difference of income in the natural hedge strategy and the market maker strategy, our Directors consider that the primary responsibility of our dealers is to monitor and minimise our net risk exposure but not to optimise the profitability by differentiating the application of different hedge strategies. Our Directors consider that the profitability of our Group depends on, among other things, the volatility of the market and the trading volume of our clients, which is in turn solely determined by our clients. Given our Group's emphasis on risk management and that a large number of trades are completed every day and the natural hedge and market maker hedge strategies are executed in batches within a very short period of time, our Directors consider that the information relating to our income derived from different hedge strategies is not useful for our management's decision making and it is difficult and costly to revamp our trading system to provide the relevant information. Therefore, the existing trading system of our Group is primarily focused on the real-time exposure of the profit or loss and the information on our income derived from different hedge strategies is not available.

Retail forex trades are rolling spot contracts which are usually settled in cash. At the end of a trading day, trades are automatically rolled over to the next day, taking into account the interest rate differential for each currency pair. The cost arising from such interest rate differential is the swap cost. Investors who hold long positions in the currency with the higher yield are credited the interest rate differential, while investors who hold short positions in the currency with the higher yield are debited the difference. We take these credits and debits as rollover income. We apply our markup to the interest rate credited and debited, thereby generating our own rollover, i.e. swap income.

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The diagram below illustrates an example of how our Group recognises swap income through the changes in overnight rollover positions:

A client holds a short position in high-yielding currencies:



For client side:

Since our client sells (shorts) a high yield currency to our Group, he/she/it will need to pay the net interests (or swap costs) to us.

Debit	Client's balances	US\$14
Credit	Leveraged forex and other trading income	US\$14

For market maker side:

At the same time, our Group also sells (shorts) the same high yield currency to market maker to cover our open positions with our client and has to pay the net interests but at a lower rate to market maker.

Debit	Leveraged forex and other trading income	US\$7.7
Credit	Cash and bank balances	US\$7.7

Net swap income grouped under our leveraged forex and other trading income is US\$6.3.

These rollover differences are shown in the equity of our client's account. Depending on the market condition of individual currency pairs, indices and commodities, the markup usually ranged from approximately 0.1% to 10.0% per annum adjusted on daily basis during the Track Record Period. The swap income (recognised as leveraged forex and other trading income under the New Zealand margin dealing segment and the Hong Kong margin dealing segment) earned from our clients for the two years ended 31 December 2011 and 31 December 2012 was approximately HK\$12.9 million and HK\$15.7 million, respectively.

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## BUSINESS

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We offer leveraged trading in 32 currency pairs, four indices and five commodities. The currency pairs we offer consist of AUD, GBP, CAD, EUR, HKD, JPY, NZD, RMB, CHF and USD. The five most popular currency pairs were EUR/USD, AUD/USD, GBP/USD, USD/JPY and EUR/JPY for the year ended 31 December 2011 and EUR/USD, AUD/USD, GBP/USD, USD/JPY and NZD/USD for the year ended 31 December 2012, which accounted for approximately 53.9% and 44.7% of the trading volume of our leveraged products for the two years ended 31 December 2011 and 31 December 2012, respectively. The EUR/USD currency pair was the most popular for the two years ended 31 December 2011 and 31 December 2012, representing approximately 35.0% and 23.6% of the trading volume of our leveraged products, respectively. We may add new currencies to our list provided that they meet our risk and regulatory standards.

Set out below is a summary of the trading volume of currency pairs, indices and commodities during the Track Record Period:

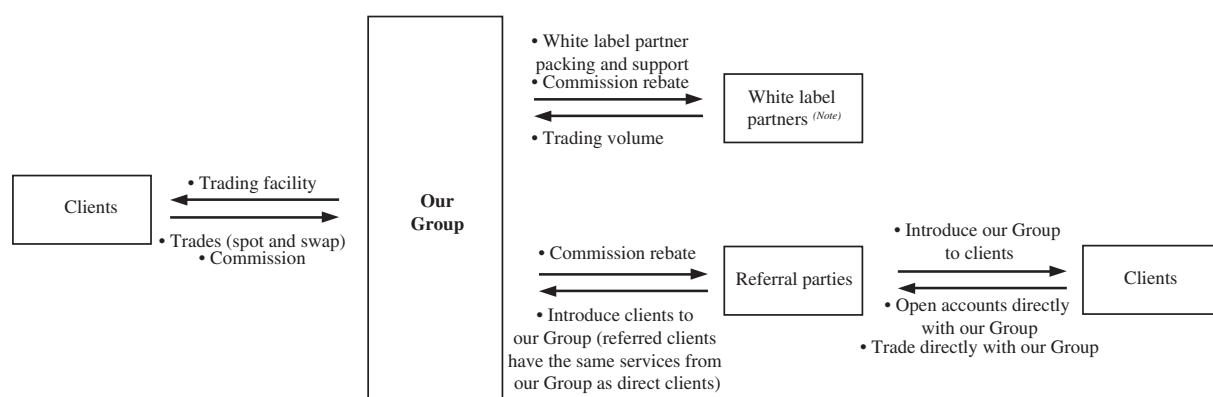
	<b>Year ended 31 December</b>			
	<b>2011</b>	<i>% of trading</i>	<b>2012</b>	<i>% of trading</i>
	<i>US\$' million</i>	<i>volume</i>	<i>US\$' million</i>	<i>volume</i>
Currency pairs	39,580	60.3%	38,821	50.4%
Indices	2	0.0%	1	0.0%
Commodities	26,015	39.7%	38,148	49.6%
	<u>65,597</u>	<u>100.0%</u>	<u>76,970</u>	<u>100.0%</u>

Currency pairs remained the most popular product during the Track Record Period. With an expectation on appreciation of commodity prices as investors often turn to investing in commodities as a way to safeguard the value of their wealth in times of financial crises such as the recent European debt crisis where investors may lose confidence in the purchasing power of currencies, the trading volume of commodities increased from approximately 39.7% of our total trading volume for the year ended 31 December 2011 to approximately 49.6% of our total trading volume for the year ended 31 December 2012. Our Group has no present plan to shift our business focus from leveraged forex trading to leveraged commodities trading. The trading volume of indices remained very low as lots of financial products linked to indices are offered in the market, which indeed may offer better expected return or lower risk.

We also offer DTA Services to the clients of KVB NZ in New Zealand, whereby KVB NZ is authorised by its clients to trade their accounts on their behalf with maximum loss limits which they preset.

## BUSINESS

The diagram below illustrates the income structure for our leveraged forex and other trading business:



*Note: Since September 2012, our Group has ceased business relationships with all white label partners.*

For the two years ended 31 December 2011 and 31 December 2012, income derived from our Group's leveraged forex and other trading business accounted for approximately 69.3% and 70.6% of our Group's total income, respectively.

The table below sets forth the admission statistics and geographical distribution of our clients through direct and indirect sources during the Track Record Period:

	New Zealand			Hong Kong	
	Direct clients	Clients referred by referral parties	Parties holding virtual accounts established through the Japanese white label partner <sup>(Note)</sup>	Direct clients	Total
As at 1 January 2011	2,424	1,996	0	14	4,434
New clients admitted during the year	303	2,354	852	0	3,509
As at 31 December 2011	<u>2,727</u>	<u>4,350</u>	<u>852</u>	<u>14</u>	<u>7,943</u>
New clients admitted during the year	326	4,478	0	1	4,805
As at 31 December 2012	<u>3,053</u>	<u>8,828</u>	<u>0</u>	<u>15</u>	<u>11,896</u>

*Note: Since September 2012, our Group has ceased business relationships with all white label partners and all virtual accounts have been closed.*

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## BUSINESS

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Set out below is a summary of the estimated leveraged forex and other trading income derived from our direct clients, referred clients and virtual accounts established through the Japanese white label partner during the Track Record Period:

	<b>Year ended 31 December</b>	
	<b>2011</b>	<b>2012</b>
	<i>HK\$' million</i>	<i>HK\$' million</i>
Direct clients	33.4	28.0
Referred clients <i>(Note)</i>	65.3	58.6
Virtual accounts established through the Japanese white label partner	8.8	0.4
	107.5	87.0

*Note: The estimated leveraged forex and other trading income generated by the referred clients as shown above, together with the commission income received from the referred clients, details of which are set out in the paragraph headed "Fees and commission income" in the section headed "Financial Information" in this prospectus, form the estimated total income generated by the referred clients.*

In addition to the financial information above, the trading volume of our direct clients, referred clients and virtual accounts established through the Japanese white label partner during the Track Record is set out below:

	<b>Year ended 31 December</b>			
	<b>2011</b>		<b>2012</b>	
	<i>US\$'</i>		<i>US\$'</i>	
	<i>billion</i>	<i>(%)</i>	<i>billion</i>	<i>(%)</i>
Direct clients	20.4	31.1	24.8	32.2
Referred clients	39.8	60.7	51.9	67.4
Virtual accounts established through the Japanese white label partner	5.4	8.2	0.3	0.4
	65.6	100.0	77.0	100.0

## BUSINESS

The following is a breakdown of the number of active direct and referred clients and virtual accounts established through the Japanese white label partner <sup>(Note)</sup> according to different ranges of trading volume and different number of transactions during the Track Record Period.

	Year ended 31 December					
	2011			2012		
	Active direct clients	Active referred clients	Virtual accounts established through the Japanese white label partner <sup>(Note)</sup>	Active direct clients	Active referred clients	Virtual accounts established through the Japanese white label partner <sup>(Note)</sup>
<b>Trading volume</b> <i>(US\$' million)</i>						
Less than 1	115	392	46	155	988	31
Between 1 and 10	257	1,029	46	146	1,556	12
Over 10	177	636	27	104	857	4
<b>Total</b>	<b>549</b>	<b>2,057</b>	<b>119</b>	<b>405</b>	<b>3,401</b>	<b>47</b>
<b>Number of transactions</b>						
Less than 10	121	178	23	113	337	21
Between 10 and 100	251	817	34	194	1,428	20
Over 100	177	1,062	62	98	1,636	6
<b>Total</b>	<b>549</b>	<b>2,057</b>	<b>119</b>	<b>405</b>	<b>3,401</b>	<b>47</b>

The table below sets out the total number of transactions attributed to active direct and referred clients and virtual accounts established through the Japanese white label partner <sup>(Note)</sup> during the Track Record Period:

	Year ended 31 December	
	2011	2012
Active direct clients	216,536	130,987
Active referred clients	783,538	646,817
Virtual accounts established through the Japanese white label partner <sup>(Note)</sup>	30,397	2,781
<b>Total</b>	<b>1,030,471</b>	<b>780,585</b>

*Note: Since September 2012, our Group has ceased business relationships with all white label partners and all virtual accounts have been ceased.*

We had approximately 2,700 and 3,900 active clients in New Zealand for the two years ended 31 December 2011 and 31 December 2012, respectively, and over 90% of them were Chinese. This increase was consistent with the increase in the total number of clients from approximately 7,900 as at 31 December 2011 to approximately 11,900 as at 31 December 2012. We had 1 and 1 active client in Hong Kong for the two years ended 31 December 2011 and 31 December 2012, respectively, and such client was Chinese. During the two years ended 31 December 2011 and 31 December 2012, our Group had approximately 2,170 and 2,680 active clients with trading volume greater than US\$1 million each and approximately 840 and 970 active clients with trading volume greater than US\$10 million each, respectively.

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## BUSINESS

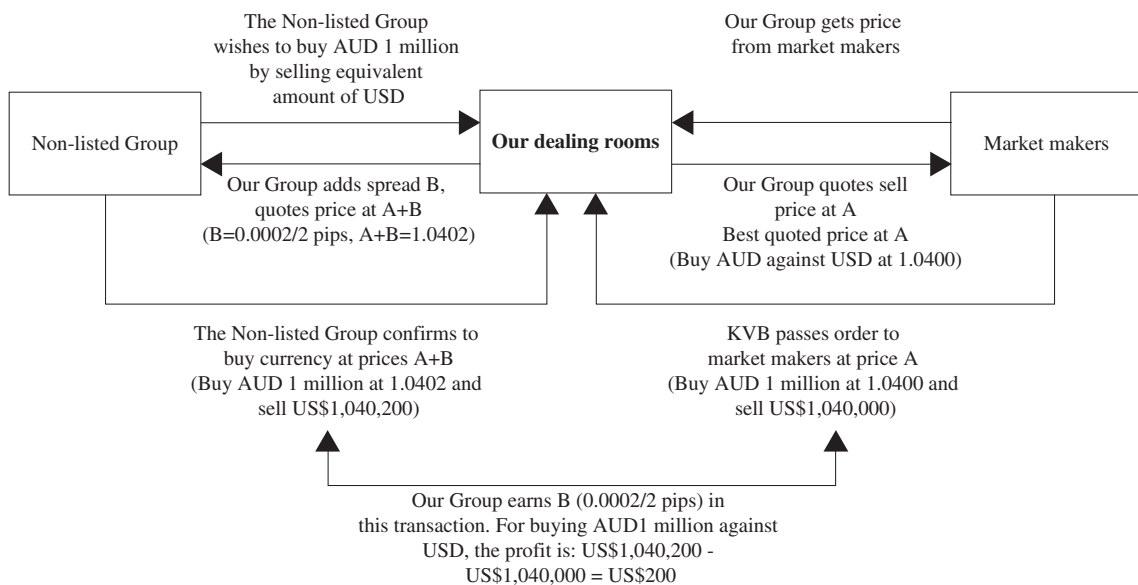
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### B. Cash dealing

Besides our leveraged business, our Group also provides cash dealing services to KVB FX, KVB FX Pty and KVB CA, being all our cash dealing business clients as at the Latest Practicable Date and the subsidiaries of KVB Holdings which were engaged in the money changing business, during the Track Record Period for the purpose of hedging their cash positions and meeting settlement obligations.

The diagrams below illustrate an example of how our cash dealing business with the Non-listed Group operates:

#### The Non-listed Group requests to buy currency



Our Group receives currency exchange rate as quoted by our forex data feed with the prevailing market rates offered by market makers, in particular, at 1.0400.

The Non-listed Group initiates to enter into a forex contract with our Group to buy AUD1 million by selling the equivalent amount of USD. Our Group then adds a markup (e.g. 2 pips or US\$0.0002). In other words, the Non-listed Group buys at a higher price (i.e. 1.0402) from our Group compared with the price offered to us by market makers (i.e. 1.0400). In the event that the Non-listed Group initiates a forex contract with our Group, our Group does not record any profit or loss at inception until the transaction is revalued with reference to the prevailing exchange rate. Our Group will enter into a forex contract with market makers to buy AUD1 million by selling the equivalent amount of USD at 1.0400. Through such arrangements, our Group is capable of securing an income of US\$200 on the forex contract of buying AUD1 million and selling the equivalent amount of USD. Upon entering into hedge transactions with market makers, the profit or loss at the time of settlement is locked up.

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## BUSINESS

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For illustrative purpose only, the accounting treatments in relation to the aforesaid example of the Non-listed Group requesting to buy AUD against USD are as follows:

**Day 1** Our Group entered into the forex contract with the Non-listed Group and subsequently the hedging contract with market maker which will be settled on day 3. At day end, if the market price of AUD against USD is changed, an unrealised gain/loss on the forex contract with the Non-listed Group and an unrealised loss/gain on the forex contract with market maker are recorded as unrealised cash dealing income.

In accordance with paragraphs 43 and 46 of HKAS 39, a forex contract is recognised initially at its fair value on the date it is entered into and is subsequently re-measured at its fair value. The change in fair value is recognised as our leveraged forex and other trading income in the consolidated statements of comprehensive income. The unrealised gain or loss as financial assets or liabilities are recognised when they are revalued. At inception of a forex contract, this value is zero since the market rate at that time is the same as the contracted exchange rate.

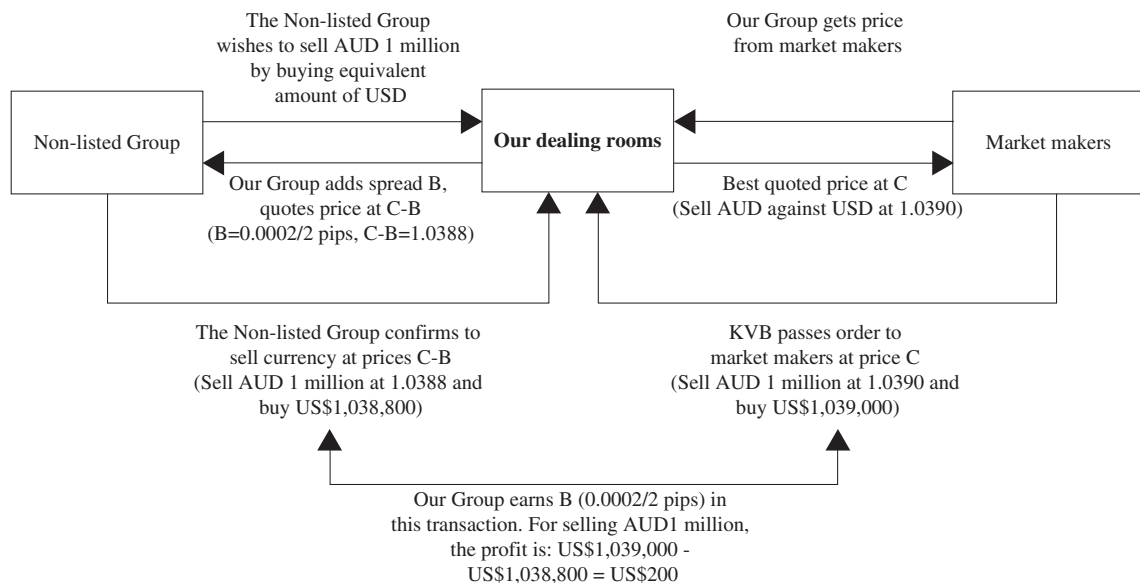
**Day 2** The accounting entries made on day 1 are reversed.

If the market price of AUD against USD is changed, an unrealised gain/loss on the forex contract with the Non-listed Group and an unrealised loss/gain on the forex contract with market maker are recorded as unrealised cash dealing income.

**Day 3** The accounting entries made on day 2 are reversed.

The forex contract with the Non-listed Group and the forex contract with market maker are settled. The profit arising on settlement of the forex contract is realised as the cash dealing income of our Group.

### The Non-listed Group requests to sell currency





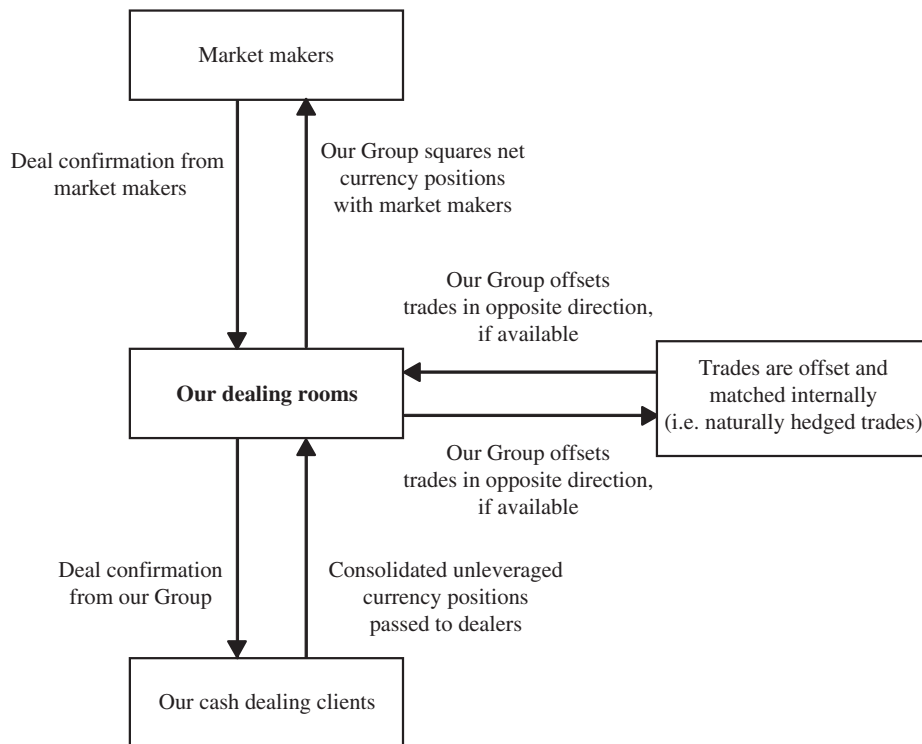
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## BUSINESS

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The business model of cash dealing is the same as the leveraged forex and other trading except for the amplifying effect, range of products and settlement amounts. Leveraged forex and other trading is traded up to 200 times of the amount of margin deposits whereas cash dealing is traded without any leverage. Leveraged forex and other trading includes forex, indices and commodities, whereas cash dealing only deals with products like physical forex. Leveraged forex and other trading would have settlement of net profit or loss rather than the full nominal value of forex in contract whereas cash dealing would have its full nominal value of forex in contract settled. Our cash dealing services are rendered by a separate cash dealing team in our dealing rooms. We are rewarded the spread between the price quoted to KVB FX, KVB FX Pty and KVB CA and the price offered by market makers. The spreads for USD currency pairs and other cross currency pairs traded by KVB FX, KVB FX Pty and KVB CA are normally topped at approximately 3 pips to 70 pips offered by market makers.

The diagram below illustrates the order execution process for our cash dealing business:



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## BUSINESS

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Set out below is a summary of the major differences between our leveraged forex and other trading business and our cash dealing business:

	<b>Leveraged forex and other trading business</b>	<b>Cash dealing business</b>
Clients	Investors	KVB FX, KVB FX Pty and KVB CA
Purpose of transactions of clients	For speculation purpose	For the purpose of hedging cash positions and meeting settlement obligations
Settlement	The net profit or loss of contracts delivered under the settlement currencies	The notional amounts of the underlying currencies
	No delivery of the underlying assets such as currencies or commodities	Delivery by non-physical method, i.e. bank transfer or telegraphic transfer
Leveraged ratio	5 times to 200 times	No
Margin requirements	Yes	No
Products	Forex, indices and commodities contracts	Forex contracts

In the event that KVB FX, KVB FX Pty and KVB CA engage in the cash dealing business, they are required to set up a dealing room and enter into agreements with market makers. Our Directors consider that market makers are unlikely to enter into agreements with KVB FX, KVB FX Pty and KVB CA given that (a) the trading volume of the money changing business is relatively small; and (b) KVB FX, KVB FX Pty and KVB CA do not have any dealing room. In addition, the major differences between the cash dealing services provided by our Group and the money changing services provided by the Non-listed Group lie in the settlement method and the purpose of services. The cash dealing services are provided to KVB FX, KVB FX Pty and KVB CA mainly for hedging purpose because these companies hold various currencies and are exposed to forex risks whereas the money changing services provided by the Non-listed Group are mainly for exchange of one currency notes to another currency notes for daily use. The income of the money changing business are recognised on the trade date of physical exchange of currencies. Our Group generates income from the spread between the price quoted to KVB FX, KVB FX Pty and KVB CA and the price offered by market makers when the transactions are closed with market makers.

Please refer to the paragraph headed “Information on the Non-listed Group owned by our Controlling Shareholders” in the section headed “Relationship with Controlling Shareholders” in this prospectus for the major differences between the cash dealing business conducted by our Group and the money changing business conducted by the Non-listed Group.

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## BUSINESS

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For the two years ended 31 December 2011 and 31 December 2012, income derived from our Group's cash dealing services accounted for approximately 8.1% and 7.5% of our Group's total income, respectively.

### **C. Securities trading referral**

In addition to our core business, we provide securities trading referral services through which we refer our clients interested in trading securities to executing brokers. The client services agreements which we entered into with our clients with respect to securities trading referral services outline the terms and conditions upon which our Group provides ancillary securities trading referral services and the acknowledgement of the relationship between the various parties involved in the securities trading referral services in that our Group acts as an intermediary referring our clients to trade with the executing brokers while the executing brokers will carry out the clearing and settlement of the securities trades placed by our clients. Our clients may trade a variety of products including securities, indices, warrants, bonds and mutual funds with the executing brokers and all trades are referred to and executed with the executing brokers. Our Directors have confirmed that except for KVB Securities (which has ceased to receive the securities referral services from our Group since July 2012), all executing brokers are Independent Third Parties. All securities trading accounts are held with the executing brokers and we receive commission rebates from the executing brokers based on the size of our clients' trades. Our clients are aware of the identity of the executing brokers. Pursuant to the terms of the relevant agreements which we entered into with the executing brokers, our Group has given an indemnity in favour of the executing brokers (other than KVB Securities being a member of the Non-listed Group) in connection with the costs and expenses arising from the orders for securities transactions placed by our clients. In other words, our Group may have to bear liabilities towards the executing brokers in the event that our clients do not have sufficient funds to carry out the transactions. Having said that, our clients shall undertake payment of any moneys owing to our Group pursuant to the client services agreements with us. There are no separate back-to-back agreements between our Group and each of our clients and the executing brokers.

The securities trading placed by our clients are executed by the executing brokers directly. The securities trading placed by our clients are fully paid and no leverage is offered for the purchase of those securities under the transactions, which is different from the nature of our Group's leveraged forex and other trading business. No securities trading can be placed if our clients do not have sufficient funds. In light of such controls in place as well as the undertaking given by our clients pursuant to the client services agreements signed with us, our Directors consider that the risk of liability arising from such transactions is close to non-existence and that the possibility of having to enforce the indemnity is minimal. In addition, we have access to the total amount of securities held by our clients at any time through the online system maintained by the executing brokers. During the Track Record Period, there were no claims from the executing brokers against our Group and there were no incidents where our clients did not have sufficient funds to carry out the transactions or cover the losses arising from closing out of their positions. Accordingly, our Directors do not consider that such indemnity is a contingent liability for our Group pursuant to HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as the possibility of an outflow of resources embodying economic benefits is remote. The reporting accountant of our Company issued the accountant's report as set out in Appendix I to this prospectus without qualification of the consolidated financial information for

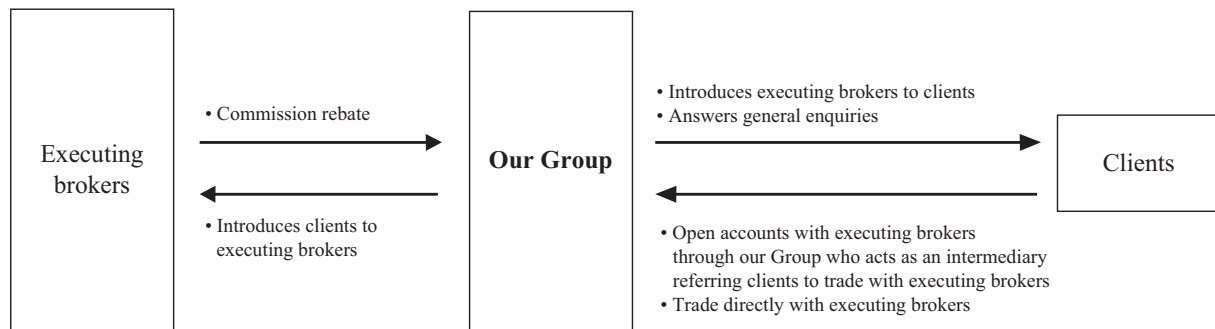
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## BUSINESS

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the two years ended 31 December 2011 and 31 December 2012. To ensure that the executing brokers have the proper licences to conduct securities trading, before referring our clients to trade with a new executing broker, our Group will (a) ensure that such executing broker warrants and represents in the agreement with us that it is properly licensed; (b) examine the public licensing records of such executing broker to ensure that it is properly licensed; (c) perform internet searches to gather as much information on such executing broker as possible; and (d) seek references from our clients or other market players regarding such executing brokers where appropriate. As far as our Directors are aware, the executing brokers are licensed to conduct securities trading and are regulated by the relevant authorities in their places of establishment. Mr. Ng Chee Hung Frederick, being one of our executive Directors, is responsible for overseeing the securities trading referral business, whose biographical details are set out in the section headed “Directors, Senior Management and Employees” in this prospectus. Our Group normally received commission rebates from the executing brokers of approximately 0.4% to 0.7% of the dollar amounts of the transactions of our clients executed by the executing brokers during the Track Record Period, amounting to approximately HK\$0.6 million and HK\$0.5 million for the two years ended 31 December 2011 and 31 December 2012, respectively, and having compared with the commission rebates of other industry players, our Directors believe that the aforesaid range of commission rebates to be comparable to market rate. For the two years ended 31 December 2011 and 31 December 2012, income derived from our Group’s securities trading referral services accounted for approximately 0.4% and 0.4% of our Group’s total income, respectively.

The diagram below illustrates the income structure for our securities trading referral services:



KVB NZ and KVB AU may refer client orders and trades to one of the following executing brokers depending on the jurisdiction in which the securities are traded. In relation to:

- (a) New Zealand securities, clients’ orders and moneys are passed to an NZX participant; and
- (b) Australian and US securities, clients’ orders and moneys are passed to a firm which is a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation, and is regulated by the United States Securities and Exchange Commission and the Commodity Futures Trading Commission.

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## BUSINESS

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During the Track Record Period, we referred client orders and trades of Hong Kong securities to KVB Securities (being a member of the Non-listed Group, a participant of the Stock Exchange, a direct clearing participant of HKSCC and a licensee of the SFC). During the two years ended 31 December 2011 and 31 December 2012, KVB NZ and KVB AU received aggregate commission income of approximately HK\$370,000 and HK\$39,000, respectively, from KVB Securities for the provision of the securities trading referral services. Due to the insignificant income contributed to our Group and to minimise any connected transactions going forward, our Group has ceased to provide the securities trading referral services to KVB Securities since July 2012.

We have been advised by the legal advisers to our Company as to New Zealand law that as KVB NZ is an NZX advising firm, no further authorisation or licensing requirements are required in relation to our Group's securities trading referral services. The legal advisers to our Company as to Australian law have confirmed that as a provider of securities trading referral services, KVB AU is required to hold and it has currently and properly held the AFSL with authorisations in advising and dealing in securities under the laws, rules and regulations in Australia. KVB HK does not provide securities trading referral services.

### OPERATIONS

#### Account opening

As part of our due diligence and internal policy, all clients must execute a client services agreement with us before they can commence trading. The agreement sets out, among others, our margin policy and risk disclosure statements. We offer client accounts in NZD, AUD, USD and JPY.

The GARC Committee is responsible for setting the policies on account openings and ensuring that all information, including but not limited to identification documents, proof of address, bank account details and investment experience, has been obtained from each client. Our Group's policy also requests that all new accounts must be approved by a compliance officer of the local office where the account is being opened. Passwords and login details are provided to our clients for identification and security purposes.

#### Margin requirements

Once the opening of a new account is approved, the client may commence trading after placing an initial margin deposit in the client's margin segregated account. Subject to the local regulatory requirement, the bases of determination of the maximum trading leverage for each client include (a) willingness of risk acceptance; (b) minimum level of margin deposits; (c) prior investment experience; and (d) age. In New Zealand and Australia, there are currently no restrictions imposed by the FMA and the ASIC, respectively, on the leverage limit which can be offered to clients. In Hong Kong, the SFC requires that leverage limit of not higher than 20 times may be offered to clients. Our Directors have confirmed that our Group has complied with the aforesaid restriction imposed by the SFC during the Track Record Period. For our clients with less leveraged trading experience, we can offer mini-accounts to them with minimum deal size of 0.01 lot, being one hundredth the size of a standard lot. The maximum trading leverage offered by KVB NZ and KVB HK is 200 times and 20 times, respectively.

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## BUSINESS

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Our Group may offer leverage limit of 200 times to certain risk-taking clients of KVB NZ with more leveraged trading experience. Our Directors believe that the maximum leverage limit of 200 times granted to certain clients is comparable to certain competitors of our Group which grant maximum leverage limit ranging from 100 times to 200 times. The leverage offered to our clients is supported by (a) the normal buffer of margin deposits of our clients which practicably reduces the leverage ratio; (b) the expectation on positions which will be hedged naturally through opposite trade positions of other clients; (c) the normal leverage granted by market makers to our Group normally ranging from 20 times to 100 times; and (d) the margin deposits made by our Group directly to market makers. We limit the level of leverage offered to our clients as part of our risk management procedures.

None of our clients exceeded their corresponding maximum trading leverage limits during the Track Record Period. The following is an analysis of the leverage limit as a percentage of the total number of clients:

	As at 31 December	
	2011	2012
5 times	0.1%	0.0%
20 times	12.4%	7.9%
25 times	9.6%	6.0%
50 times	5.8%	3.6%
100 times	46.3%	46.5%
200 times	25.8%	36.0%
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

The leverage limit of 200 times as a percentage of the total number of our clients increased from approximately 25.8% as at 31 December 2011 to approximately 36.0% as at 31 December 2012 as there were more risk-taking clients choosing higher leverage from the available leverage range we offered when they opened trading accounts with us.

All clients are required to maintain at all times sufficient margin to cover their outstanding positions. In order to monitor the margin accounts of our clients, our Group has adopted certain internal control procedures including, among others, (a) requiring our clients to have sufficient margin deposits in their accounts before any trade can be executed; (b) disallowing our clients to open new positions or keep their positions when their net equity drops to nil or below; and (c) automatically liquidating our clients' positions if their net equity drops to the stop-out level.

Our online trading platform monitors price movements in the leveraged trading market and alerts our dealers should there be material fluctuations in the exchange rates of any particular currency. Our Group runs daily margin reports in respect of all the client accounts with margin shortfall.

As a value added service, our sales and marketing team will inform our major clients with margin deposit balance over US\$500,000 by phone if their margin deposits fall to approximately 10% to 20% above the margin call level. In the event such major clients do not answer our calls and

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provided that their margin deposits are still close to the margin call level, we will keep calling until such clients can be reached. However, due to market movements, our clients' positions change every second and their margin deposits may decrease to reach or increase to be well above the margin call level after we attempt to contact them by phone. In the event that our major clients do not answer our calls and their margin deposits reach the stop-out level, our trading system will close out their positions automatically in accordance with the terms set out in the client services agreements to avoid their further losses. As at the Latest Practicable Date, there were six clients whose margin deposits, with an aggregate amount of approximately US\$270,000, reached the margin call level. Our clients can see their real-time margin positions and the margin required levels from our trading platform. In the event that a client's margin deposit falls below the stop-out level and such client is unable to place the additional margin required, our trading system will close out all positions of that client in order to limit his/her/its losses and to avoid a deficit in the client's account. If there is a deficit in the client's account, such deficit will be debited to our Group's leveraged forex and other trading income. When the deficit is subsequently settled by the client, the amount will be recognised as our leveraged forex and other trading income. Up to the Latest Practicable Date, there were a total of approximately 180 client accounts with deficits remained unsettled with aggregate and average values of approximately HK\$0.6 million and HK\$3,000, respectively, due to significant adverse change in our clients' currency positions as a result of, among others, market fluctuation owing to expectation or realisation of market news. As at 31 December 2011 and 31 December 2012, there were a total of 47 and 130 client accounts with deficits remained unsettled as at the respective dates with aggregate values of approximately HK\$0.3 million and HK\$0.6 million, respectively, of which approximately HK\$0.2 million and HK\$0.1 million were subsequently settled by our clients up to the Latest Practicable Date, respectively. Notwithstanding that our Group acts as the market maker to our clients, such deficits were not significant to the size of our business. Meanwhile, such deficits to our Group are minimised as our dealers proactively monitor the net open positions of our Group and hedge the net open positions of our clients' trades with market makers so as to eliminate the market risk and lock the profits. During the Track Record Period and up to the Latest Practicable Date, no margin calls had been made to the clients of KVB HK while margin calls had been made to the clients of KVB NZ. As our dealers are not required to record margin calls in the log book, it is impracticable for our Group to quantify the exact number of margin calls made to the clients of KVB NZ.

Given that (a) the aggregate and average deficits for all the aforesaid incidents were approximately HK\$0.6 million and HK\$3,000, respectively; (b) the largest individual deficit of the aforesaid incidents was only approximately HK\$38,000; and (c) our Group continually monitors and evaluates the effectiveness of our risk management, including but not limited to monitoring of forex price movements of major currencies, price sensitive market news, our clients' net outstanding positions and margin requirements, details of which are set out in the paragraph headed "Risk management" in this section, our Directors consider that we have sufficient monitoring procedures in place for preventing our clients' accounts from falling into significant deficits, and there have been no significant deficits occurred since the establishment of our Group and it is unlikely that any significant deficits will occur. However, in the unlikely event that there is a very substantial fluctuation in the market due to an outbreak of major news, or the like, our trading system may not be able to close out our clients' positions in time.

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### **Order processing**

Our online trading platform, ForexStar, is designed to enhance trading capability and efficiency while at the same time allowing our Group to maintain a tight internal control environment.

Before a client order is accepted, our trading system will ensure that the correct password is provided by the client by matching the same against the records in our trading system. Our trading system will also assess the equity position of a particular client through ForexStar to ensure that sufficient initial margin has been placed in the client's account. Our client has to use the correct password to login the trading platform, otherwise, no trade can be processed. Our trading system will limit the maximum tradeable amount for each client determined by the client's free margin in his/her/its account and the leverage we set for the account. Depending on the size of the transaction, quotations can be made to our clients directly by our trading system with reference to the prevailing market conditions, markups set by our Group, risk exposure or after a corresponding quote is obtained by our dealers from market makers. For the daily operation, most of the transactions are executed by our trading system automatically. Our dealers typically only execute a fraction of the transactions manually in situations where our client is making a telephone order or if there is an outbreak of major news where our trading system may not be able to reflect the substantial fluctuation in the market in time. All transactions conducted by or through our Group are concluded through ForexStar electronically and are input into our trading system.

### **Dealing rooms**

Our automated trading platform allows us to match or hedge our client's order request with a quote provided by market makers. For our leveraged forex trading business, we have utilised our extensive experience in global investment to develop risk management systems and procedures which allow us to manage market and credit risks in accordance with pre-defined exposure limits in real-time. As part of our risk management, we do not actively initiate market positions for our own account in anticipation of future movements in the relative prices of the products we offer. Instead, we continuously evaluate market risk exposure and actively hedge our clients' transactions on a continuous basis.

Our dealing rooms proactively monitor the net open positions of forex and other trading products in three shifts throughout 24 hours in a day. Mr. Ng Chee Hung Frederick, being one of our executive Directors, and Mr. Qiu Bin, being our chief dealer, are responsible for monitoring and making decisions for the hedging process. Mr. Qiu obtained his master's degree in internetworking from the University of New South Wales of Australia in October 2002 and his bachelor's degree in telecommunications engineering from the South China University of Technology (華南理工大學) in July 1999. Mr. Qiu joined our Group in February 2003 as an information technology engineer. Mr. Qiu had been a forex dealer of our Group since September 2004 responsible for assisting in monitoring the hedging process and was promoted to his current position as our chief dealer in April 2009. Mr. Qiu is currently not regarded as our senior management personnel as he acts under the instructions of and reports directly to Mr. Huang Songyuan, being our director of global margin business and one of the senior management personnel of our Group.



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KVB NZ started offering the leveraged forex trading services to its clients when we established our first dealing room in New Zealand in 2003. Our New Zealand dealing room provided 24-hour dealing services to our overseas Chinese and Japanese clients on three shifts as follows:

	<b>Winter time (New Zealand time)</b>	<b>Summer time (New Zealand time)</b>
1st shift	6 a.m. to 2 p.m.	7 a.m. to 3 p.m.
2nd shift	2 p.m. to 10 p.m.	3 p.m. to 11 p.m.
3rd shift	10 p.m. to 6 a.m.	11 p.m. to 7 a.m.

After KVB HK obtained the type 3 (leveraged forex trading) licence from the SFC in 2004, our Group established our second dealing room in Hong Kong as a back-up to our New Zealand dealing room and to relieve the workload of our staff in New Zealand working on the 3rd shift. After establishing our Hong Kong dealing room, our 24-hour dealing services arrangements are as follows:

- 1st shift – run by our New Zealand dealing room
- 2nd and 3rd shifts – run by our Hong Kong dealing room

Our New Zealand dealing room is overseen by Mr. Huang Songyuan, being our director of global margin business residing in New Zealand, to ensure the proper function of its operations. Our Hong Kong dealing room is overseen by Mr. Qiu Bin, being our chief dealer who reports to Mr. Huang and resides in Hong Kong, to ensure the proper function of its operations. Our Group has policies and procedures in place to ensure the proper function of our dealing rooms at both local and Group levels.

Every dealer in our dealing rooms is authorised to enter into hedge transactions. Save for any permitted dealing limits observed by our dealers, when there are any forex net open positions in any products, our dealers would be responsible for hedging all the net positions of our clients' trades with market makers so as to eliminate the market risk and lock the profits. Normally, if our clients' deposits are lower than the prescribed limit, we will adopt the natural hedge strategy and allow the clients' positions to offset other clients' positions. However, if our clients' trades cannot be perfectly matched under the natural hedge and the net positions exceed the daily/shift loss limit or the net open position limit, our dealers will undertake the market maker hedge.

Our dealers, our dealing manager and our risk manager have real-time access to positions and profit and loss information, which gives us effective control over our net position limit and daily/shift loss limit. According to our Group's internal policy, the dealing limits are reviewed regularly by our management. Our dealing manager has to closely monitor the trading positions and ensure that our Group's risk is under control. On this basis, our senior dealer in the shift is allowed to hold the position. Our senior dealers, namely Mr. Sun Maoyuan and Mr. Zheng Weida, have been working as dealers for our Group for the past three years. Mr. Sun has over five years of experience as a dealer and Mr. Zheng has over four years of experience as a dealer. Mr. Sun obtained his bachelor's degree in commerce from The University of Auckland in September 2005 and his master's degree in

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business from the Auckland University of Technology in March 2007. Mr. Sun became a chartered financial analyst of the CFA Institute in September 2011. Mr. Zheng obtained his bachelor's degree in economics from the Sun Yat-Sen University (中山大學) in June 2007 and his master's degree in international banking and finance from Lingnan University in October 2008. From the risk perspective, there is no restriction on the maximum time during which our senior dealer is allowed to hold the position if the limit is not exceeded. If the limit is exceeded, our dealers will immediately enter into hedge transactions with market makers by entering into counter positions. The open positions of our Group are closely monitored by our risk department to ensure that the prescribed limit is not exceeded. Please refer to the paragraph headed "Hedging and net position limits" in this section for more detailed information on our Group's hedging strategies and stop-loss policies.

Our Directors consider that our Group's hedging is mostly short-term in nature and is normally made shortly after execution of clients' orders. Therefore, hedging is always considered to be effective from a financial perspective. Hedging is the mechanism devised by our Group to effectively minimise the net open position exposure based on the risk exposure of our Group in real-time. Save for the dealing limits which our dealers are subject to, our Group does not engage in any speculative activities. Once our dealer enters into a transaction with market maker, the dealer is responsible for entering the deal information into our trading system which will then automatically send a confirmation notice to market maker. The market maker provides us with an online system to check deals and positions. If the confirmation notice sent to market maker is not matched with the information on the market maker's online system, the market maker will notify our dealers and our director of global margin business, namely Mr. Huang Songyuan. Therefore, our Group will be notified immediately if there is any discrepancy in our trades hedged with market makers. Our executive Directors, chief dealer and director of global margin business all have real-time access to our trading system to check the positions and trading activities of our Group. Further, at the handover of each shift, our dealers will pass the positions to the dealers of the next shift, and all trades and positions shall be reconciled and agreed between the incoming and out-going dealers during shift handover. Moreover, our Group has an accounting team to reconcile all trades and positions and a risk department to monitor dealers' and clients' trading activities on a daily basis. With such checks and procedures in place, which are handled by distinct and separate departments within our Group, our Group strives to ensure that there will be no speculative activities conducted on the part of our dealers. As at the Latest Practicable Date, there were two members in the accounting team responsible for reconciliation with approximately one year and over seven years of relevant experience, respectively. Ms. Zhang Rongjun, being the regional financial controller of New Zealand and Australia of our Group, oversees the reconciliation function of our Group. Our Directors consider that these controls will serve to monitor our hedging activities. Our Directors are of the view that the prevailing accounting standards specifying hedging documentation requirement are of no or minimal relevance to our maintenance of daily trading positions. The derivative financial assets and liabilities of our Group on the net open positions with our clients' and market makers' trades are the floating unrealised gains or losses at the respective balance sheet dates counted on an individual basis of our clients and market makers.

Unrealised gains or losses are grouped under leveraged forex and other trading income in the consolidated statements of comprehensive income. Under fair value accounting, unrealised gains or losses are subject to the settlement of the mark-to-market amount as if the contract is realised at that point of time. Therefore, the accounting treatment of unrealised gains or losses is not differentiated from realised gains or losses or disclosed separately from realised gains or losses in the consolidated statements of comprehensive income.

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We adopt three main types of derivative financial instruments with market makers, namely spot, swap and forward contracts. Details of their characteristics are set out below:

Types of contract	Spot	Swap	Forward <sup>(Note 1)</sup>
<b>Commencement date</b>	Immediate	Immediate	No more than seven days before the relevant period end date
<b>Expiry date</b>	Open until close	Contract value date	No more than seven days after the relevant period end date <sup>(Note 2)</sup>
<b>Notional amount of contract</b>	Notional value of contracts based on settlement currency	Nil <sup>(Note 3)</sup>	Approximately HK\$2,161 million (as at 31 December 2011) Approximately HK\$1,892 million (as at 31 December 2012)
<b>Cap on gain</b>	Unlimited (offset by loss to clients)	Swap income	Nil
<b>Maximum exposure</b>	Unlimited (offset by gain from clients)	Swap cost expense	Approximately HK\$121 million (as at 31 December 2011) Approximately HK\$216 million (as at 31 December 2012) Approximately HK\$103 million (as at the Latest Practicable Date)
<b>Resulting gain/loss</b>	Spread between executed price with our clients and market makers	Swap cost	Varied case by case as the forward contracts are floating along time, which will be reflected ultimately under leveraged forex and other trading income

*Notes:*

1. *The number of forward contracts remained open with our clients as at 31 December 2011 and 31 December 2012 was approximately 1,090 and 900, respectively.*

*The number of forward contracts remained open with market makers depends largely on the net positions initiated from our clients constantly and therefore, there are usually thousands (around 10,000 transactions) of forward contracts which remain open with market makers.*

2. *If a client wants to trade a rolling spot contract, the expiry of such contract is normally at day end and it is only possible to perform a next day rollover. If our hedging forward contract expires before the client's contract, our forward contract will be closed or settled, but the client's position remains open, which results in un-matching position. If our hedging forward contract expires after the client's contract, with the decision that if the client wants to rollover his/her/its position again, we can then extend our forward position on the following day with our counterparty; and if the client decides to close his/her/its position at the expiry date, we can also close the hedging forward position. As such, we keep the expiry of our forward contract after the client's contract and no loss will be incurred under such arrangement.*
3. *A swap contract involves simultaneous execution of a spot contract and forward contract for the same face value. The two opposite transactions offset each other and are netted off. Thus the notional amount is nil.*

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The above derivative financial instruments cannot be reconciled to individual client's transactions as the hedge trades of our Group with market makers for positions initiated from our clients are conducted on a collective net basis and some of the trades are likely to have hedged naturally (i.e. positions partially offset among our clients) when our clients execute trades with us. In any point in time, subject to the presence of permitted dealing limit, when there are specific uncovered exposures from trades executed by our clients with our Group in any currency pairs, indices or commodities, our dealers would enter into contracts with market makers to cover the exposure. Losses resulting from trades with our clients cannot be segregated from gains and all resulting gains or losses from our clients and market makers are presented on a net basis as leveraged forex and other trading income. The types of contracts we enter into with market makers mirror the types of trades our clients elect to enter into on a collective basis (for example, our clients' spot contracts for a certain type of currency will be aggregated and offset with similar trades with market makers). At the end of each day, any positions held by our clients with us which remain open will be rolled over to the next day, and our dealers will rollover such positions correspondingly by entering into swap contracts with market makers. During the Track Record Period, our forward and swap contracts were normally held for no longer than seven days, whereas spot contracts were normally valued on the same day.

Set out below are our net hedging positions held with market makers in various currencies and commodities as at the Latest Practicable Date. The amounts shown are the net totals taking into account the amounts as at the Latest Practicable Date and any forward positions which are set to expire or delivered on future dates.

<b>Our products</b>	<b>Long/(short) positions</b>
AUD	(14,754,589.99)
CAD	141,248.81
CHF	(188,290.47)
EUR	(1,731,551.72)
GBP	1,267,187.65
HKD	(14,901.00)
JPY	(300,897,573.00)
NZD	858,814.65
USD	24,026,342.73
Gold (denominated in USD)	(3,403,573.20)
Silver (denominated in USD)	114,894.95
Crude oil (denominated in USD)	9,326.00
Corn (denominated in USD)	0.00
Soybean (denominated in USD)	0.00

The percentage of exposure hedged, or the hedge ratio, was approximately 91.8%, 81.0%, and 77.3% as at 31 December 2011, 31 December 2012 and the Latest Practicable Date, respectively. The reason for the fluctuation in the hedge ratio lies in the behavior of our clients' trades in relation to our natural hedge strategy, where, subject to our daily/shift loss limit, we will hold a position until it is hedged by a position initiated by another client. As trades from our clients arise, our net positions held and the hedge ratio will also fluctuate correspondingly.

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Our Directors consider that under exceptional circumstances, theoretically, in the event that the market is highly volatile and our dealers fail to hedge the trades of our clients with market makers in a timely manner or where there is system failure of our Group or market makers, our Group may incur losses resulting from the trades of our clients (including both our direct and referred clients). Our Group had not incurred any loss resulting from failure to offset trades with market makers during the Track Record Period. Given that our Group has the aforesaid internal control procedures in place and that our Group had not incurred any loss from the trades of our clients under the aforesaid circumstances during the Track Record Period, the Sponsor considers that the internal control procedures for monitoring our trades are effective.

### **Settlement**

To achieve efficient reporting and effective risk management, all transactions concluded and input into our trading system are recorded automatically and daily transaction reports are generated and sent to our clients. Reconciliation is performed daily by the accounting department of our Group for any discrepancies between transaction orders and executed transactions. Any discrepancies are investigated to ensure that deals confirmed with our clients and market makers through ForexStar are accurately transacted in a timely manner.

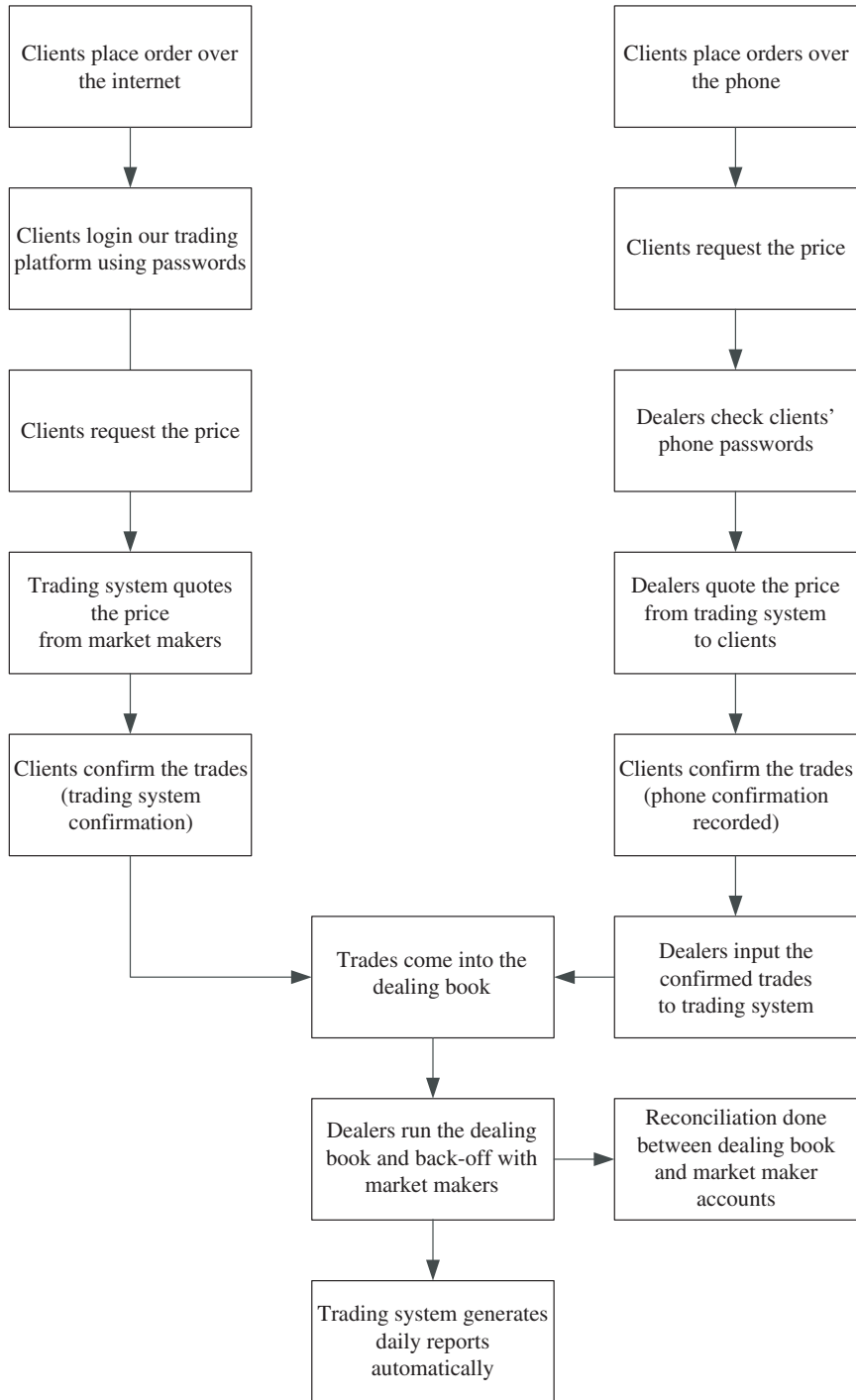
Electronic confirmations are sent to our clients immediately following the execution of contracts. Monthly statements which include details of all transactions effected during the month and the open positions at the end of the month are sent to our clients.

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The diagram below illustrates the ordering and settlement process of our Group:



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### OUR TRADING SYSTEM

Forex trading is performed over-the-counter among institutional banks, market makers and other financial institutions rather than through an organised exchange and therefore no common trading infrastructure is required. Most of the established leveraged forex service providers, including ourselves, have developed most of their own trade processing technologies themselves. We make good use of up-to-date technology in providing our services to clients. Unlike traditional trading platforms which heavily rely on manpower, our online trading platform, ForexStar, which is now available in both online and mobile interfaces, gives our clients access to the leveraged trading markets from virtually anywhere around the world in an efficient and cost-effective manner. We believe our information technology, educational programmes and multilingual client services professionals provide an effective means of enhancing our clients' satisfaction and loyalty. Furthermore, our technological infrastructure allows us to enhance our services to meet the rapidly changing market needs.

Our online trading platform, ForexStar, is supported by our sophisticated technological infrastructure. The front-end client terminal allows account holders to track their account balances, equity, required margin deposits, remaining free margins, margin levels, open positions, pending orders, profits and losses all in real-time. The middle-end risk management system monitors the overall positions from our clients and automatically closes out open positions if a client's account reaches the minimum margin threshold as a result of a trading position losing value, which prevents our clients from losing more than their margin deposits unless major news breaks out which makes it impossible for our trading system to close out those positions in time. The back-end reporting console generates all types of necessary reports for our Group's management, back office staff and clients to receive up-to-date account information accurately. ForexStar constitutes a suite of products supporting the leveraged trading operations of our Group. The client terminal and the PDA client and dealer terminal modules were purchased from a third party software developer. The total purchase cost was approximately HK\$0.8 million. Other modules, including the dealing room position monitoring programme, the automatic trading programme, the report manager and the price feed system, are self-developed applications. Our information technology department is responsible for the day-to-day operations and maintenance of our trading system.

The core architecture of our trading platform mainly consists of the primary trading server located in New Zealand, the contingency back-up server in Hong Kong and the ForexStar client terminal (being an online trading platform accessible through the internet designed to enhance the trading capability and efficiency while at the same time allowing our Group to maintain a tight internal control environment). Our Group also maintains dealing rooms in New Zealand and Hong Kong (i.e. the offices to which our clients relate) to provide market liquidity and market pricing to our clients and monitor the daily activities of the leveraged forex and other trading business. Our Directors consider that it is essential to set up the contingency back-up server in Hong Kong in order to avoid suspension of leveraged forex and other trading services due to accidental events such as electricity breakdown or failure of the trading server in New Zealand with the aim of protecting our clients' interests and maintain the quality service and branding of our Group.

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Our clients can place orders through various channels such as the ForexStar client terminal or telephone. When a client places an order through the ForexStar client terminal, the order will be automatically transmitted to the trading server in New Zealand and in case of failure of the trading server in New Zealand, the back-up trading server in Hong Kong. The relevant order is then executed through our trading servers. Our Directors consider that the ForexStar client terminal is a data transmission channel to the relevant trading servers similar to email and telephone and confirm that the orders placed by our clients are executed through the trading servers regardless of the physical locations of our clients.

In this regard, we have further sought opinions from the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law and have been advised that our Group is deemed to conduct business (a) in New Zealand and Hong Kong for executing client orders in these two jurisdictions through the relevant trading server in New Zealand or Hong Kong; and (b) in New Zealand, Australia and Hong Kong for providing client services in these jurisdictions. The legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law have advised, and our Directors have confirmed, that our Group has obtained all the necessary authorisations and licences to operate our existing business in New Zealand, Australia and Hong Kong, respectively.

### **ForexStar client terminal**

The ForexStar client terminal is an online trading platform available in various languages including Chinese (both traditional and simplified), English and Japanese. It is a user-friendly trading platform, enabling our clients to access real-time market quotations and various technical analysis tools, trade multiple products such as currency pairs, indices and commodities, and manage trading portfolio all on one screen. Our clients can trade on ForexStar either via internet or telephone 24-hour a day from virtually anywhere around the world where internet or telephone services are available.

### **Backbone structure**

The middle-end and back-end of ForexStar are the backbones of our business where the infrastructure can automatically consolidate and filter data feeds from various market makers, supply tradable quotes for ForexStar, monitor aggregate trading positions, evaluate overall risk exposures and actively hedge with market makers according to our Group's risk exposure policy.

Our proprietary pricing engine receives, stores, analyses and distributes streaming quotes to our trading system for our clients to trade on. To ensure that an accurate and uninterrupted trading price is available for our trading platform, our proprietary pricing engine simultaneously handles multiple real-time streaming prices from market makers.

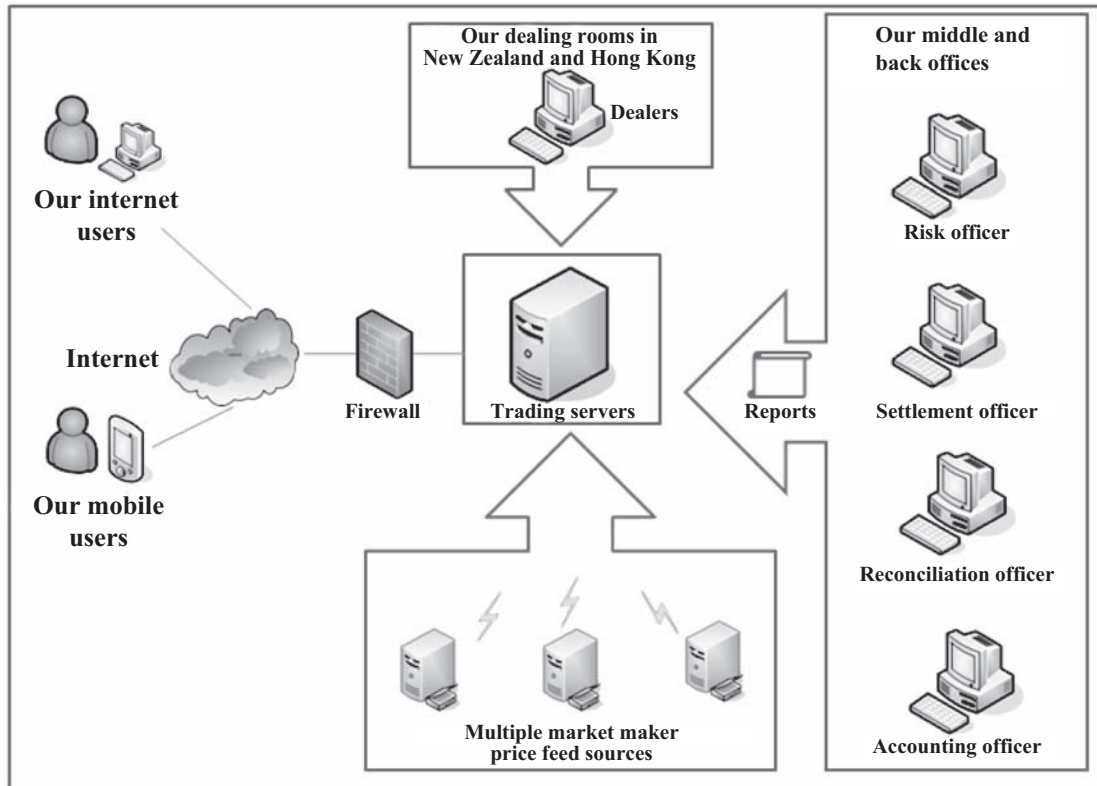


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The diagram below illustrates the core architecture of our online trading platform:



### Technology and infrastructure

#### *User-friendliness*

Our trading software has a user-friendly interface permitting our clients to make trades easily. Real-time and advanced charting capability provides valuable decision support tools to our clients to better identify the direction of market movements. In addition, our trading platform's built-in support allows our clients to automate their trades. Our clients can even tailor the trading logic to fit their selected trading criteria.

#### *Reliability and availability*

Our trading software runs on resilient hardware and software technologies with primary and secondary facilities hosted at two separate geographic locations, providing a redundancy model. Our primary trading server resides in New Zealand while the contingency back-up server is in Hong Kong. In addition, both servers are located in an advanced outsourced datacentre with full business continuity features including redundancy for power, telecommunication connections and "24/7" (i.e. non-stop) monitoring. The service provider for the datacentre will notify us about any circumstances under which the service may be interrupted. Such circumstances include anticipatory notifications due to planned maintenance work or system upgrades performed at the datacentre in which our

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trading system is located. Pursuant to the agreement entered into between our Group and the service provider for the datacentre, the service provider has given a guarantee in relation to the service level standard in favour of our Group. However, there are various exclusions in relation to the service level standard guarantee which include fibre cuts, outages or faults which require planned or unplanned maintenance on submarine cable or plant, lapse of service due to local access or domestic extensions provided by a third party provider and the liability has been limited. In the event that the service provider for the datacentre fails to provide a reliable and secure environment for our trading system pursuant to the terms of the services agreement, our Group may consider making a claim against the service provider. The merits of the case will depend on the evidence presented in the circumstances and the service provider's liability will not be limited in tort for its wilful or intentional misconduct, or where there is loss or damage to real property or tangible personal property caused by its gross negligence. Please refer to the paragraph headed "System failures or security breaches could interrupt or decrease responsiveness of our services, thus harming our business" in the section headed "Risk Factors" in this prospectus for further details.

Our Group employs system management tool which continuously monitors the availability and performance of our ForexStar servers. In the event of errors and system issues, the system management tool will alert our responsible staff immediately through email notification. Up to the Latest Practicable Date, the aggregate cost of developing our trading platform was approximately HK\$22.8 million. The software developers of ForexStar and its modules are Independent Third Parties and the software is not sold exclusively to our Group.

During the Track Record Period, we did not have any significant interruption on our trading system (including ForexStar), and we had an uptime (being the time during which our trading system is properly operating) of approximately 100%.

Our clients connect to our trading servers through the internet. We also contract with multiple communication carriers at the locations where our trading servers are located to ensure service availability with our clients and market makers.

### *Security*

Securing access to our trading platform and client information is paramount to our business success. We maintain strict internal practices, procedures and controls, including strict security controls providing different levels of access rights, which enable us to secure our clients' sensitive information (including bank account information and other personal data). We employ advanced firewall technologies at the perimeter of our hosting facilities to restrict inappropriate access.

The overlapping information technology staff of our Group and the Non-listed Group are mainly responsible for the provision of general information technology support such as repair and maintenance of the hardware and infrastructure and the office applications shared between our Group and the Non-listed Group and they will not have access to our trading platform. Therefore, our Directors consider that the risk for information leakage to the Non-listed Group is very minimal.

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Access to our information systems is granted to our clients and internal users on an as-needed basis. Clients accessing our trading platform and the secure portals use a user name and password challenge/response approach. Incorrect logins with three attempts or more will be recorded and reported to our risk management officer for monitoring and investigation.

In light of the above security measures in place, our Group had not encountered any instances related to the leakage of proprietary information or client information during the Track Record Period.

### *Business continuity*

We maintain formal business continuity policies, practices and procedures aimed at ensuring rapid recovery from any business or trading interruption. Each of our trading systems and services has been ranked according to the risk associated with an interruption. Business recovery time objectives have been established relative to our risk assessment and business criticality and our recovery plans and controls have been established to avoid and mitigate such risks. Our recovery plans and controls are reviewed and tested to determine the effectiveness and are continuously maintained and updated in order to support changes in the business requirements or the information technology environment.

As advised by the legal advisers to our Company as to New Zealand law and Hong Kong law, there is no law, rule and regulation relating to the measures against system failure, security breach and system back-up in New Zealand and Hong Kong, respectively.

The legal advisers to our Company as to Australian law have advised that we are obligated to have in place adequate information technology resources and systems. The general expectation from the ASIC is that licensees should have an overall information technology strategy or plan depending on the size or complexity of the organisation, a disaster recovery plan, and adequate systems and functionality relative to the nature of the business. Our Directors have confirmed that we have in place adequate information technology resources and systems as disclosed in the paragraph headed “Technology and infrastructure” in this section. On this basis, the legal advisers to our Company as to Australian law have confirmed that we are in compliance with the relevant laws, rules and regulations in Australia relating to the measures against system failure, security breach and system back-up.

Our Directors have further confirmed that there are no industry standards on the measures against system failure, security breach and system back-up in New Zealand, Australia and Hong Kong.

### **CLIENT SERVICES**

We provide client services in Chinese, English and Japanese by handling client inquiries via telephone and email. As at the Latest Practicable Date, we had a total of 10 employees in our three client services centres in New Zealand, Australia and Hong Kong. To provide efficient services to our growing client base, we have segmented our client demography into the following three main categories:

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### **New to leveraged forex**

For our clients with less leveraged forex trading experience who wish to trade in a smaller amount, we can offer mini-accounts to them with minimum deal size of 0.01 lot, being one hundredth the size of a standard lot. Our Directors believe that education is an important factor for new clients, and we set up free demo accounts to enable our clients to explore our services including the fundamentals of leveraged forex trading, application of technical analysis to leveraged forex and the use of risk management.

### **Experienced clients**

For our clients who wish to trade in larger amounts or with experience in leveraged forex trading, we offer standard accounts to them with a minimum deal size of one lot.

In addition, we provide value added services to our experienced clients where they can follow and discuss their trading strategies with our dealers through our website.

### **DTA Services**

Since 2009, we have been offering DTA Services to our clients in New Zealand, whereby our clients authorise KVB NZ to trade their discretionary trading accounts on their behalf with maximum loss limits which they preset. Our DTA Services clients have to pay deposits before their accounts are activated. The DTA Services shall be terminated when the maximum loss limits preset by our clients are reached. Any profits on the discretionary trading accounts will be shared in the ratios agreed between our clients and us. Further, our Group is not obliged to share any loss arising from the trades conducted for our DTA Services clients. During the Track Record Period, the normal profit sharing ratio under the DTA Services agreements with our clients was approximately 20% of the profit derived from the discretionary trading accounts over a specified period of time. During the Track Record Period, our Group did not charge any other fees except for the profit sharing ratio as stipulated under the DTA Services agreements.

Our risk and compliance department generates risk monitoring reports on the discretionary trading accounts on a daily basis. Our DTA Services clients can choose either 30% or 50% as the maximum preset loss limit. We will alert our dealers responsible for the DTA Services when the cumulative losses of our clients' accounts reach 25% (for maximum preset loss limit of 30%) or 45% (for maximum preset loss limit of 50%) and request the relevant dealers to terminate the DTA Services once the DTA Services client accounts reach the maximum preset loss limit. The duration of the completed DTA Services generally ranged from a few days to over one year during the Track Record Period and the average duration for the DTA Services is approximately six months. Given the short term of the DTA Services and for operational efficiency, the profits on the discretionary trading accounts are only shared upon termination of the DTA Services. The income generated by the DTA Services was approximately HK\$2,400 and nil for the two years ended 31 December 2011 and 31 December 2012, respectively. As there was no significant profit made by our DTA Services clients, they closed down their accounts with us. Therefore, no income was generated by the DTA Services for the year ended 31 December 2012. No compensation was paid to or by our DTA Services clients

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for closing down their accounts. Our Group has not actively pursued to offer this service thereafter as it was not particularly lucrative compared to other services offered by our Group. Our Directors have confirmed that as far as the DTA Services are concerned, we did not have any material dispute with our clients requiring us to make compensation during the Track Record Period.

### MAJOR CLIENTS AND MARKET MAKERS

#### Five largest clients

Currently, our Group mainly provides leveraged forex and other trading services and cash dealing services in New Zealand, Australia and Hong Kong. The geographical locations of our clients, most of which are individuals, are based on the jurisdictions in which the client services agreements are executed. Our dealing rooms are located in New Zealand and Hong Kong to provide market liquidity and market pricing to our clients and monitor the daily activities of the leveraged forex and other trading business. Therefore, our clients may enter into client services agreements either with KVB NZ or KVB HK. As at 31 December 2011 and 31 December 2012, the total number of clients, who were mainly individual investors, under the leveraged dealing segment was approximately 7,900 and 11,900 in New Zealand, respectively, in which approximately 980 and 1,000 were our overseas Japanese clients <sup>(Note)</sup>, and 14 and 15 in Hong Kong, respectively, whereas the total number of clients under the cash dealing segment in New Zealand was 3 and 3, respectively. As at 31 December 2011 and 31 December 2012, we had no clients under the investment sales segment in New Zealand and Australia as those clients were incepted under the New Zealand margin dealing segment. We had approximately 2,700 and 3,900 active clients in New Zealand for the two years ended 31 December 2011 and 31 December 2012, respectively, and over 90% of them were Chinese. We had 1 and 1 active client in Hong Kong for the two years ended 31 December 2011 and 31 December 2012, respectively, and such client was Chinese. As at the Latest Practicable Date, we had approximately 40 client accounts with margin deposit balance over US\$100,000, approximately 250 client accounts with balance between US\$10,000 and US\$100,000, and approximately 14,100 client accounts with balance less than US\$10,000. As such, most of our clients are general investors. The amount of margin deposit balance in the client accounts does not have any relationship with the risk associated with the trades executed by our clients with us.

For the two years ended 31 December 2011 and 31 December 2012, our Group's five largest clients, who were mainly high net worth individuals with experience in leveraged forex trading, accounted for in aggregate approximately 29.6% and 23.3%, respectively, of our trading volume. None of our Directors, their respective associates or any of our Shareholders (which to the knowledge of our Directors own more than 5% of our Company's share capital) had any interests in any of our Group's five largest clients during the Track Record Period.

Our Directors consider that our business model results in negligible reliance on a limited number of clients. Our Group generally acts as the market maker to our clients' trades and as the agent for trades conducted by our clients. Our Group mainly derives income from the spread differential between two clients in our role as the market maker and the spread differential between our clients and market makers in our role as the agent. As such, the profitability of our Group depends on, among other things, the volatility of the market and the trading volume of our clients, which is in turn solely

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determined by our clients. Therefore, one of the sales and marketing strategies of our Group is to expand our client base through our investment sales team, referrals by referral parties and various marketing and sponsorship events. Our Group's negligible reliance on our major clients can also be demonstrated by (a) our Group having approximately 2,700 and 3,900 active clients in New Zealand for the two years ended 31 December 2011 and 31 December 2012, respectively; (b) our Group having a total of approximately 7,900 and 11,900 client accounts as at 31 December 2011 and 31 December 2012, respectively; and (c) our top five clients for the year ended 31 December 2012 accounted for approximately 23.3% of our trading volume.

For each of the two years ended 31 December 2011 and 31 December 2012, our Group's largest client, being an individual investor on leveraged forex and other products and an Independent Third Party, accounted for approximately 15.6% and 10.1%, respectively, of our trading volume and had no past or present relationship with our Group, our Directors, members of our senior management, their respective associates or our Shareholders (which to the knowledge of our Directors own more than 5% of our Company's share capital) during the Track Record Period.

*Note: The number of our overseas Japanese clients as at 31 December 2011 and 31 December 2012 included the virtual accounts established through the Japanese white label partner and incepted during the two years ended 31 December 2011 and 31 December 2012. Since September 2012, our Group has ceased business relationships with all white label partners.*

### **Five largest market makers**

Our Group has established trading relationships with market makers ranging from approximately three to nine years such as institutional banks and other financial institutions for the provision of liquidity, i.e. making a market and providing bid/offer prices for forex, indices and commodities transactions without causing a significant movement in the price, to our business. Under our agreements with market makers, our Group has to place sufficient margin collaterals with market makers to ensure that trades with market makers can be properly executed. No minimum trading volume is stipulated in our agreements with market makers. There are no expiry dates for our agreements with market makers. Certain agreements with market makers contain clauses in respect of early termination events, including, but not limited to, the change in majority ownership of KVB NZ or KVB HK to below 50.1%, the failure to maintain financial covenants including maintenance of equity and incurrence of operating losses, the failure by any party to make, when due, any payment under the agreements and the failure by any party to comply with or perform any obligation under the agreements. The financial covenants under the agreements with market makers and applicable to KVB NZ and KVB HK include (a) the total equity reducing by 33% or more in any 12-month period; (b) the total equity reducing to less than US\$5,000,000; and (c) the operating losses exceeding 33% or more of the total equity capital. Our Group had not breached any of the aforesaid financial covenants during the Track Record Period. Our market maker risk exposure, i.e. the net open positions, amounted to approximately US\$46.1 million and US\$26.1 million as at 31 December 2011 and 31 December 2012, respectively. To alleviate such risk exposure, our Group has established risk management policies and procedures including, but not limited to, monitoring our equity and positions with market makers, assessing risk exposure with market makers through three financial risk analysis tests, namely stress test – worst scenario analysis, 1-day value at risk analysis and 5-day expected tail loss analysis, and regularly

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reviewing market makers' credit rating and identifying potential adverse changes through market news. Details of the aforesaid risk management policies and procedures are set out in the paragraph headed "Internal control and risk management" in this section.

For the two years ended 31 December 2011 and 31 December 2012, our Group's five largest market makers accounted for in aggregate approximately 92.9% and 72.2%, respectively, of our total market makers' trading volume. For the same years, our Group's largest market maker accounted for approximately 48.8% and 29.6%, respectively, of our total market makers' trading volume. The decrease in our total market makers' trading volume contributed by our Group's five largest market makers and our Group's largest market makers during the Track Record Period was mainly due to the use of two multi-bank trading platforms developed by external parties and implemented by our Group in June 2011 and February 2012, respectively, which allow us to trade in the best bid/offer price offered by different market makers as various bid/offer prices offered by different market makers can be captured on the same screen. Prior to the implementation of the multi-bank trading platforms, our dealers manually monitored various bid/offer prices on various single-bank platforms and manually chose the bid/offer prices for the hedging of positions. Instead of increasing the risk exposure of our Group, the multi-bank trading platforms supply streaming quotes from market makers on the same screen which improves price transparency and provides faster processing and less manual efforts in trading. Different from the single-bank trading platform which we used previously with individual market maker, the trading volume through multi-bank trading platforms will be evenly distributed to all market makers depending on the prices they quote. Our Directors are not aware of any deterioration of business relationships with any market makers.

As at 31 December 2011, 31 December 2012 and the Latest Practicable Date, we had 14, 14 and 14 market makers, respectively, who provided liquidity to us. Margin collaterals in the form of cash have to be deposited by our Group with market makers in order to obtain better pricing and maintain business relationships. Out of the 14 market makers, two, four and six of them have received a Standard & Poor's credit rating of A+, A and A-, respectively, while the credit rating of the remaining two market makers were unavailable as at the Latest Practicable Date. The amount of margin collaterals deposited by our Group with these two market makers were approximately HK\$4.4 million and HK\$1.6 million as at 31 December 2011 and 31 December 2012, respectively. Our Group assesses the credit risks of these two market makers by evaluating their published financial statements, their licences and the market news relating to them. Our Group has long business relationships with these two market makers which have provided liquidity to us since 2003 and 2004, respectively. No commission rebate was received by our Group from market makers during the Track Record Period. Our Directors consider that it is not appropriate to disclose the names of our market makers as prior consent has not been obtained from any of them for disclosing their names in this prospectus. Disclosure of the names of our market makers in this prospectus without their prior consent may bring about legal claims against our Company which is not desirable for our Company. As designated and required by market makers, the amount of margin collaterals deposited by our Group with market makers as at 31 December 2011 and 31 December 2012 was approximately HK\$82.9 million and HK\$49.2 million, respectively, which is grouped under cash and bank balances and balances due from agents in the consolidated balance sheets. The amount of margin collaterals deposited by our Group is determined by the required minimum amount of margin and buffer on open positions.

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Having considered that (a) our Group has signed contracts with 14 market makers; (b) our Group has entered into transactions with market makers according to, among others, the best quote available at the time of transactions; (c) the number of market makers is limited by the availability of margin collaterals placed by our Group with market makers and it is not cost-effective to maintain a large number of market makers; and (d) our Group may cooperate with other market makers in the event of losing our current major market makers, our Directors consider that it is not difficult for our Group to create relationships with new market makers if we lose any of our existing market makers and that our risk of reliance on major market makers is contained. Notwithstanding the aforesaid, our Group will actively procure more market makers to our availability list of market makers to strengthen our liquidity. As far as our Directors are aware, there were at least nine more market makers available in the leveraged forex market as at the Latest Practicable Date.

As margin collaterals have to be deposited by our Group with market makers in order to obtain better pricing and maintain business relationships, our Directors consider that it is cost-effective to have only a limited number of major market makers and have confirmed that it is the industry norm to rely on only a few major market makers and not to maintain a large number of market makers. None of our Directors, their respective associates or our Shareholders (which to the knowledge of our Directors own more than 5% of our Company's share capital) had any interests in any of the five largest market makers of our Group during the Track Record Period.

### SALES AND MARKETING

The principal marketing strategies of our Group are our own sales channels, referrals from referral parties and advertising through media. Our Group's sales and marketing team regularly contacts clients to maintain good business relationships and expands our client base through various marketing and sponsorship events.

#### Referrals

Our leveraged trading business in New Zealand and Australia are operated through KVB NZ. Given that there is no dealing room in Australia, KVB AU acts as an introducing broker and refers prospective and suitable clients in Australia to KVB NZ for trade execution. Since the existing introducing broker arrangement is in compliance with the applicable laws, rules and regulations in Australia, KVB NZ will continue to enter into the client services agreements with our clients introduced by KVB AU. Except for the cost saved from centralised supporting functions including settlement function, there are no preferential treatments or benefits available to our Group under such arrangement.

In addition to referrals to KVB NZ by KVB AU, we work with other referral parties to source prospective and suitable clients to KVB NZ. Please refer to the paragraph headed "Our clients" in this section for further details.

#### Media

We advertise our products and services through a number of channels in New Zealand and Australia including newspapers, Chinese internet search engines and radio and television shows to promote our brand and at the same time attract new clients.



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For the two years ended 31 December 2011 and 31 December 2012, approximately HK\$1.9 million and HK\$2.5 million, respectively, was spent on advertising our products and services.

### Seminars and sponsorships

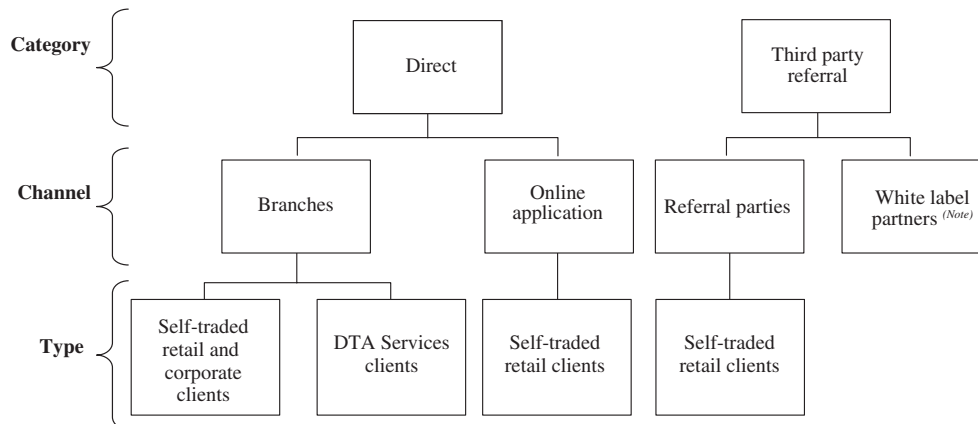
We organise seminars in New Zealand and Australia to promote our products and services as well as arouse public awareness on investment in leveraged trading. Our seminars are designed to serve dual purposes of educating the public as well as promoting our brand.

We also sponsor and participate in a number of international and regional entertainment and sporting and business events targeting the Chinese community. Through our active marketing campaigns, our Directors believe that we have established a recognisable brand in both New Zealand and Australia.

### OUR CLIENTS

The primary direct channel for our business is our online trading platform, ForexStar, which is available in Chinese (both traditional and simplified), English and Japanese. It provides retail investors of all experience levels with full trading capabilities, along with analysis and charting tools. During the Track Record Period, our third party referral partners included referral parties and white label partners. We have programmes for referral parties who refer their clients to use our products and services in return for commission rebates. During the Track Record Period, we also offered our trading platform to the clients of the white label partners under their own brand for trading income.

The diagram below illustrates the sources of our clients:



*Note: Since September 2012, our Group has ceased business relationships with all white label partners.*

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### Direct clients

Our Directors believe that our reputation, advanced trading platform technology and high level of client services are the key selling points for our direct clients. To meet the needs of our clients, we tailor our products and services to individual client's experience. Our products and services include personal account reviews, free access to decision support tools (such as news, charting and research) and client support via telephone and email.

For the two years ended 31 December 2011 and 31 December 2012, our direct clients contributed to approximately 31.1% and 32.2%, respectively, of our trading volume.

### Referral parties

We work selectively with referral parties which refer clients interested in leveraged trading to us. We work with a variety of different types of referral parties, which include individuals or corporations. As at the Latest Practicable Date, there were five small, specialised firms which specifically identify and solicit clients interested in leveraged trading, and one larger, more established financial services firms which seek to enhance their client base by offering a broader array of financial products. For the two years ended 31 December 2011 and 31 December 2012, there were 44 and 117 referral parties traded directly with our Group as our direct clients. For the two years ended 31 December 2011 and 31 December 2012, the trading volume of referral parties who traded directly with our Group amounted to approximately US\$337 million and US\$739 million, respectively, representing approximately 0.5% and 1.0% of our total trading volume, respectively. Other than the contractual relationship relating to referring clients to our Group and the aforesaid direct trading with our Group, referral parties have no relationship with our existing Shareholders, Directors, senior management personnel and their respective associates. Once the referred client commences trading through the account maintained with us, we generally pay the referral party a commission rebate based on the referred client's trading volume.

Breakdowns of the number of individual and corporate referral parties and the trading volume and estimated income attributed by individual and corporate referral parties during the Track Record Period are set out below.

	As at 31 December			
	2011	(%)	2012	(%)
<b>Number of referral parties:</b>				
individual referral parties	109	94.8	615	99.0
corporate referral parties	6	5.2	6	1.0
<b>Total number of referral parties</b>	<b>115</b>	<b>100.0</b>	<b>621</b>	<b>100.0</b>

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	Year ended 31 December			
	2011	<i>% to the total trading volume</i>	2012	<i>% to the total trading volume</i>
	<i>US\$' million</i>		<i>US\$' million</i>	
<b>Trading volume of our clients referred by (approximately):</b>				
individual referral parties	39,811	60.6	51,597	67.0
corporate referral parties	38	0.1	257	0.4
<b>Trading volume of referral parties (all being individuals) who traded directly with our Group as our direct clients (approximately)</b>				
	337	0.5	739	1.0
		<i>% to the leveraged forex and other trading income</i>		<i>% to the leveraged forex and other trading income</i>
	<i>HK\$'000</i>		<i>HK\$'000</i>	
<b>Estimated income generated by our clients referred by (approximately):</b>				
individual referral parties	65,240	60.7	58,321	67.1
corporate referral parties	60	0.1	291	0.3
<b>Estimated income generated by referral parties (all being individuals) who traded directly with our Group as our direct clients (approximately)</b>				
	550	0.5	835	1.0

To attract referral parties, we manage their back office functions, including accounts opening and settlement services, related to the clients they referred to us and provide them with online access to real-time client trading volume information and income accrual. Our Directors believe that our key advantages for referral parties and their clients are our reputation, advanced trading platform technology and tools, and competitive pricing and trading execution quality. In addition to the commission rebates offered by our Group as an incentive, we will enhance advertising and promotion to promote our brand so that our Group will be more recognisable in the market and will consequentially attract more referral parties. We will also provide training and seminars to the referred clients to ensure that they become more knowledgeable about the products they are trading and improve their trading skills.

We source referral parties through (a) word of mouth and (b) our marketing and advertising activities. Further, some of our direct clients may also become referral parties and introduce clients to us. Our Directors consider that the benefits of having our sales and marketing channel through referral parties to increase our client base include the increase in efficiency in soliciting new clients

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given the new networks of referral parties, cost saving on staff related expenses from having to hire and maintain additional sales staff to cope with the increase in the number of clients. Our Group had approximately 120 and 620 referral parties as at 31 December 2011 and 31 December 2012, respectively. Our Directors believe that the increase in the number of referral parties during the Track Record Period was mainly due to our comprehensive ancillary services provided to the referred clients and referral parties as well as our marketing efforts as mentioned above. While it may be possible for the referred clients to become our direct clients out of their own volition, such as in the circumstances where referral parties terminate their business, where the referred clients may not be satisfied with the services provided by referral parties and opt to become our direct clients, or where the referred clients may want to participate in promotional offers exclusive to our direct clients, our Directors have confirmed that there had been no instances during the Track Record Period of such referred clients becoming our direct clients, and our Group has no intention to compete with referral parties to solicit their clients into becoming our direct clients. Our Directors believe that our current strategy in relying on referral parties to increase our client base has been achieved as intended.

For the two years ended 31 December 2011 and 31 December 2012, the amount of commission payable to referral parties was approximately HK\$31.8 million and HK\$47.0 million, respectively, and approximately 60.7% and 67.4% of our forex trading volume was derived from our clients referred by referral parties, respectively. During the Track Record Period, the commission rebates paid to referral parties ranged from nil to approximately US\$120,000 with a rate of approximately US\$6 to US\$71 per lot, depending on the types of products traded by the referred clients. The products subject to higher rate of commission rebates included gold and crude oil. Our Directors consider such range of commission rebates to be comparable to our competitors.

For the two years ended 31 December 2011 and 31 December 2012, the estimated total income (including trading income and commission income) generated by our clients referred by referral parties was approximately HK\$79.6 million and HK\$80.0 million, respectively, representing approximately 51.3% and 64.9% of our total income, respectively.

### **White label partners**

WLP was a relatively novel income channel of our Group. Leveraging on the advanced technology know-how, details of which are set out in the paragraph headed “Our competitive strengths” in this section, our Group saw fit to make full use of our established trading platform to maximise our income by offering it to firms which had not developed their own trading capabilities. We intended to offer our trading platform mainly to the clients of the white label partners under their own brand for trading income. As no agreement would be entered into between our Group and the clients of the white label partners, the clients of the white label partners remained their clients, rather than becoming our clients. Accordingly, we sought to enter into arrangements with the white label partners as a wholesale function to broaden our income stream from the geographic locations where we had not obtained the regulatory authorisations or licences necessary to provide our services directly in those markets. Our Directors considered that WLP could be a cost-effective way for our Group to explore new wholesale markets, and thereby increase our income, in a time efficient manner. As advised by the legal advisers to our Company as to New Zealand law, the WLP agreements, all of which were governed by New Zealand law, complied with the relevant laws, rules and regulations in New Zealand and the terms of KVB NZ’s authorisation as a futures dealer.

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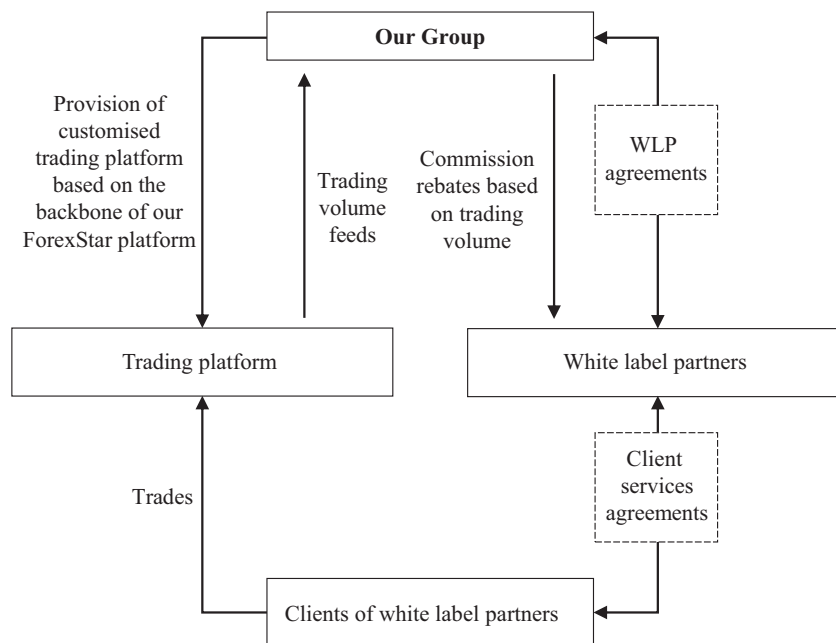
## BUSINESS

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Under the WLP arrangements, we would provide the services available on our online trading platform, ForexStar, to the white label partners so that they could utilise our platform under their own brands. The white label partners adopted the capabilities of our online trading platform and labelled it as their own as we were capable of providing a customised trading platform branded with the white label partner's company name and logo.

During the Track Record Period, we had one New Zealand white label partner, one Japanese white label partner, one Canadian white label partner and one Japan-based white label partner incorporated in the Cayman Islands which entered into WLP agreements with us in October 2010, March 2011, April 2011 and April 2011, respectively. Our Group had obtained copies of the applicable licences of the white label partners prior to the execution of WLP agreements as the management of our Group believed that any failure in complying with the regulatory requirements in the jurisdiction in which the white label partners' businesses were conducted could have led to the revocation of the licences of the white label partners.

The diagram below illustrates the operation of the WLP arrangement:



Our dealers monitored the positions of the clients of the white label partners based on the frequency and timing of their trading activities to identify and prevent any sniping activities. All the trades of the clients of the white label partners were executed on our trading platform through the white label partners. If the clients of the white label partners conducted any abnormal trading activities, there might be an adverse impact on our Group's profitability as they might cheat our trading system to secure profits at the expense of our Group through the loopholes yet to be identified. Once such activities were identified, our dealers would apply manual quotations for the clients of the white label partners to prevent them from exploiting errors in price quotation. Our risk and compliance department would also prepare daily risk reports and assist in monitoring and discovering such abnormal trading activities. Our Group would also notify the white label partners and terminate all abnormal trading

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activities of their clients. Please refer to the paragraph headed “Operations” in this section for the internal control procedures of order processing which were also applicable to the WLP arrangements. The internal control procedures of account opening and margin requirements were dealt with by the white label partners in accordance with the local regulatory requirements. Under the WLP agreements, the white label partners have agreed to comply with all legal and regulatory requirements for the execution and performance of the WLP agreements.

We would earn the spread between the price entered into by the white label partners or their clients on the one part and market makers on the other part and offer commission rebates ranging from approximately 1 pip to 2 pips per lot, being part of our trading income derived from the spread differential, to the white label partners who referred their clients to trade on our trading platform. The trading income generated by the clients of the white label partners is estimated by the following formula:

$$\frac{\text{Total leveraged forex and other trading income of our Group} \times \text{Proportion of the leveraged forex and other trading volume derived from the clients of the white label partners}}{\text{Total trading volume of our Group}}$$

Therefore, such estimated income may deviate from the actual leveraged forex and other trading income generated by the WLP arrangements. During the Track Record Period, all our trading income under the WLP arrangements was generated by the clients of the Japanese white label partner.

The number of virtual accounts established through WLPs were approximately 850 and nil as at 31 December 2011 and 31 December 2012, respectively, all of which were maintained with the clients of the Japanese white label partner. During the two years ended 31 December 2011 and 31 December 2012, the estimated income generated by the trades of the clients of the Japanese white label partner was approximately HK\$9.0 million and HK\$0.4 million, respectively, and the commission rebates paid to the Japanese white label partner as a reward for bringing the trading volume initiated by its clients were approximately HK\$1.7 million and HK\$0.4 million, respectively.

The lower estimated leveraged forex and other trading income generated by the clients of the Japanese white label partner for the year ended 31 December 2012 was mainly due to the cessation of the financial instrument business of the Japanese white label partner in Japan in April 2012.

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The trading volume of our clients conducted through our trading platform and the trading volume of the clients of the Japanese white label partner (whose clients contributed to all the trading volume under the WLP arrangements) during the Track Record Period are set out below:

	<b>Year ended 31 December</b>			
	<b>2011</b>		<b>2012</b>	
	<i>US\$'</i> <i>billion</i>	<i>(%)</i>	<i>US\$'</i> <i>billion</i>	<i>(%)</i>
Our clients	60.2	91.8	76.7	99.6
Clients of the Japanese white label partner under the WLP arrangement	5.4	8.2	0.3	0.4
	<u>65.6</u>	<u>100.0</u>	<u>77.0</u>	<u>100.0</u>

We charged the white label partners fees for utilising our online trading platform and the related maintenance services except for the Japanese white label partner in view of our income generated by its clients and the anticipated trading volume to be contributed by its clients. During the Track Record Period, we charged the other three white label partners trading platform fees (which may include the maintenance fees) ranging from approximately HK\$0.3 million to HK\$1.5 million. The aforesaid fees were subject to a number of factors including, but not limited to, the level of platform customisation, the costs required to maintain ongoing usage and the anticipated trading volume to be contributed by their utilisation of our trading platform.

At the time when we entered into the WLP agreement with the Canadian white label partner in April 2011, we only intended to provide cash dealing services to it utilising an appropriate trading platform. Therefore, our scope of services under the WLP agreement with the Canadian white label partner only included cash dealing services but not money changing services. Our Group started a three-month training programme with the Canadian white label partner on the essential aspects of the cash dealing services in July 2011. During the training period, there were discussions about the business process and the Canadian white label partner's potential client base and business requirements. Both our Group and the Canadian white label partner subsequently realised that money changing services were more relevant to the Canadian white label partner's business requirements as the Canadian white label partner also intended to utilise the money changing related settlement services provided by the Non-listed Group. As our Group was not equipped with the capabilities to provide money changing services, our Group and the Canadian white label partner entered into further negotiation and such WLP arrangement was assigned to the Non-listed Group in December 2011 through mutual agreement between the three parties. Before assigning such WLP arrangement, we had not provided any cash dealing services to the Canadian white label partner. Our Directors consider that such assignment will not give rise to competition with our Group's business. After such assignment, the Canadian white label partner (for the purpose of this paragraph, the "**Non-listed Group's Canadian Client**") is not our client but becomes a client of the Non-listed Group, and same as other clients of the Non-listed Group, the Non-listed Group's Canadian Client has not entered into any other arrangements with us. Before assigning such WLP arrangement, we expected to provide cash dealing services directly to

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the Canadian white label partner through an appropriate trading platform. After assigning such WLP arrangement, the Non-listed Group provides money changing services to the Non-listed Group's Canadian Client. The Non-listed Group, in response to the overall funding needs of its clients, requests for cash dealing services from our Group. The trading volume of the transactions entered into between the Non-listed Group and the Non-listed Group's Canadian Client was approximately US\$46.6 million since the assignment of such WLP arrangement up to the Latest Practicable Date. The Non-listed Group had given a termination notice to the Non-listed Group's Canadian Client regarding all the services under the assigned WLP arrangement as at the Latest Practicable Date. The related termination arrangement is expected to be completed within three months after the Listing.

After signing the WLP agreement with our Group in October 2010, the New Zealand white label partner started renovating its office and it took longer than expected for it to complete the renovation in mid-2011. During such period, our Group contacted the New Zealand white label partner to keep abreast of the progress of the renovation of its office. However, in around July 2011, the New Zealand white label partner unofficially initiated its thought of terminating the WLP arrangement due to its commercial decision on developing a new line of business and discussed the likely impacts with our Group. At the subsequent formal request of the New Zealand white label partner in December 2011, the WLP arrangement with it ceased in December 2011. In August 2012, the Japanese white label partner notified our Group that it had ceased its financial instrument business in Japan in April 2012 and we terminated the WLP agreement with it in September 2012. As such, it went against the initial expectation of the management of our Group that WLP would be an efficient income channel. Therefore, for better allocation of internal resources, KVB NZ terminated the WLP agreement with the Japan-based white label partner in September 2012. The WLP arrangement with the Japan-based white label partner was not assigned to the Non-listed Group since it was related to leveraged forex and other trading business only. Since September 2012, our Group has ceased business relationships with all white label partners. No cost was incurred in connection with the cessation of the WLP arrangements. Under the WLP agreements with the New Zealand white label partner and the Japan-based white label partner, our Group was not required to refund any fees received from the white label partners upon termination of the WLP agreements. However, as a goodwill gesture, our Group decided to refund the New Zealand white label partner 90% of the original trading platform fees of NZD50,000 which amounted to NZD45,000 as the New Zealand white label partner had not commenced business nor utilised our Group's services at the time of termination of the WLP agreement. Our Group did not refund any trading platform fees to the Japan-based white label partner as it had already utilised our trading platform customisation and testing services notwithstanding that the Japan-based white label partner had not commenced business at the time of termination of the WLP agreement. Our Directors have confirmed that there had been no litigation or material disputes between our Group and any of the white label partners during the Track Record Period and up to the Latest Practicable Date. As advised by the legal advisers to our Company as to New Zealand law, our Group does not have any further liability under each of the WLP agreements following the cessation of the WLP arrangements. Given the insignificant income contributed by the WLP arrangements during the Track Record Period as compared to our other sources of income, our Directors consider that the cessation of business relationships with the white label partners has no material adverse impact on our Group and our business strategies and have no present intention to enter into any WLP agreement after the Listing.



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Although our Group was able to generate income of approximately HK\$9.0 million, representing approximately 5.8% of the total income of our Group, from the clients of the Japanese white label partner for the year ended 31 December 2011, the income generated by the clients of the Japanese white label partner dropped significantly to approximately HK\$0.4 million, representing approximately 0.3% of the total income of our Group, for the year ended 31 December 2012. During the Track Record Period, except for the Canadian white label partner whose business was related to money changing business but not related to our Group's leveraged forex and other trading business, no income was generated by the clients of the other two white label partners as such white label partners had not commenced business operations and therefore no trades could be executed.

### INTERNAL CONTROL AND RISK MANAGEMENT

#### Risk management

We have established risk management strategies and policies as we believe that having good risk management is critical to the success of our business. The policies were designed based on the Australia/New Zealand Risk Management Standard 4360:2004 issued by the Council of Standards Australia, an organisation charged by the Commonwealth Government of Australia, and the Council of Standards New Zealand, a national standard organisation, which sets out the generic framework for identifying, analysing, evaluating, treating, monitoring and communicating the risks. In addition, we follow the best practices of the international risk management community as set out by the BIS.

Our Group's risk management strategies and policies are currently reviewed by the GARC Committee which comprises Mr. Ng Chee Hung Frederick, being one of our executive Directors, Ms. Zhang Rongjun, being the regional financial controller of New Zealand and Australia of our Group, and Ms. Tracy Marie Byrne, being our head of risk and compliance. The committee members will meet at least six times a year to discuss and resolve all issues pertaining to the risks and control of our Group's business.

Risks to our operations can be driven by external as well as internal factors. We have a policy in place to allow our staff to identify, analyse, evaluate and report risks to our head of risk and compliance.

The following is a summary of our Group's risk management policies and procedures to identify, analyse and evaluate risks in which our Group may encounter:

- Monitoring equity and net positions of our Group to identify if pre-approved limits are exceeded.
- Reviewing our clients' equity level and detecting any irregular trading activities.
- Identifying suspicious dealer activity (i.e. misquoting to particular clients or when dealer's quotes deviates from prevailing market price).
- Monitoring equity and positions of our Group with market makers.

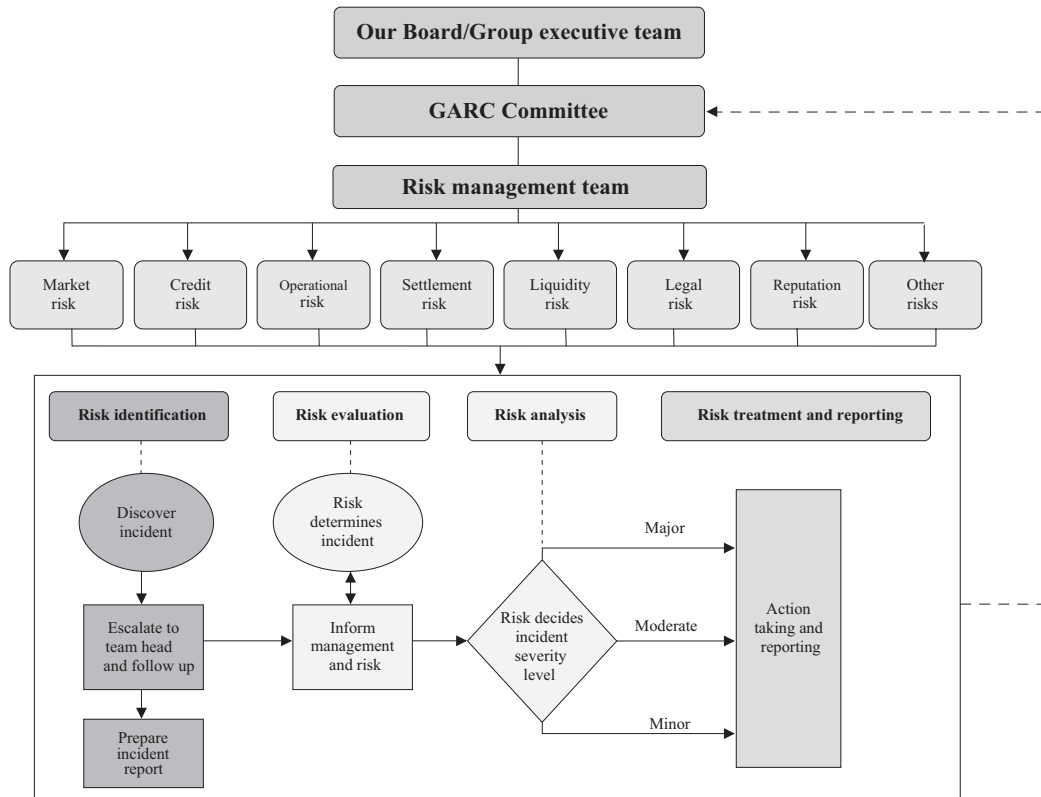
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- Assessing risk exposure with market makers through three financial risk analysis tests, namely stress test – worst scenario analysis, 1-day value at risk analysis and 5-day expected tail loss analysis.
- Regularly reviewing market makers’ credit rating and identifying any potential adverse changes through market news.

The diagram below illustrates our risk management system:



Our risk management is overseen by Ms. Tracy Marie Byrne, being our head of risk and compliance and one of our senior management personnel. As at the Latest Practicable Date, apart from Ms. Tracy Marie Byrne, Ms. Wan Mee Yee, being our risk manager, was responsible for the risk management of our Group’s operations. Ms. Wan has over 10 years of experience in risk strategy implementation, analysis and monitoring. Ms. Wan is a financial risk manager fellow of the Global Association of Risk Professionals. Before joining our Group, Ms. Wan worked at China Merchants Securities (HK) Co., Ltd. from June 2003 to October 2007 initially as a control and compliance assistant and later as an assistant manager of risk management. She subsequently worked at ICEA Securities Limited and ICBC International Holdings Limited for three years where she last held the position of assistant manager in the credit and risk department before joining our Group in October 2010. Ms. Wan obtained her bachelor’s degree in economics and her bachelor’s degree in mathematics from the Queen’s University in May 1998 and June 1999, respectively, and her master’s degree in finance from The University of Hong Kong in December 2005.

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Our risk management team is responsible for categorising the severity level into major, moderate or minor for each incident after taking into consideration the potential magnitude and impact of the incident on our Group. The major level represents incidents of higher risk in nature and crisis situations which interrupt and impact critical core systems or operational processes, and which may expose our Group to reputational risk, for example, violation of the code of conduct and applicable laws, rules and regulations. The moderate level represents incidents of medium risk in nature with moderate impact compared to the major level, which normally does not expose our Group to regulatory and reputational risk, and where the impact is relatively tolerable and at a controllable level, for example, technological shortcoming. The minor level mainly represents deficiencies of non-critical systems or operational processes with lower risk in nature, for example, deficiencies of operational process.

All major and moderate incidents must be escalated to the chief executive officer of our Company, namely Mr. Liu Stefan, with notification to our Board (which will take over the functions of our Group executive team (consisting of Mr. Liu Stefan, Mr. Ng Chee Hung Frederick, Mr. Stephen Gregory McCoy and Ms. Tracy Marie Byrne during the Track Record Period) upon the Listing). Our Board takes charge of major incidents.

In light of the changing internal and external conditions, we continually monitor and evaluate the effectiveness of our risk management through imposing a number of controls. Routine risk management procedures such as monitoring of forex price movements of major currencies and price sensitive market news are performed through ForexStar. Our clients' net outstanding positions and margin requirements during a trading day are monitored through ForexStar while the accounting department of our Group is responsible for generating margin call reports. We also impose other exposure limits and tests applicable to our clients as part of our monitoring and evaluation process. Examples include, but are not limited to:

- (a) dealing room net open USD position limit with margin clients – limited by the amount of margin deposit;
- (b) stop-out levels with margin clients –

<b>Leverage ratio</b>	<b>Initial margin level (as a % of contract amount)</b>	<b>Minimum stop-out level (as a % of initial margin level)</b>	<b>Approximate stop-out level (as a % of contract amount)</b>
5 times	20.0%	20%	4.0%
20 times	5.0%	20%	1.0%
25 times	4.0%	50%	2.0%
50 times	2.0%	50%	1.0%
100 times	1.0%	50%	0.5%
200 times	0.5%	100%	0.5%

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As an illustrative example:

*If client account balance (i.e. net equity) is at US\$10,000, leverage ratio is 20 times (or initial margin level is 5%) and stop-out ratio is 1% (i.e. 20% of the initial margin required), and assuming there is no other outstanding contracts, the initial margin for opening a buy contract of EUR against USD (contract amount: EUR100,000) is calculated according to the following formula:*

*Contract amount of a EUR against USD contract x Number of contracts x Initial margin level x Exchange rate of EUR against USD*

*i.e. EUR100,000 x 1 x 5% x 1.4100 = US\$7,050*

*The stop-out level of the account is:*

*Initial margin level x Stop-out level (as a % of initial margin)*

*i.e. US\$7,050 x 20% = US\$1,410*

*In the example:*

*Account opening balance: US\$10,000*

*And for simplicity sake, assuming the exchange rate of EUR against USD drops to 1.3241 in one trading day, i.e. no swap cost involved.*

*Floating profit/loss: EUR100,000 x 1 x (1.3241 – 1.4100) = – US\$8,590 (i.e. floating loss)*

*Net equity: US\$10,000 – US\$8,590 = US\$1,410*

*As the net equity (i.e. US\$1,410) hits the stop-out level, our trading system will close out the client's positions in accordance with the terms set out in the client services agreement to avoid his/her/its further losses.*

The leverage ratios, which set out the margin required from our clients, are determined after evaluating our clients' risk profiles and considering our clients' risk preferences.

Under normal market conditions, i.e. where the market volatility is relatively small, different leverage ratios (even for the higher ratios) would not impose additional risks on our Group since once our clients' equity drops to the stop-out level, our trading system will automatically liquidate our clients' positions and our clients' accounts will be left with a residual positive balance. Our dealing manager will be notified if our client's equity approaches the stop-out level. In case our trading system does not liquidate our clients' positions in time, our dealing manager can manually liquidate our clients' positions.

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Under extremely volatile market conditions, the exchange rate could gap up or down resulting in our clients' positions being stopped out at a much worse level even our trading system carries out stop-out actions automatically. This may lead to a negative balance in the client accounts. However, our Directors consider that such risk is contained since (a) our Group has the right to recover any deficit in the client accounts from our clients; and (b) as at 31 December 2011 and 31 December 2012, there were a total of 47 and 130 client accounts with unsettled deficits in the amount of approximately HK\$0.3 million and HK\$0.6 million in aggregate, respectively. Details of the aforesaid risk are set out in the paragraph headed "We may suffer losses when our client's margin deposit with us is unable to cover the losses arising from closing out of position" in the section headed "Risk Factors" in this prospectus.

- (c) leverage granted to margin clients – 5 times to 200 times; and
- (d) cash withdrawal limits with margin clients – limited by available balances after taking into account the margin requirement.

Our Directors have confirmed that no material internal control or risk management deficiency occurred during the Track Record Period.

### **Compliance**

The GARC Committee is responsible for overseeing the coordination of audit programmes and other review functions conducted by our internal audit team, reviewing external plans and reports in respect of planned and completed audits, monitoring management's implementation of audit recommendations and reviewing the effectiveness of the system for monitoring our Group's compliance with the applicable laws, rules, regulations and associated government policies. Members of the GARC Committee, namely, Mr. Ng Chee Hung Frederick, Ms. Zhang Rongjun and Ms. Tracy Marie Byrne, are based in our offices in Hong Kong, New Zealand, and Australia, respectively, and have knowledge of compliance related matters in their relevant jurisdictions through their roles as a responsible officer of KVB HK, the regional financial controller of New Zealand and Australia of our Group, and our head of risk and compliance, respectively. Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for further information on their experiences and qualifications. Ms. Tracy Marie Byrne, being our head of risk and compliance, is responsible for monitoring ongoing compliance with the applicable laws, rules and regulations. As at the Latest Practicable Date, in addition to Ms. Byrne, who was based in our Australian office, our compliance department was supported by two staff in our New Zealand office, namely Ms. Zheng Wenhui and Ms. Fu Chang, and one staff in our Hong Kong office, namely Mr. Cheung Wing Fai, all of which are predominantly responsible for the implementation and enforcement of our Group's compliance policies and procedures at the local level.

Ms. Zheng Wenhui joined our Group in September 2001 and worked in our accounting team, reconciliation team, dealing room, and risk and compliance team where she gained extensive knowledge and experience in our operations which is integral to the execution of her duties in her current position as our compliance manager who is responsible for handling compliance related issues arising

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from our day-to-day operations. Ms. Zheng has over five years of experience in compliance through her previous role as the risk analyst and compliance officer of our Group. Ms. Zheng obtained her bachelor's degree in finance from the China Institute of Finance (中國金融學院) in June 1992 and her master's degree in international business from the Auckland Institute of Studies at St. Helens in December 2000. Ms. Fu Chang joined our Group as the compliance officer in New Zealand in July 2012. Under Ms. Zheng's supervision, Ms. Fu is responsible for performing the compliance checking procedures for our New Zealand and Australian offices to ensure that we operate in accordance with our Group's existing policies and procedures. Ms. Fu obtained her bachelor's degree in commerce and bachelor's degree in arts from the University of Auckland in April and May 2012, respectively. Mr. Cheung Wing Fai recently joined our Group in March 2013 as the compliance manager. Mr. Cheung has been involved in the financial industry for over 20 years and has over 10 years of experience of holding management positions in financial investment companies responsible for overseeing the compliance and operations of such companies and is well versed in the SFC regulatory processes as he has acted as the responsible officer for types 1, 2, 4, 5 and 9 regulated activities for certain licensed corporations. Mr. Cheung obtained his master's degree in marketing from the University of Paisley (currently known as the University of the West of Scotland) in October 2000 and his master's degree in e-commerce for executives from the Hong Kong Polytechnic University in November 2003.

To ensure ongoing compliance with the applicable laws, rules and regulations is monitored properly, our Group has the following internal control procedures in place:

### *General*

- (a) overseeing our operations by the independent risk and compliance department; and
- (b) implementing internal control programmes on daily operating procedures, including processing and authorisation procedures.

### *For internet trading*

- (a) assessing transactions on an ongoing basis with independent risk management techniques; and
- (b) establishing proper reporting structure to top management for dissemination of information and escalation of issues.

### *For anti-money laundering and counter-terrorist financing*

- (a) reviewing and amending policies constantly to meet the new compliance requirements;
- (b) checking terrorists, known money launders and politically exposed persons through external parties; and
- (c) reviewing control environment regularly by external auditors.

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### **Dealings by staff and Connected Persons**

It is our Group's policy that all our executive Directors and staff are prohibited from trading leveraged forex and any other derivative products offered by our Group or the corresponding products offered by any other companies, whether through their own accounts or through third parties or on behalf of other persons. These internal procedures are designed to avoid conflicts of interest between our Group, our staff and our clients such as our staff taking the opposite side of clients' positions, encouraging active trading in a particular currency despite having a view of the likely movement of that currency and taking excessive risks on behalf of a client in return for an undisclosed bonus. Tie-up of resources by our staff is strictly prohibited and our Group does not put any resources to support our staff for their own benefit. Excessive trading by our staff would occupy the resources we may have otherwise allocated for the benefit of our dealings with clients. We avoid our dealers from giving priority to handle trades of our executive Directors and staff as it is not to the best interest of our clients. Given that our executive Directors and staff are closely involved in our operations, we prohibit them from dealings, whether through their own accounts or through third parties or on behalf of other persons, to avoid the aforesaid conflicts of interest. As the Connected Persons of our Company other than our executive Directors and staff do not participate in our operations, we treat them as ordinary clients and no preferential treatment is applied to them. As such, conflict of interest is unlikely to occur and dealings by the Connected Persons of our Company other than our executive Directors and staff are allowed. We will comply with the requirements under Chapter 20 of the GEM Listing Rules in the event of dealing with the Connected Persons of our Company upon the Listing. In that case, trades of the Connected Persons of our Company will be closely monitored under an independent pool to ensure that they are conducted on normal commercial terms comparable to other clients and the relevant annual cap will not be exceeded in order to comply with the requirements under the GEM Listing Rules.

### **Hedging and net position limits**

To ensure compliance with the applicable local laws, rules and regulations and to implement effective risk management, our Group has strict control in place in our dealing rooms over our net positions. It is our Group's policy that our daily net open positions for all currencies traded by our Group should not exceed the limits imposed by our Group from time to time and the maximum daily floating loss should be restricted to the limits imposed by our Group from time to time. If the specified thresholds are exceeded, positions are required to be closed immediately to scale down the positions within the limits.

Our dealers, our dealing manager and our risk manager have real-time access to positions and profit and loss information, which enables us to have effective control over our net position limit and daily/shift loss limit. Within the limits, our chief dealer, namely Mr. Qiu Bin, and our senior dealers, namely Mr. Sun Maoyuan and Mr. Zheng Weida, in the shift are allowed to hold the positions. If the limit is exceeded, our dealers will immediately enter into hedge transactions with market makers. Please refer to the paragraph headed "Dealing rooms" in this section for more information on the relevant experience of our chief dealer and senior dealers.

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Set out below is a summary of the net open position limit and daily/shift loss limit of our Group:

Location	Strategy adopted	Loss limit/Risk alert level	Net open position limit <sup>(Note 1)</sup>
New Zealand	Market maker hedge – initial client balances exceeding the prescribed limit <sup>(Note 2)</sup>	Daily loss limit <sup>(Note 3)</sup> or shift loss limit <sup>(Note 4)</sup> : US\$50,000	50 contracts for USD pairs 30 contracts for cross currency pairs 20 contracts for indices
	Natural hedge – initial client balances below the prescribed limit <sup>(Note 5)</sup>	Daily/shift loss limit: US\$200,000	300 contracts for USD pairs 100 contracts for cross currency pairs
Hong Kong	Market maker hedge <sup>(Note 6)</sup>	Daily/shift loss limit: US\$30,000	30 contracts for all currency pairs

Notes:

1. The value of one contract for currency pair represents 100,000 units of base currency, e.g. one contract of USD pair represents the value of US\$100,000. The value of one contract of index represents the relevant index point multiplied by one dollar of the corresponding base currency, e.g. one contract of the relevant Nikkei 225 point multiplied by one JPY.
2. When a client's initial balance exceeds the prescribed limit, his/her/its positions will be grouped in the pool of market maker hedge. The principle of this hedging strategy is to back-off our clients' positions to market makers with the position holding allowance (i.e. the daily/shift loss limit and net open position limit) which our dealers in each shift have to comply with. The prescribed limit had a range of US\$20,000 to US\$80,000 during the Track Record Period.
3. Daily loss limit represents the maximum loss (realised and unrealised) under the specific strategy which our dealing rooms can endure for each trading day.
4. Shift loss limit represents the maximum loss (realised and unrealised) under the specific strategy which the responsible dealers for each 8-hour shift can endure.
5. When a client's initial balance is below the prescribed limit, his/her/its positions will be grouped in the pool of natural hedge. The principle of this hedging strategy is that our clients' positions can be offset with other clients' positions in the pool through time as long as the conditions are still within daily/shift loss limited and net open position limit. Any remaining unhedged clients' positions which exceed the limits will be back-off to market makers immediately.

The open position limit for natural hedge is larger than that for market maker hedge because our clients in the pool of natural hedge are regarded by our Directors as novice, small and scattered clients which are unlikely to cause significant losses to our Group. In view of the lower risk profile of these clients, larger limit could allow our dealers more time to match the trade orders of our clients under the natural hedge. These clients tend to trade a wider variety of currency pairs, indices and commodities than our experienced clients. Our clients in the pool of market maker hedge are regarded by our Directors as clients with larger contractual amounts of forex trades and our Group is more conservative to take up the resultant positions from the trades of these clients. These clients tend to trade a limited variety of currency pairs, indices and commodities and usually only the most popular currency pairs.



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6. *Considering that the trading volume in Hong Kong is relatively small, subject to the dealing limits assigned to our dealers, it may not be always feasible to execute natural hedge in Hong Kong and thus it is more appropriate to execute market maker hedge in Hong Kong.*

### Market risk

Our Group's counterparties to the derivative financial instruments are market makers. Our Group implements three market risk analyses on equity and positions which our Group holds with market makers, namely stress test – worst scenario analysis, 1-day value at risk analysis and 5-day expected tail loss analysis. In addition, our Group regularly reviews market makers' credit ratings and studies the news on them. The equity and required margin of market makers are closely monitored by our risk and compliance department.

Set out below is a brief description of the three risk analyses our Group performs to assess our market risk in relation to the equity and positions we hold with market makers:

- |                                       |  |
|---------------------------------------|--|
| Stress test – worst scenario analysis | This analysis tests whether our Group's margin deposits maintained with market makers are sufficient to prevent our positions held with them from being stopped out in a "worst case scenario" (i.e. if all our open positions with market makers move against our favour). The output of this analysis gives us an indication on whether our Group will need to transfer additional funds to maintain minimum margin levels or consider closing open positions held with market makers to reduce our risk exposure. |
| 1-day value at risk analysis          | This analysis allows us to measure the potential loss on the equity and positions held by our Group over a 1-day period based on a specific confidence level. For example, a 1-day 95% value at risk of HK\$1 million signifies a 5% chance of our Group losing more than HK\$1 million over a 1-day period given there is no trading and that the market is stable or normal.   |
| 5-day expected tail loss analysis     | This analysis is an extension of the value at risk analysis described above, whereby, while the value at risk analysis only indicates the minimum amount of loss which can potentially incur, this analysis can indicate how severe or to what extent our loss can be. This analysis covers a 5-day period as a more conservative and forward-looking estimate on our Group's potential market risks.  |

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### **Segregation of duties and functions**

Operational functions of our Group, including marketing, dealing, accounting and settlement, are segregated with independent reporting lines to minimise potential conflict of incompatible duties or concealment of errors. Compliance and risk management functions are segregated from and independent of the operational functions and our risk management team reports directly to our head of risk and compliance.

### **Chinese walls and confidentiality**

All staff of our Group are at all times required to preserve the confidentiality of the information to which they have access. The dealing rooms are physically separated from other operational departments of our Group and access to the dealing rooms by other departments is restricted. Our clients' information such as account opening documents are kept in a restricted area which is accessible only by the authorised staff, while access to our clients' statements and settlement records is restricted to the authorised staff of the settlement department. Accounting records relating to our clients' transactions, such as withdrawal and deposit records, are kept in a restricted area in the office and are securely archived. All confidential files and clients' information are centralised and kept in the respective departments and can be retrieved only by the authorised staff. No clients' files are allowed to be physically removed from the areas of the respective departments.

Passwords are assigned to every staff who has access to our trading system. To avoid any unauthorised access to our trading system, we have installed firewalls on our trading system and have multiple levels of authorisation depending on the respective duties of our staff. Rectification of certain data such as withdrawal of money authorisation is carried out by the settlement staff and confirmed by the settlement manager.

### **Staff recruitment and training**

Our Group adopts recruitment procedures to ensure that our Group employs persons who are fit and proper to perform the duties for which they are employed and that such persons are duly registered with all applicable regulatory bodies as required. All new staff are provided with the up-to-date documentation regarding our Group's policies and procedures, including a staff handbook, staff dealing policy, operation manual and policy on prevention of money laundering and terrorist financing. Seminars and training are provided to our staff regularly to enrich their industry knowledge.

### **Segregation and protection of clients' assets**

All clients' monies are deposited in our segregated client funds account. All direct bank-in by our clients have to be supported by pay-in slips with account numbers marked on the slips. For pay-in slips with no account numbers or names marked, our settlement department will consult with the responsible account executive who will clarify with the relevant client. The accounting department of our Group is responsible for performing daily reconciliation with the statements received from the financial institutions.

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### Complaint procedures and error trades

Our Group recognises the importance of providing quality services to our clients and has implemented procedures to ensure that complaints from our clients are handled in a timely and appropriate manner. Our clients can make complaints to us either verbally (through our hotline) or in writing (through facsimile, mail or email).

For verbal complaints, our client services officers will fill in verbal complaint forms. If the complaint is solved on spot, our client services officers will report the complaint to the relevant department with result and feedback and inform our compliance officers and operations managers about the complaint. If the complaint is not solved on spot, it will be referred to the relevant department to follow up.

For written complaints, our operation department will issue an acknowledgement within three business days. Our client services officers will allocate the complaint to the relevant department for the preparation of written response. Our business line manager will then endorse the written response. Our compliance officers and operations managers will be informed about the complaint and the relevant department will issue a written response to the client concerned within three business days of determining the results of the complaint.

Complaints are registered with and reviewed by our compliance officers who are also responsible for carrying out investigations of our clients' complaints and taking necessary rectification procedures.

The following is a summary of the complaints received by our Group leading to payment of monetary compensation to our clients during the Track Record Period:

	<b>Nature of complaint</b>	<b>Outcome</b>	<b>Subsidiary involved</b>
<b>Year 2012</b>			
1.	A client tried to close his position using smartphone application but the trade was rejected and was finally closed at a less favourable price.	We accepted fault on insufficiency of the smartphone application at that time and made compensation to such client.	KVB NZ
2.	A client's two orders were not executed consistently although they had the same preset stop-loss level	It was a misunderstanding but compensation was made to maintain client relationships	KVB NZ
3.	Delay in execution of a client's order resulting in less profit being made	Compensation made to client	KVB NZ
4-6.	Execution of a client's stop-loss order was delayed after release of certain US payroll statistics	Compensation made to client	KVB NZ
7.	Client's order was not executed at stop loss level	Compensation made to client	KVB NZ

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During the two years ended 31 December 2011 and 31 December 2012, our Group made monetary compensation of nil and approximately HK\$11,900, respectively, to our clients as a result of complaints received by us where our Group was at fault and/or as a goodwill gesture to maintain client relationships.

Given that the majority of the above complaints arose from miscommunication between our clients and our dealers, which usually stemmed from misunderstanding of the functions of our trading platform and the scope of our services as well as the transactions not being executed at the prices perceived by our clients, our Directors consider that the above complaints should not have any material impact on the business and operation of our Group. Our Company will further strengthen the communication skills of our dealers with the aim of avoiding complaints from our clients.

For each of the two years ended 31 December 2011 and 31 December 2012, the loss incurred by our Group from error trades amounted to approximately HK\$53,000 and HK\$2,000, respectively. Circumstances leading to error trades are usually associated with a highly volatile market condition with hundreds of orders queuing for manual quotations from our dealers for trades with large contract amount as determined by our dealers from time to time based on market conditions and the suspected sniping records of our clients. Certain error trades in the Track Record Period were associated with announcements from the government in the US in relation to economic and finance activities. Due to the unpredictability of these announcements, the market conditions fluctuated widely and caused large number of queues in forex transaction orders. Remedial actions taken by our Group include implementation of enhanced procedures for handling sudden increase in trading volume. In the event of announcements from the government in the US, our dealers in Hong Kong are usually required to extend their working hours by one to two hours to cater for the sudden increase in trading volume. In addition, our dealers would turn off the auto-dealing functions and monitor the auto price feed themselves so that any wrong pricing could be reported to our dealing manager immediately. Apart from the announcement from the government in the US, we had two incidents of offering manual quotations to our clients due to suspected sniping activities during the Track Record Period and up to the Latest Practicable Date, one of which was related to a client of the Japanese white label partner. Such client ordered deals which were opened and closed within the same minute and we considered them to be typical sniping activities. The loss incurred as a result of these sniping deals amounted to approximately US\$26,100. Our dealers subsequently applied manual quotations for such client to stop the sniping activities. Our Directors have confirmed that our Group was not subject to any material disputes, claims, legal proceedings or other contingent liabilities in relation to any error trades or misconducts by our employees during the Track Record Period, and had not received any regulatory fines up to the Latest Practicable Date.

Each of the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law has confirmed that, to the best of their knowledge and save as disclosed in this prospectus, our Group was not subject to any disputes, claims, legal proceedings or other contingent liabilities in relation to any error trades or misconducts by our employees during the Track Record Period and are not aware of any regulatory fines levied on our Group due to error trades up to the Latest Practicable Date.

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### Anti-money laundering and counter-terrorist financing

We have implemented strict anti-money laundering and counter-terrorist financing policies which are consistent with the regulatory requirements in New Zealand, Australia and Hong Kong. For example, we normally restrict the flow of funds only to and from the same bank accounts owned by our clients and we continuously monitor the trading activities of our clients against our clients' financial profiles for any suspicious activities. We also require our staff to report any transactions which are believed to be suspicious to the department head and compliance officer. We organise in-house training on anti-money laundering, counter-terrorist financing and "know-your-client" concepts to increase our staff's awareness on the relevant issues.

### QUALIFICATIONS AND LICENCES

The leveraged forex trading markets in New Zealand, Australia and Hong Kong are highly regulated. The principal regulatory bodies governing the business of KVB NZ, KVB AU and KVB HK are the FMA, the ASIC and the SFC, respectively. The annual costs of maintaining the relevant authorisations or licences and other compliance related matters of our Group were approximately HK\$1.0 million and HK\$0.4 million for the two years ended 31 December 2011 and 31 December 2012, respectively.

As at the Latest Practicable Date, we had obtained the following authorisations and licences for the operation of our business in New Zealand, Australia and Hong Kong:

Group member	Authorisation/Licence	Issuing institution	Date of latest authorisation/ licence obtained	Expiry date
KVB NZ	Authorised Futures Dealers Notice (No. 3) 2005 <sup>(Note 1)</sup>	FMA <sup>(Note 2)</sup>	23 November 2005	30 June 2013 <sup>(Note 3)</sup>
KVB AU	AFSL <sup>(Note 4)</sup>	ASIC	18 October 2011	None
KVB HK	Type 3 (leveraged forex trading) licence <sup>(Note 5)</sup>	SFC	20 October 2004	None

Although no formal approval from the FMA is required, the FMA considers that a change in control of KVB NZ as a result of the Listing would be a material matter which requires notification to the FMA. In addition, as a result of such change in control, the FMA may decide to reassess KVB NZ's authorisation as a futures dealer which may have implications for KVB NZ's continued ability to carry on the business of dealing in futures contracts in New Zealand. KVB NZ had consulted with the FMA and was informed that in considering whether the authorisation granted to KVB NZ would remain appropriate as a result of the Listing, it will need to consider whether the directors, officers and controlling shareholders of KVB NZ are proper persons to be involved in the governance of an authorised entity, and whether KVB NZ can continue to operate its futures business in accordance with its conditions of authorisation, particularly those related to capital adequacy. As advised by the legal advisers to our Company as to New Zealand law, the FMA would be unlikely to confirm

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on an unqualified basis as to whether an entity's authorisation will be unaffected as a result of the listing of its parent company. Such view was formed based on (a) the discussions and correspondence between the legal advisers to our Company as to New Zealand law and the FMA about KVB NZ and the Listing; (b) a letter dated 7 September 2012 received from the FMA and recording the FMA's official position with respect to KVB NZ and the Listing; and (c) the experience and understanding of the legal advisers to our Company as to New Zealand law of the FMA's processes and practices.

However, the FMA has indicated to KVB NZ that, provided that KVB NZ continues to meet the standards to obtain authorisation as a futures dealer, it is highly unlikely that the FMA would revoke KVB NZ's authorisation as a result of the Listing. The FMA has further expressed that, under the Listing, assuming that there will be no change to the directors or officers of KVB NZ as a result of the Listing and the financial position of KVB NZ will not be adversely affected by the Listing, in the absence of any other factors, it is highly likely that KVB NZ's authorisation would continue. In light of the above, the legal advisers to our Company as to New Zealand law are of the view that it is unlikely that KVB NZ's authorisation will be affected upon the Listing, provided that as a result of the Listing, (a) the directors and the senior management personnel of KVB NZ remain the same, or if replaced, are replaced by persons who are competent and of good character; (b) KVB NZ will continue to have sufficient financial strength to carry on business as an operator of an authorised futures dealer; and (c) KVB NZ will otherwise be able to comply with the conditions set out in the Authorised Futures Dealers Notice (No. 3) 2005, as amended. To ensure that the Listing would not contravene any rules and regulations of the FMA, KVB NZ has confirmed, and our Group will ensure, that conditions (a), (b) and (c) above will be satisfied following the Listing.

In respect of condition (a) above, there is no proposed change to the directors and the senior management personnel of KVB NZ. Our Directors are of the view that the directors and the senior management personnel of KVB NZ are sufficiently incentivised to remain with KVB NZ over the long term. During the Track Record Period, save for Mr Gregory Patrick Boland, there was no change to the directors and the senior management personnel of KVB NZ. If we have to replace any directors or senior management personnel of KVB NZ, we will seek to engage personnel with substantial experience in leveraged forex trading with good character as identified by reference checking, police checking and bankruptcy checking, together with appropriate due diligence on the experiences and qualifications of such personnel. We have built in long notice periods of two to three months for all directors and senior management personnel of KVB NZ to provide for sufficient time for recruitment of and handover to any new directors or senior management personnel. In respect of condition (b) above, we currently have sufficient liquid funds in excess of the minimum surplus liquid funds of NZD1,000,000 and the Listing will have no bearing on the capital structure of KVB NZ. Our Directors do not foresee any need to change the capital structure of KVB NZ while the existing rules continue to apply. In respect of condition (c) above, we have established a compliance programme outlining how our business is operated in accordance with the conditions set out in the Authorised Futures Dealers Notice (No. 3) 2005, which is implemented by our dealers, sales staff and financial control staff and overseen by our compliance staff independent of our business operations. Our Directors do not foresee any risk arising from the departure of any key staff as the compliance programme operates independently of our business operations and can be implemented by any appropriately qualified compliance staff. Our Directors do not expect that there will be any material impact on KVB NZ's continued authorisation as a futures dealer in New Zealand as a result of the Listing since all actions have been/will be taken with sufficient timeliness to avoid any problems.

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Based on the above confirmation from the FMA and the above confirmation given by KVB NZ, the legal advisers to our Company as to New Zealand law are of the view that it is highly unlikely that the FMA would revoke or vary KVB NZ's authorisation as a result of the Listing. The FMA will take into consideration details of the Reorganisation and the Listing when reviewing the appropriateness of the authorisation granted to KVB NZ. Given that the Listing would not have any adverse impact on the financial position of KVB NZ, the legal advisers to our Company as to New Zealand law do not consider that maintaining or renewing the authorisation granted to KVB NZ would be an issue. On such basis, our Directors do not foresee any impediments in maintaining or renewing the required authorisations of KVB NZ.

Each of the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law has confirmed that to the best of their knowledge, our Group has obtained all the necessary authorisations and licences to operate our business in New Zealand, Australia and Hong Kong, all such authorisations and licences remained valid and effective as at the Latest Practicable Date and there is no legal impediment to renew our Group's authorisations and licences. For details of the conditions and on-going compliance to be fulfilled by our Group for maintaining and renewal of the authorisations and licences in New Zealand, Australia and Hong Kong, please refer to the section headed "Regulatory Overview" in this prospectus.

*Notes:*

- I. *Under the Authorised Futures Dealers Notice (No. 3) 2005, KVB NZ is authorised to carry on the business of dealing in futures contracts generally, subject to, among others, the following conditions that:*
  - (a) *KVB NZ does not undertake any business of dealing in futures contracts other than for a client which has entered into a written client services agreement, and then only in accordance with the terms of that agreement;*
  - (b) *before KVB NZ carries on the business of dealing in futures contracts on behalf of any person, KVB NZ must supply to that person, copies of:*
    - (i) *a document which clearly describes for the prudent but non-expert investor, the risks associated with trading in futures contracts, including any specific risk factors which apply to trading in any particular class or classes of futures contracts dealt with by KVB NZ;*
    - (ii) *one or more documents which clearly describe for the prudent but non-expert investor, the class or classes of futures contracts in which KVB NZ intends to deal on behalf of that person; and*
    - (iii) *a disclosure statement including the information required by New Zealand law.*
  - (c) *no employee, director or agent of KVB NZ may give investment advice to a client unless the client has first been provided with investment adviser disclosure, in accordance with the applicable New Zealand laws; and*
  - (d) *KVB NZ must include within the documents which state that it has been authorised to deal in futures contracts, the statement of "the FMA's role in authorising futures dealers is limited and does not imply approval or endorsement of the business, trading or solvency of KVB NZ, and the FMA has not approved the client services agreement or any disclosure documents of KVB NZ".*

*The incident of non-compliance with the Authorised Futures Dealers Notice (No. 3) 2005 during the Track Record Period, which our Directors consider has made no material adverse impact on the business and operation of our Group, is set out in the paragraph headed "Non-compliances" in this section.*

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2. *The FMA's role in authorising futures dealers is limited and does not imply approval or endorsement of the business, trading or solvency of KVB NZ, and the FMA has not approved the client services agreement or any disclosure documents of KVB NZ.*
3. *Our Directors do not foresee any impediments (whether legal or otherwise) to the renewal of the authorisation under the Authorised Futures Dealers Notice (No. 3) 2005.*
4. *KVB AU holds the AFSL granted by the ASIC and is not subject to any qualifications or limitations in respect of the provision of leveraged forex trading services.*

*The AFSL granted by the ASIC authorises KVB AU to carry on a financial services business to:*

- (a) *provide financial product advice for the following classes of financial products:*
  - (i) *deposit and payment products limited to basic deposits products;*
  - (ii) *derivatives;*
  - (iii) *forex contracts;*
  - (iv) *debentures, stocks or bonds issued or proposed to be issued by a government;*
  - (v) *interests in managed investment schemes excluding investor directed portfolio services;*
  - (vi) *securities;*
  - (vii) *non-standard margin lending facility; and*
  - (viii) *standard margin lending facility;*
- (b) *deal in a financial product by:*
  - (i) *issuing, applying for, acquiring, varying or disposing of a financial product in respect of derivatives and forex contracts; and*
  - (ii) *applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of the following classes of products:*
    - (A) *deposit and payment products limited to basic deposit products;*
    - (B) *derivatives;*
    - (C) *forex contracts;*
    - (D) *debentures, stocks or bonds issued or proposed to be issued by a government;*
    - (E) *interests in managed investment schemes excluding investor directed portfolio services;*
    - (F) *securities;*
    - (G) *non-standard margin lending facility; and*
    - (H) *standard margin lending facility;*
- (c) *make a market for forex contracts and derivatives to retail and wholesale clients.*



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*As advised by the legal advisers to our Company as to Australian law, it is not a prerequisite for KVB AU to own an online trading platform in order to obtain the AFSL from the ASIC.*

5. *KVB HK is licensed for and carries on type 3 (leveraged forex trading) regulated activity with a condition that it shall not provide discretionary account services to its clients.*

*Under the SFO, “leveraged forex trading” refers to the act of entering into, offering to enter into or inducing or attempting to induce a person to enter into a contract the effect of which is that one party agrees or undertakes to (a) make an adjustment between himself/herself and another person according to whether a currency is worth more or less, as the case may be, in relation to another currency; (b) pay an amount of money or to deliver a quantity of any commodity determined or to be determined by reference to the change in value of a currency in relation to another currency; or (c) deliver to another person at an agreed future time an agreed amount of currency at an agreed price. The scope of the licence held by KVB HK includes (a) the provision of financial accommodation to facilitate such an act; and (b) entering into, offering to enter into or inducing or attempting to induce a person to enter into an arrangement with another person, on a discretionary basis or otherwise, to enter into such an act.*

### **Non-compliances**

Our Group has encountered the following three non-compliances relating to the operation of our business without sufficient or valid authorisations of licences in New Zealand and Australia since the incorporation of KVB NZ, KVB AU and KVB HK. However, in each of these incidents, we had neither been fined nor reprimanded and had since been in compliance with the relevant laws, rules and regulations when conducting our business in all material respects during the Track Record Period. The legal advisers to our Company as to New Zealand law and Australian law have advised that it is unlikely that any penalty will be imposed on our Group in the future as rectification actions have been taken and our Directors have confirmed that there is no effect or legal impediment on the renewal of the licences as each of the FMA and the ASIC has confirmed that it will not take any further action in respect of the non-compliances and the relevant authorisation of KVB NZ and the required licence of KVB AU were subsequently granted by the relevant authorities.

#### ***1. Interpretation as to whether forward forex contracts (deliverable) were deemed to be futures contracts under the Authorised Futures Dealers Notice (No. 3) 2005 of KVB NZ***

##### *Reasons for the non-compliance*

- The FMA carried out a spot inspection on KVB NZ’s operations in January 2010.
- From September 2001 to January 2010, there was no segregation of our business into separate entities with the money changing business in New Zealand being transferred to KVB FX, therefore, prior to the segregation, forward forex contracts had been processed as part of our usual course of business.
- Following the inspection by the FMA in January 2010, the FMA expressed the view that the forward forex contracts offered by KVB NZ were regulated futures contracts which had not been offered in accordance with the conditions of the Authorised Futures Dealers Notice (No. 3) 2005 applicable to KVB NZ. Prior to such inspection, The directors of KVB NZ were of the view (having taken legal advice) that forward forex contracts were not futures contracts and accordingly, it was complying with the Authorised Futures Dealers Notice (No. 3) 2005.

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- Under the Authorised Futures Dealers Notice (No. 3) 2005, KVB NZ was only permitted to deal in futures contracts with clients who had signed a client services agreement, and then only in accordance with that agreement.

### *Legal consequences and potential maximum penalties and other financial losses*

There were no consequences, penalties or losses incurred by KVB NZ over this issue. In theory, a fine of up to NZD300,000 could have been imposed under the Securities Markets Act. Although the FMA was of the view that KVB NZ had offered regulated futures contracts other than in accordance with the conditions of the Authorised Futures Dealers Notice (No. 3) 2005, nothing in the Authorised Futures Dealers Notice (No. 3) 2005 or the Securities Markets Act invalidates or voids a futures contract entered into in an unauthorised manner, or any of the transactions undertaken in respect of such contracts, or renders them voidable.

### *Chronology of events*

<b>Date of event</b>	<b>Rectification or other action taken</b>
15 January 2010	The FMA conducted a review of KVB NZ's business and advised that forward forex contracts offered by KVB NZ were to be treated as futures contracts.
22 April 2010	The FMA issued a letter to KVB NZ regarding the possible contravention of the conditions of the Authorised Futures Dealers Notice (No. 3) 2005 granted to KVB NZ following the spot inspection.
January to May 2010	Upon becoming aware of the requirement of the FMA's treatment on forward forex contracts and futures contracts, KVB NZ and its directors sought legal advice.
May to November 2010	Series of discussion between KVB NZ and the FMA about the interpretation and treatment on forward forex contracts and futures contracts took place.
25 November 2010	In the interest of expediency, KVB NZ chose not to contest the question of whether the relevant forward forex contracts were regulated futures contracts and KVB NZ issued a letter to the FMA agreeing to the FMA's view and amended its procedures for complying with the conditions of the Authorised Futures Dealers Notice (No. 3) 2005, including:  (a) entering into client services agreements with all its clients dealing in forward forex contracts; and

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- (b) implementing internal procedures to ensure all such clients would receive the required disclosure documents prior to entering into forward forex contracts.

15 February 2011

The FMA issued a letter to KVB NZ stating that given the rectification actions taken by KVB NZ, it did not intend to take any further action in relation to the matter.

Our Directors have confirmed that prior to January 2010, KVB NZ and its directors had not been aware of the requirement of the FMA's treatment on forward forex contracts and futures contracts and that our Group can deal in forward forex contracts in compliance with the conditions of the Authorised Futures Dealers Notice (No. 3) 2005.

The legal advisers to our Company as to New Zealand law have advised that on the basis of the above, KVB NZ complies with the conditions of the Authorised Futures Dealers Notice (No. 3) 2005, as amended, in so far as the conditions require forward forex contracts to be regulated in the same manner as futures contracts and that it is unlikely that any penalty will be imposed on our Group in the future as rectification actions have been taken.

2. ***Failure of KVB NZ to renew its authorisation after expiration which left KVB NZ technically unauthorised for a period of six months from June to November 2004 until its authorisation was renewed.***

*Reasons for the non-compliance*

- Prior to 31 May 2004, a different regulatory regime had applied to the activities of KVB NZ in New Zealand.
- In 2004, there was a transition of oversight jurisdiction for the business of KVB NZ from the New Zealand Futures and Options Exchange (the "NZFOE") to NZX.
- At all times prior to transition to the NZX regulatory regime, KVB NZ needed to be authorised by the FMA.
- However, following the transition to the NZX regulatory regime, NZX was also given the power to authorise futures and options participants (alongside the FMA which had the power to authorise the same prior to and after the transition of the NZX regulatory regime).
- KVB NZ applied for such authorisation to NZX but that application was declined by NZX for commercial reasons as KVB NZ was not intending to be actually involved in the share options developed by NZX.

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- Although the application was declined by NZX, KVB NZ was still required to ensure that its authorisation by the FMA was up-to-date in connection with its authorisation as a futures dealer.
- Unfortunately, the expiry date of the FMA authorisation was overlooked by KVB NZ and the authorisation of KVB NZ was not renewed until six months after the earlier FMA authorisation of KVB NZ had expired.

### *Legal consequences and potential maximum penalties and other financial losses*

- As advised by the legal advisers to our Company as to New Zealand law, although KVB NZ was in breach of the Securities Markets Act in that it was not authorised to carry on the business of dealing in futures contracts as required by the Securities Markets Act, nothing in the Securities Markets Act invalidates or voids a futures contract entered into by an unauthorised party, or any of the transactions undertaken in respect of such contracts, or renders them voidable.
- In theory, a fine of up to NZD300,000 could have been imposed under the Securities Markets Act.
- Under the applicable laws, rules and regulations in New Zealand, in the absence of any statutory or common law restriction on the entry into a contract, the contract will be presumed to be valid and enforceable and not voidable.
- To the extent that any futures contract entered into in the period where KVB NZ was not authorised to deal in futures contracts resulted in a breach of the client services agreement between KVB NZ and the relevant client, based on the advice from the legal advisers to our Company as to New Zealand law above that since there was no restriction in the Securities Markets Act or in common law rendering the futures contracts entered into by KVB NZ void or voidable, it is highly unlikely that any client had suffered any loss as a consequence of KVB NZ's failure to be authorised. As advised by the legal advisers to our Company as to New Zealand law, even if any client of KVB NZ suffered loss due to KVB NZ's failure to be authorised, as more than six years had passed since the latest time KVB NZ was not authorised, any such client would be statute-barred from pursuing against KVB NZ for such loss due to the operation of the New Zealand Limitation Act 2010 and its predecessor.
- There is no penalty from NZX as KVB NZ was not a NZX participant and NZX had no jurisdiction over KVB NZ, and the FMA has not reprimanded KVB NZ.

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### *Chronology of events*

<b>Date of event</b>	<b>Rectification or other action taken</b>
3 May 2004	The date on which the regulatory oversight under the NZFOE ceased and was transferred to NZX.
31 May 2004	KVB NZ's previous authorisation expired.
June to November 2004	Renewal of KVB NZ's authorisation was overlooked.
10 November 2004	The FMA issued a letter to KVB NZ confirming that it would grant KVB NZ an updated authorisation.
18 November 2004	The updated authorisation was granted to KVB NZ.

The legal advisers to our Company as to New Zealand law are of the view that although KVB NZ was not authorised to deal in futures contracts during that six-month period, KVB NZ took steps to rectify the issue as soon as it became aware of the situation, and since then KVB NZ has been authorised by the FMA as a futures dealer.

### **3. *Failure of KVB AU to hold the correct authorisation on its AFSL to "make a market" (i.e. quoting exchange rates)***

#### *Reasons for the non-compliance*

- KVB AU holds the AFSL under the Corporations Act 2001 (Cth) to carry on a financial services business in Australia. KVB AU obtained the make a market authorisation on 7 January 2011.
- Since the commencement of business of KVB AU in 2003 and before January 2011, KVB AU had carried on some market making activities in forex which involved "quoting a price" to its clients.
- "Quoting a price" falls within the definition of making a market under section 766D of the Corporations Act 2001 (Cth).
- Following an enquiry by, and discussion with, the ASIC, KVB AU notified a potential breach of financial services laws to the ASIC in October 2010 in relation to those activities. The ASIC was aware of the potential breach only upon our enquiry.

#### *Other factors relating to the non-compliance*

- Prior to the commencement of business of KVB AU in 2003, our Group had sought legal advice to ensure that the business was established in compliance with the relevant regulatory requirements in Australia.

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- During the period from 2003 to 2005 which were the early years of granting the AFSL authorisations to certain financial services activities by the ASIC, there was uncertainty as to the correct application of the market making authorisation to certain financial services activities and the above incident arose as a result of such prevailing industry confusion regarding the correct interpretation and application of the “make a market” authorisation during the licensing process.
- As advised by the legal advisers to our Company as to Australian law, although the provision of section 766D of the Corporations Act 2001 (Cth) itself may be clear enough on its face, its application to AFSL authorisations in the initial period of implementation was not well understood nor consistently applied by officers within the ASIC licensing teams and industry participants or applicants, which resulted in a number of similar businesses being issued different licences to each other.
- KVB AU first applied for the AFSL in 2003 when it commenced its business and the timing fell within the period when the implementation of the AFSL authorisations was clearly not well understood nor consistently applied by the ASIC. As advised by the legal advisers to our Company as to Australian law, the ASIC seemed to have granted the AFSL authorisations on a clearer and more consistent basis since 2005.
- KVB AU and its directors did not seek to clarify with the ASIC regarding the uncertainties before 2010 as they were not aware that there was any uncertainty at that time. KVB AU and its directors became aware of the potential uncertainty in October 2010 when the issue was raised with the ASIC upon the request from the ASIC to provide certain information. KVB AU and its directors immediately sought to resolve the situation and a new AFSL was issued by ASIC in January 2011.
- The legal advisers to our Company as to Australian law have confirmed that the period from 2003 to 2005 is their estimation of the period when the implementation of the AFSL “make a market” authorisation was not well understood nor consistently applied within the industry. The legal advisers to our Company as to Australian law have further confirmed that although the position in relation to such authorisation has since become clearer, the process of identification and resolution of residual issues with the ASIC is still evolving.

### *Legal consequences and potential maximum penalties and other financial losses*

- The legal advisers to our Company as to Australian law have advised that they are not aware of any legal or regulatory determination or other causes invalidating KVB AU’s income or activities or contracts entered into prior to 2011.
- The penalty prescribed by the Corporations Act (2001) (Cth) for providing an unlicensed financial service is up to 200 penalty units (as at the Latest Practicable Date, one penalty unit amounted to AUD110) or up to two years of imprisonment (for an individual or a number of individuals which the ASIC considered to be intentionally responsible for the breach) or both.

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- There were no consequences, penalties or losses incurred by KVB AU over this issue.

### *Chronology of events*

<b>Date of event</b>	<b>Rectification or other action taken</b>
8 October 2010	KVB AU first became aware of the potential breach after citing a new notice of direction from the ASIC issued on 28 September 2010.
15 October 2010	KVB AU submitted a letter to the ASIC seeking clarification and notification of the potential breach on the part of KVB AU.
20 October 2010	The ASIC issued a letter stating that the business activities as explained by KVB AU did in fact constitute an actual breach.
22 October 2010	A formal breach notification was lodged by KVB AU to the ASIC following standard procedures.
7 January 2011	An amended AFSL was granted to KVB AU.
25 March 2011	The ASIC notified KVB AU that based on the information received and the rectification actions taken by KVB AU, it did not intend to take any further action in respect of the breach.

The legal advisers to our Company as to Australian law have confirmed that KVB AU had not carried out other market making activities which were not authorised by the AFSL prior to January 2011.

The two individuals responsible for the compliance matters of our Group during the relevant time when the application for authorisation from the FMA was overlooked and the correct application of the market making authorisation was confused, being a director and the company secretary of KVB AU, have left our Group due to non-renewal of their services agreements, and as part of our measures to prevent future non-compliances, Ms. Tracy Marie Byrne was appointed in December 2010 as our head of risk and compliance. After such appointment, Ms. Byrne has conducted a comprehensive review of the then compliance programme of our Group with the aim of enhancing the internal control environment of our Group and preventing any future non-compliances. The current compliance programme includes provision of annual trainings to be conducted by, including but not limited to, other professional bodies or individuals, legal advisers and in-house training personnel to our staff to enrich both of their industry and compliance knowledge, participation in industry forums where our staff can access accounting, legal, risk and compliance professionals, and formulation and enhancement of various compliance and internal control manuals and policies including the compliance and procedure manual, the risk management manual and the staff dealing and transaction policy which are specific to the business we carry on. Since the appointment of Ms. Byrne and up to the Latest Practicable Date, our Group had not encountered any material non-compliance issues and our Directors believe that such appointment has provided synergy to our senior management team in avoiding the above incidents from happening again.

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Subsequent to the aforesaid non-compliances, we set up the GARC Committee to oversee our internal control procedures in November 2010. The GARC Committee is responsible for, among other things, monitoring our Group's compliance with the applicable laws, rules, regulations and associated government policies. Members of the GARC Committee, namely, Mr. Ng Chee Hung Frederick, being one of our executive Directors, and Ms. Zhang Rongjun and Ms. Tracy Marie Byrne, both of which being our senior management personnel, also attend trainings to enrich and update their industry and compliance knowledge. Mr. Ng, being one of the responsible officers of KVB HK, has attended a minimum of five hours of continuous professional trainings per regulated activity per calendar year as required by the SFC, which included topics on the compliance functions for financial institutions. Ms. Zhang, being the regional financial controller of New Zealand and Australia of our Group, has also completed, on average, 20 hours of trainings per year on matters relating to financial reporting and tax issues which are relevant to the discharge of her duties in the financial compliance aspects of our Group. Finally, Ms. Byrne, being our head of risk and compliance, has also dedicated an average of over 60 hours per year attending various voluntary trainings and conferences as well as conducting literature review on a monthly basis with respect to compliance, risk management and anti-money laundering matters. Members of the GARC Committee will continue to attend the relevant trainings conducted by, including but not limited to, other professional bodies or individuals, legal advisers and in-house training personnel after the Listing. The number of training hours to be attended by members of the GARC Committee will be referenced to that in the past. Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for further information on the relevant experiences and qualifications of Mr. Ng, Ms. Zhang and Ms. Byrne.

Compliance review of the internal control procedures of KVB NZ and KVB AU has been performed annually by external auditors as part of KVB NZ and KVB AU's continuing obligations under the authorisations and licences obtained for conducting business in New Zealand and Australia since 2002 and 2003, respectively. Going forward, we will continue to engage external auditors to conduct compliance review on the internal control procedures applicable to KVB NZ, KVB AU as well as KVB HK. We commenced annual reporting on compliance related matters to our Board in December 2012. We will also continue to engage legal advisers in New Zealand, Australia and Hong Kong after the Listing to advise us on the legal issues arising from the relevant jurisdiction.

Having considered that (a) our Group has strengthened our risk and compliance function following the appointment of Ms. Byrne; (b) no material non-compliance issues had occurred following her appointment and up to the Latest Practicable Date; and (c) internal control procedures of our Group have been reviewed by a reputable accounting firm and no major issues have been identified, the Sponsor considers that it has reasonable grounds to believe that our Group's internal control procedures are adequate to ensure compliance with the applicable legal and regulatory requirements.

Further, having considered (a) the circumstances leading to the aforesaid non-compliances; (b) that the non-compliances have not affected our Group's operations in any material respect; (c) that our Group has neither been fined nor reprimanded as a result of the non-compliances; (d) that our Group has rectified the non-compliances; (e) that none of our Directors had been involved in any litigation or claim of material importance during the Track Record Period based on the results of litigation search; and (f) that the market supervision division of NZX has confirmed that KVB NZ has never been the subject of any disciplinary actions, the Sponsor considers that the occurrence of the non-compliances does not raise concern on individual Director's competency on our Group's business.



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Our Directors and each of the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law have confirmed that, to the best of their knowledge,

- (a) our Group has not experienced any difficulties in maintaining or renewing any of its authorisations and licences or has any of such authorisations or licences been revoked since the establishment of KVB NZ, KVB AU and KVB HK;
- (b) our Group complied with all the relevant laws, rules and regulations in conducting our business in all material respects during the Track Record Period; and
- (c) save as disclosed above, they are not aware of any other material issues regarding our Group's compliance with the relevant laws, rules and regulations in conducting its business in New Zealand, Australia and Hong Kong during the Track Record Period and up to the Latest Practicable Date.

## COMPETITION

Our Directors believe that competition can come from local and international licensed corporations carrying on similar types of regulated activities as our Group around the world. As at the Latest Practicable Date, there were approximately 1,900 authorised financial advisers in New Zealand, approximately 20 members of the New Zealand Financial Markets Association participating in the over-the-counter financial markets in New Zealand and approximately 40 licensed corporations carrying out type 3 (leveraged forex trading) regulated activity under the SFO in Hong Kong. The entry barrier to the setting up of a business of providing leveraged trading services is considered to be relatively high by our Directors as substantial capital investment and authorisation/licence by the relevant regulatory authorities are required and substantial capital expenditure is essential for the implementation of trading platform. New competitors who wish to enter the leveraged trading industry also require experienced and licensed personnel and various other internal control staff and measures. Notwithstanding the above, given the globalisation and increasing demand of leveraged trading, our Directors consider that our Group faces a rapidly evolving and increasing competition from all market players around the world and our Directors expect competition will continue to intensify in the future.

According to Aite Group's report, ForexDatasource has surveyed thousands of forex traders from more than 120 countries since 2007, and provides the geographic distribution Aite Group uses for its regional and country estimates.

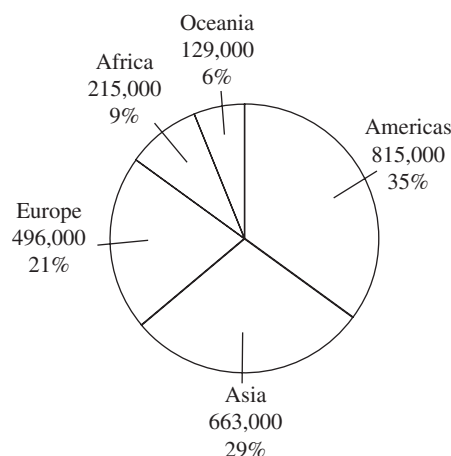
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## BUSINESS

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The results of the survey are depicted in the graph below which shows the distribution of the number of English-speaking traders in the retail forex market by region (excluding Japan):

### Distribution of visible, English-speaking traders in the retail forex market



*Sources: Aite Group, with country statistics from ForexDatasource*

The table below illustrates the countries with the largest representation of retail forex traders voting at ForexDatasource:

Country	Percentage of forex traders	Forex traders (in thousands)	Active forex traders <sup>(Note)</sup> (in thousands)
US	26.5%	615	430
United Kingdom	7.5%	174	122
Nigeria	6.0%	138	97
Malaysia	5.8%	134	94
Australia	5.1%	119	83
Canada	4.5%	105	73
Indonesia	3.7%	85	60
India	3.6%	84	59
Singapore	2.8%	64	45
PRC	1.7%	39	28

*Note: Active forex traders are forex traders who placed at least one trade in the previous 12 months.*

*Sources: Aite Group and public information about brokers and geographic distribution coefficients from ForexDatasource*

Both local and international licensed corporations compete for clients and pricing in this industry. The determination of pricing of bid and ask price is principally based on market conditions and risk exposure, while the ability to retain existing clients and attract new clients mainly depends on the brand recognition, quality of client services, pricing, trading platform technology and tools and trade execution quality.

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## **BUSINESS**

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Our Directors believe that some competitors, like those international financial institutions, may have larger client bases, more established brand recognition, more variety of products, greater market share in the leveraged forex trading market and greater marketing, technological and personnel resources than we do. These competitors may have access to more capital at lower costs than we do and thus, may be in a better position to respond to changes in the leveraged forex trading industry, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share.

Our Directors are of the view that our Group makes every effort to compete effectively by striving to stay in touch with the market to understand the needs of our target clients, seeking to capture new clients and satisfy the requirements from existing clients by delivering services up to their expectations, recruiting and retaining experienced personnel in order to provide quality services to clients, maintaining suitable professionals and management personnel to improve corporate control, technology, marketing strategies and technical expertise so as to cater for any changes in market conditions and also maintaining an efficient and lean cost structure and risk management measures in order to maximise our Shareholders' returns.

Our Directors believe our competitive strengths as set out under the paragraph headed "Our competitive strengths" in this section may differentiate our Group from other competitors and allow us to compete effectively with our major competitors.

### **LITIGATION**

As at the Latest Practicable Date, neither our Company nor any member of our Group was engaged in any actual or threatened litigation or claim of material importance and our Directors consider that no litigation or claim of material importance was pending or threatened against our Company or any member of our Group which could materially affect our business, financial condition and results of operations.

### **INSURANCE**

We maintain a range of insurance policies for our ongoing operations including professional indemnity insurance. During the Track Record Period and up to the Latest Practicable Date, we had not received any material claims from our clients in relation to the services provided by us.

### **PROPERTY INTEREST**

#### **Land and buildings**

As at the Latest Practicable Date, we did not own any land or building.

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## BUSINESS

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### Leased properties

As at the Latest Practicable Date, we leased our offices at:

- (a) Level 10, Tower 1, The National Bank Centre, 205-209 Queen Street, Auckland, New Zealand with gross floor area of approximately 6,292 sq.ft. from an Independent Third Party for a term of six years commencing on 18 June 2011 and expiring on 17 June 2017 at an annual rent of NZD191,573.15 (inclusive of GST) which shall be increased by 2.5% on each three yearly anniversary of the lease commencement date and exclusive of management fees, rates and other outgoings. KVB NZ has licensed the use of part of such office to KVB FX, a wholly owned subsidiary of KVB Holdings, details of which are set out in the section headed “Connected Transactions” in this prospectus. This licence will continue after the Listing;
- (b) Suites 18B1 and 18E, Level 18, Citigroup Centre, 2 Park Street, Sydney, Australia with gross floor area of approximately 4,595 sq.ft. from an Independent Third Party for a term of 3 years and 28 days commencing on 16 June 2011 and expiring on 13 July 2014 at an annual rent of AUD324,017.1 (inclusive of GST) which shall be increased by 4% annually and exclusive of cleaning rent, management fees, rates and other outgoings. KVB AU has licensed the use of part of such office to KVB FX Pty, a wholly owned subsidiary of KVB Holdings, details of which are set out in the section headed “Connected Transactions” in this prospectus. This licence will continue after the Listing;
- (c) Part Level 38, 120 Collins Street, Melbourne, Australia with gross floor area of approximately 6,039 sq.ft. from an Independent Third Party for a term of six years commencing on 1 June 2008 and expiring on 31 May 2014 at an annual rent of AUD382,602 (inclusive of GST) which shall be increased by 4% annually and exclusive of management fees, rates and other outgoings. KVB AU has licensed the use of part of such office to KVB FX Pty and KVB Asset Management Company Limited, both of which are wholly owned subsidiaries of KVB Holdings, details of which are set out in the section headed “Connected Transactions” in this prospectus. This licence will continue after the Listing;
- (d) Suites 7501 & 7508, 75th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong with gross floor area of approximately 8,998 sq.ft. from an Independent Third Party for a term of five years commencing on 1 October 2010 and expiring on 30 September 2015 at a monthly rent of HK\$589,369 exclusive of management fees, rates and other outgoings. KVB HK has licensed the use of part of such office to KVB Securities, KVB AM (HK) and KVB Kunlun Trading (Hong Kong) Limited, all of which are wholly owned subsidiaries of KVB Holdings, details of which are set out in the section headed “Connected Transactions” in this prospectus. This licence will continue after the Listing; and
- (e) Unit C, Level 16, Tower A, Gateway Plaza, 18 Xiaguangli North Road, East Third Ring, Chaoyang District, Beijing, the PRC with gross floor area of approximately 2,349 sq.ft. (exclusive of the parts shared with KVB Chuangjing Consultation (Beijing) Co., Ltd. (昆侖創景諮詢(北京)有限公司) (being a member of the Non-listed Group) and an Independent

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## BUSINESS

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Third Party) from an Independent Third Party for a term of three years commencing on 1 November 2012 and expiring on 31 October 2015 at a total monthly rent of RMB75,494.8 exclusive of management fees, rates and other outgoings <sup>(Note)</sup>.

*Note: Pursuant to the agreement dated 31 October 2012 entered into between the landlord, the Beijing Office, KVB Chuangjing Consultation (Beijing) Co., Ltd. and the Independent Third Party, the Beijing Office has agreed to share the use of approximately 1,938 sq.ft. of the premises situated at Unit C, Level 16, Tower A, Gateway Plaza, 18 Xianguangli North Road, East Third Ring, Chaoyang District, Beijing, the PRC with KVB Chuangjing Consultation (Beijing) Co., Ltd. The rental payment for the use of part of the premises by KVB Chuangjing Consultation (Beijing) Co., Ltd. is paid directly to the landlord. There is no reimbursement received from KVB Chuangjing Consultation (Beijing) Co., Ltd. in connection with the sharing of the premises. Such sharing of the premises will continue after the Listing.*

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute arising out of our leased properties.

### INTELLECTUAL PROPERTY RIGHTS

Our trademarks, copyrights, domain names, trade secrets and other intellectual property rights are important to us in distinguishing our brand and services from those of our competitors and contribute to our ability to compete in our target markets. We rely on a combination of copyright and trademark laws, trade secret protection and confidentiality agreements with our employees, business partners and selected third-party service providers to protect our business and intellectual property rights. As at the Latest Practicable Date, we had registered or otherwise been licensed to use certain trademarks in New Zealand, Australia, Hong Kong, the PRC, the US and Canada. For further details of our trademarks, please refer to the paragraph headed “Intellectual property rights” in Appendix IV to this prospectus.

The development of Forexstar involves system modules developed by our Group and the Independent Third Parties. The system modules developed by the Independent Third Parties are not owned by our Group. The engagement of Independent Third Parties software developers has facilitated our Group to launch our online trading platform in a shorter period of time. Copyright is an automatic right which arises when an original work is created. It is not necessary to register the copyright of the self-developed system modules in New Zealand and Hong Kong in order to get protection under New Zealand law and Hong Kong law, respectively.

Further, certain system modules of our ForexStar trading system, such as the client terminal and the dealer terminal modules, were purchased from third party software developers and our continued use of such software modules are subject to licence agreements signed between our Group and the third party software developers which are renewable from time to time.

As at the Latest Practicable Date, we had not experienced any infringement of our intellectual property rights by third parties which had a material impact on our Group, nor had we infringed any intellectual property rights owned by third parties.